

**Gordon Institute
of Business Science**
University of Pretoria

**Unlocking the Potential of Impact Investing in Sustainable Entrepreneurship: A South
African Focus**

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A research project submitted to the Gordon Institute of Business Science,
University of Pretoria, in partial fulfilment of the requirements for the degree of
Master of Business Administration.

11 November 2024

ABSTRACT

This study explores how impact investments can support sustainable entrepreneurship in South Africa by balancing financial returns with positive social and environmental impact. The research, which includes interviews with impact investing experts and sustainable entrepreneurs, finds a common commitment to both financial and social goals, but it also identifies a need for stronger alignment on mission priorities, particularly in terms of impact measurement. Entrepreneurs frequently lack formal mechanisms for measuring impact, whereas investors struggle to establish consistent benchmarks across multiple sectors. The study emphasizes entrepreneurs demand for more comprehensive support, such as access to networks and technical assistance. Entrepreneurs, on the other hand, view governance systems, particularly investor board engagement, as restricting, emphasizing the importance of adaptive investment partnerships.

The study also looks at the risks and rewards of impact investing, showing that, while investors face financial, regulatory, and impact assessment risks, they also see significant environmental, social, and economic benefits. This alignment of goals between investors and entrepreneurs is a possible avenue for South Africa's long-term economic success. Key recommendations include developing blended financing models in venture capital to close the funding gap for early-stage sustainable businesses. By improving these models and refining support tactics, impact investments can better match financial and social missions, allowing sustainable entrepreneurship to generate significant societal change and economic development in South Africa.

KEYWORDS

Keywords: Sustainable Entrepreneurship, Impact Investing

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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(11 November 2024)

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CHAPTER 1: RESEARCH INTRODUCTION

1.1 Introduction

In recent years, there has been a growing need to align financial returns with environmental and social benefits given the transformation that the global landscape of investment went through (Clark et al., 2018). This birthed the concept of impact investing, an emergent field which seeks to manage the need for financial gains while making measurable positive impacts (Mogapi et al., 2019). Contrary to impact investing, traditional investments overlook the broader impacts of investments and prioritise financial returns (Barber et al., 2021, Hockerts et al., 2022). There is a significant potential for impact investing in South Africa, a country that has many challenges, such as high levels of unemployment, economic inequality, and the need for sustainable economic development (Mahadea & Kaseeram, 2018; Mogapi et al., 2019; Kajiita & Kang'ethe, 2020).

There is an increasing realisation among investors, entrepreneurs, and policymakers in South Africa of the significance of considering investment decisions that take into account long-term societal and environmental advantages in addition to financial profits (Kölbel et al., 2020; Barber et al., 2021). Impact investing would provide a solution that directs funds towards businesses that aim to maximise profits while creating environmental and social benefits (Chowdhry et al., 2019). According to Dhlamini et al. (2017), impact investing can play a unique role in Africa due to the continent's wide range of societal demands and possibilities for creative solutions. In South Africa, there is still a lot of potential when it comes to using impact investing to increase entrepreneurship and job creation. However, the impact investing landscape in South Africa is faced with many challenges, despite its great potential.

These challenges mainly arise due to misunderstandings and lack of trust between impact investors and entrepreneurs as well as concerns over the risks of socially driven businesses (Agrawal & Hockerts, 2021). Furthermore, these challenges include a lack of awareness of sustainable entrepreneurship initiatives, limited access to funds, insufficient regulatory frameworks and limited understanding of the impact investing concept (Schlütter et al., 2023).

Addressing the challenges in the sustainable entrepreneurship ecosystem is important as they hinder the growth required in sustainable entrepreneurship enterprises which would create jobs and revitalise the South African economy. Therefore, impact investing can be recognised as a central tool for encouraging sustainable entrepreneurship in South Africa and leading to many positive changes through job creation and sustainable development (Agrawal &

Hockerts, 2019). For this reason, this research aims to explore how impact investing can effectively encourage sustainable entrepreneurship in the South African context. This would provide valuable information that will equip entrepreneurs, investors and policymakers to make well-informed decisions that promote long-term positive impact.

Furthermore, this research facilitates the application of impact investments in order to pave the way for a sustainable entrepreneurial future through impact investing. This intersection of sustainable entrepreneurship and impact investing has the potential to address South Africa's socio-economic challenges including unemployment, economic inequalities and meeting sustainable development goals.

1.2 Research Purpose

The main purpose of this study is to assess how impact investing can play a role, in fostering sustainable entrepreneurship in South Africa. As outlined in the introduction, South Africa experiences numerous socio-economic challenges, therefore, by examining the connections between impact investing and sustainable entrepreneurship, this research aims to describe how impact investing can stimulate the establishment and growth of sustainable enterprises, thereby contributing positively to the environment and society alongside generating profits.

This research discusses the different financial instruments such as cash grants, debt financing, and equity financing and unpacks how these financial instruments can be used effectively to grow and scale sustainable entrepreneurship in South Africa. In addition, the study identifies the risks, enablers, and benefits of impact investing from an entrepreneurial and investor perspective. This assists in optimal strategy formulation that would make the impact investment ecosystem more appealing to investors and mitigate risks that come with these types of investments.

Beyond exploring the financial aspect, this research looks into the broader influence of impact investing in South Africa's entrepreneurial ecosystem. It explores how impact investing can be an enabler for sustainable entrepreneurship by delving into how to deal with barriers such as lack of investor awareness and limited access to funding. By looking into the enablers and barriers to impact investing, this study is then in a position to provide practical recommendations that can inform investors, entrepreneurs and policymakers about the strategies that would facilitate and promote thriving sustainable enterprises.

This research also integrates the asymmetry information framework which is relevant to impact investing and sustainable entrepreneurship. By using this framework, the study shows the

importance of communication and knowledge transfer between sustainable enterprises and impact investors. This theoretical view improves one's understanding of the challenges faced by sustainable entrepreneurs and impact investors, allowing the research to make recommendations that are effective and can help bridge the knowledge gap between the two stakeholders.

The ultimate goal of this research is to help sustainable entrepreneurs and investors make better investment decisions. Through this approach, the findings from this study will provide a deeper understanding of the role of impact investing in shaping the sustainable entrepreneurship landscape in South Africa.

1.3 Research Problem

Socio-Economic Challenges in South Africa and the Role of Impact Investing

South Africa has encountered many challenges, such as high levels of unemployment, poverty, economic inequality and slow economic growth (Mahadea & Kaseeram, 2018). The need for sustainable economic development necessitates impact investing as a viable solution with growing global recognition to addressing these challenges (Ncanywa & Masoga, 2018; Mogapi et al., 2019). The research purpose highlighted the potential of impact investing in fostering sustainable entrepreneurship, however, sustainable businesses in South Africa struggle to get access to funds and they lack the support required to help them grow (Atiase et al., 2018). This gap between the actual experiences of sustainable entrepreneurs and the potential of impact investing to empower these sustainable entrepreneurs presents a research opportunity warranted by Agrawal and Hockerts (2021) as well as Gupta et al. (2020).

Lack of Awareness Between Entrepreneurs and Investors

Part of the problem is the lack of awareness between sustainable entrepreneurs and investors about impact investment (Phillips & Johnson, 2021). Because of this lack of knowledge, potential impact investors tend to view impact investments as risky, and this also instils doubt in the financial viability of the investment. This perceived risk deters mainstream investors from engaging in impact investing as the risk creates a negative perception that the investment might yield losses. The negative perception is worsened by the limited knowledge of the opportunities and advantages associated with investing in sustainable entrepreneurship. For this reason, investors would overlook the potential benefits of investing in sustainable enterprises that could result in positive environmental and social impact along with financial benefits. This limitation in knowledge becomes a barrier to accessing capital and thus limits

the potential for sustainable entrepreneurs to grow and scale their businesses (Schlütter et al., 2023).

Regulatory and Financial Challenges in the Impact Investing Landscape

Moreover, according to Barber et al. (2021), the regulatory frameworks that influence impact investing, present additional challenges, as they have proven to be ineffective. Sustainable entrepreneurs in South Africa usually face hurdles in navigating the complexities of impact investing and securing funding due to ineffective regulations (Zhan & Santos-Paulino, 2021). The situation is worsened by the limited tailored financial plans that meet the unique needs of sustainable enterprises (Bischoff & Volkmann, 2018). Consequently, sustainable entrepreneurs are then left with no funds to grow and scale their businesses and achieve their sustainability goals. This presents an opportunity to investigate ways in which impact investing can empower sustainable entrepreneurs to grow and scale their enterprises while meeting their sustainability targets.

The Need for Standardized Impact Measurement Metrics

There is also a need to evaluate and measure impact investments effectively using robust metrics (Urban & George, 2018). This would address the challenge for sustainable entrepreneurs to demonstrate their impact on environmental and social matters and for investors to justify their investment decisions since there would be standard tools (Hehenberger et al., 2019). A lack of measurement tools also causes mistrust and confusion between sustainable entrepreneurs and investors, making the impact investing landscape less pleasant, which is currently the case in South Africa (Busch et al., 2021).

Research Gap in Sustainable Entrepreneurship and Impact Investing

The research problem is centred on the challenges that come in the way of fostering sustainable entrepreneurship in South Africa through impact investing. These challenges include, limited knowledge and understanding among entrepreneurs and investors, negative view on perceived investment risks, and a lack of robust metrics to measure sustainable impact success. A research gap was identified between sustainable entrepreneurs and impact investors as a result of the challenges previously mentioned.

Research Objective: Impact Investing for Sustainable Entrepreneurship in South Africa

Building on Agrawal & Hockerts (2021) recommendation for further research on how impact investing can benefit developing countries, this research aims to investigate how impact

investing can foster and benefit sustainable entrepreneurship in the South African context. Furthermore, Sascha et al. (2018) suggest further research into the analysis of entrepreneurs and investors regarding environmental, social, and sustainable business aspects. Sascha et al. (2018) emphasise the importance of analysing and comparing their respective expectations, joint goals, and perceived risk drivers as steps toward developing a more sustainable financial system, a goal that this research aims to achieve. Therefore, by investigating these challenges, the research aims to contribute to theoretical insights on how impact investments can empower sustainable entrepreneurship, ultimately fostering meaningful change in South Africa's socio-economic state, leading to a more equitable and sustainable economic future.

1.5 Conclusion

The basis for understanding the role of impact investing in promoting sustainable entrepreneurship has been laid out in chapter one. This chapter discussed some of the socio-economic challenges faced by South Africa, and the pressing need for innovative solutions and strategies that prioritise financial returns and make a social and environmental impact. The research problem was laid out in the chapter from an impact investing and sustainable entrepreneurship lens, and the research purpose was aligned with addressing the identified problems.

CHAPTER 2 – LITERATURE REVIEW

2.1 Introduction

Chapter 2 delves into the changing landscape of impact investing, highlighting its fundamental principles and differences from the normal investment approaches. It starts by providing an understanding and definition of impact investing and explores how it aims to generate profits while also creating positive societal and environmental outcomes, in line with the UNs Sustainable Development Goals. The study examines the driving forces behind impact investors, the types of impact investments and the positive environmental, social and economic outcomes they produce. The specific landscape of impact investing in South Africa is then examined, with a focus on socio-economic challenges, regulatory frameworks, and the entrepreneurial ecosystem. The review also addresses barriers to impact investing, including awareness and funding access, and identifies enablers such as government intervention and educational initiatives. Through an examination of frameworks, such as the Information Asymmetry Theory, the review highlights how reducing informational gaps can strengthen the collaboration between impact investors and sustainable entrepreneurs, ultimately promoting sustainable entrepreneurship as a tool for socio-economic advancement in South Africa.

2.2 Impact Investing Overview

2.2.1 Definition of Impact Investing

The term "impact investing" implies investments which are intended to generate positive economic and social impact as well as financial return (Barber et al., 2021). According to Stolz and Lai (2020), impact investing is the junction of profit and selflessness, investing capital to resolve global issues such as poverty, inequalities, and the environment. The Global Impact Investing Network (GIIN) further reinforces that impact investments are made across the different asset classes, including public and private equity, debt, and real assets, which are directed at sectors such as renewable energy, healthcare, education and affordable housing (Alijani & Karyotis, 2019; Poe, 2023). This, in turn, implies that the area comprises many different options from which the investor can pick those social and or environmental effects which match his or her targets (Gifford & Tagger, 2024). GIIN states that impact investing is a useful tool for achieving the United Nations' Sustainable Development Goals for creating a sustainable future. The diverse motives for impact investing are tabulated below.

Table 1: Impact investor motives (Lehasa, 2021; Marti et al., 2023; Oehmke & Opp, 2024)

Motive	Description
Social and environmental responsibility	Impact investors have a desire to make a positive impact on the environment and society.
Financial returns	Impact investors also seek competitive financial returns.
Risk mitigation	Investing in sustainable entrepreneurship ventures that practice social and environmental responsibility, also protects investor portfolios from potential future liabilities.
Market demand	Investors see a bright future for sustainable entrepreneurship businesses given the increasing demand from various stakeholders for businesses to operate sustainably.

The motives in the table above are driven by several factors: social responsibility, financial returns, risk mitigation and market demand. There is growing market demand for businesses that follow responsible environmental, social and governance practices (Mansouri & Momtaz, 2022). Therefore, impact investors stand a better chance of experiencing long-term benefits from funding sustainable entrepreneurship (Panagopoulos & Tzionas, 2023). For this reason, impact investment activity has grown significantly on a global scale from USD 32,500 million in 2017 to USD 39,800 million in 2022 (Hand et al., 2023).

2.2.2 Historical Development of Impact Investing

The definition of impact investing has undergone a dramatic change since it was introduced in the early 2000s. Historically, the earliest form of impact investing was socially responsible investing (SRI), which emphasised avoiding investments in companies with environmental and social-related problems (Chen & Harrison, 2020). According to Cojoianu et al. (2022), impact investing dates back to philanthropic companies and investors who were socially conscious and wanted more than just financial returns. The movement has grown in the past two decades with pivotal institutions in the field, including Rockefeller Foundation and Omidyar Network (Jarvis, 2021). By 2020, Impact Investing's total assets were over \$715 billion, which marked a period of increased integration into mainstream finance (Bruno, 2021).

2.2.3 Difference Between Traditional and Impact Investing

The primary difference between traditional and impact investing is in the intent of the investment. Traditional investment practices are focused mainly on maximising profits and don't consider the environmental or social implications of the investment (Barber et al., 2021). On the contrary, impact investments are not only focused on financial returns but also regard positive social and environmental outcomes (Kölbel et al., 2020).

Since the two investments have different intentions, their success factors are measured differently. Traditional investing is measured based on financial metrics, whereas impact investing measures and reports on social and environmental metrics alongside financial metrics (Heeb et al., 2022). Measuring the effectiveness of the investment is crucial to determine whether the intended investment goals are achieved (Agrawal & Hockerts, 2021).

2.2.4 Impact Investing vs. Traditional Investment Strategies

An impact investing strategy contrasts with the traditional one in that it combines the financial return and the positive social impact (Cunha et al., 2020). Historical investments used to be driven by the tendency to create maximum financial returns by disregarding the social and environmental consequences (Vaupel et al., 2023). However, this differs from impact investing because the latter uses ESG criteria to align the investment decisions while targeting a balanced approach (Whelan et al., 2021). According to Penna et al. (2023), while traditional investments may seem to be more lucrative in the short term, impact investments can ensure stable, long-term growth by facing systemic issues and generating enduring business models. Furthermore, Chang et al. (2022) demonstrated that ESG integration has the ability to improve financial performance, suggesting that impact investments do not necessarily have lower returns.

2.2.5 Types of Impact Investing

There are different types of impact investing approaches that are the key to impact investing that suit different investor purposes and situations. These are; ESG Investing, Socially Responsible Investing (SRI), Thematic Investing, Impact First Investing, Mission-Related Investing, Program-Related Investing, and Sustainable Bonds (Sheth, 2024).

2.2.5.1 ESG Investing

ESG investing uses three factors to make an investment decision: environmental, social and governance (Sheth, 2024). ESG investors seek for sustainable entrepreneurships that excel

in these three areas, as these companies are potentially better positioned for success in the long-term given the market demands for sustainable practices that are aligned with the SDG goals (Chen & Xie, 2022). This type of investing can be applicable across various impact investment asset classes including real estate, bonds and equities.

2.2.5.2 Socially Responsible Investing

SRI is another type of impact investing that prioritises adherence to ethical practices when choosing companies to invest in (Sheth, 2024). These investors normally opt for companies that align with their ethical beliefs, and completely avoid companies that engage in activities that they deem as controversial. For example, some investors would shy away from investing in companies that engage in alcohol and tobacco production and sales activities as they don't align with their moral and ethical beliefs.

2.2.5.3 Thematic Investing

Another type of impact investing that targets trends or themes that will shape future development is thematic investing (Sheth, 2024). These themes are aimed at creating portfolios that are aligned to specific causes attracting impressive financial gains and positive environmental and societal impacts in areas such as sustainable agriculture, clean energy, economic equality and gender equity (Migliavacca et al., 2022; Dmuchowski et al., 2023).

2.2.5.4 Mission-Related Investing (MRI)

MRI is an investment method that allows organisations to use impact investment funds to support philanthropic goals while also benefiting from market-rate returns (Sheth, 2024). An example of these organisations is charity foundations. They ensure that their mission statements are aligned with their investment portfolios (Zolfaghari & Hand, 2021; Sheth, 2024).

2.2.5.5 Impact First Investing

Impact-first investors love socio-environmental outcomes and sometimes forget about financial returns, whereas finance-first investors intend to have competitive returns and some social benefits as well (Martin, 2020). Essentially, environmental or social impacts and benefits are the main objectives of this impact investment type whereas financial gains are the least prioritised. These impact investors target businesses, regions or sectors that have been neglected by traditional investment methods but have shown the potential to make a positive social or environmental change and that they can grow or scale their ventures (Sheth, 2024).

2.2.5.6 Program-Related Investing (PRI)

Impact investing in which companies such as charitable foundations support charitable activities using impact investment funds is known as PRI (Sheth, 2024). Unlike MRIs (in section 2.1.3.4) which seek for high market-rate returns, PRIs can accept returns that are below the market rate.

2.2.5.7 Sustainable Bonds

Designed to generate money for projects that significantly and favourably affect the environment or society, sustainable bonds, also known as green bonds, generate a fixed income for investors (Sheth, 2024). Through sustainable bonds, investors are able to contribute to the sustainability drive and receive interest payments periodically and at maturity, investors will also receive returns on their principal (Park, 2018).

2.3 Benefits of Impact Investing

2.3.1 Environmental Benefits

Impact investment has environmental benefits, evident from many cases and research (Barber et al., 2021). By directing money to companies that follow sustainable and responsible practices, impact investing helps to solve environmental problems (Barber et al., 2021). A sustainable enterprise using impact investment funds to invest in renewable energy projects, like wind and solar energy, for instance, would produce less carbon emissions to help slow down climate change and motivate the use of clean energy systems (Kölbel et al., 2020).

The influence of investments in renewable energy has been enormous in an increase of renewable capacity globally (International Renewable Energy Agency, 2018). For instance, the Jasper Solar Energy Project in South Africa helped impact investors blend how environmentally positive impact works (Abdelrazik et al., 2022). This study is about providing thousands of households with clean energy and generating new jobs and economic development in the area.

Investments into sustainable enterprises that are dedicated to managing waste efficiently and applying circular economy models, minimise environmental degradation and resource consumption (Fuldauer et al., 2019). Furthermore, impact investment in forestry and agriculture would play a significant role in nature conservation (Kish & Fairbairn, 2018). Impact investors would significantly contribute to environmental sustainability through these investments.

2.3.2 Social Benefits

The social effects of impact investment are also significant, especially in areas such as community development and employment opportunities (Phillips & Johnson, 2021). Impact investments help local communities, bringing about social changes which also benefit society (Chowdhry et al., 2019). These investments centre on companies addressing socioeconomic concerns such as poverty and unemployment (Hehenberger et al., 2019). The aim is to reduce unemployment rates, improve economic growth and assist underserved communities, which is appealing to impact investors. Impact investors would also play a broader role in empowering marginalised and vulnerable groups, through investing in sustainable entrepreneurship enterprises that address such social needs to foster sustainable and long-term development amongst those groups (Chowdhry et al., 2019).

Confirming the efforts of impact investments, a breakthrough in the health care, education, and affordable housing sectors has assisted low-income earners to better their standards (Hand, 2019). Camilleri (2021) states that investments in social enterprises for these crucial problems provide distinctive approaches that have the tendency of eradicating disparities in a society. Strategies like the Harambee Youth Employment Accelerator in South Africa exemplify how impact investing can lay the ground for social change (Totana, 2022). The Harambee program, funded by impact investors it has the capacity to either employ several youths or reduce the unemployment and skills challenge (Harambee, 2020).

2.3.3 Economic Benefits

From an economic perspective, impact investing is the key to higher rates of return as well as stability than the regular average market investment (Agrawal & Hockerts, 2019). While traditional investments themselves may generate even higher short-term returns, impact investments are more oriented towards building long-term and sustainable economic value by positioning company models and their respective systemic risks (Agrawal & Hockerts, 2019).

Support of sustainable entrepreneurship by impact investors would help to boost economic activity and inspire an entrepreneurial attitude (Ono, 2021). Effective impact investments can attract more investors using their multiplier effect by means of a cascade of further financial support (Hand et al., 2023a). Furthermore, take into account the emphasis of impact investment on long-term financial sustainability, lowering vulnerability to erratic markets and supporting economic resilience (McCallum & Viviers, 2020). Impact investing basically helps sustainable entrepreneurship flourish, which would also lead to economic development and set the groundwork for long-term continuous prosperity.

2.4 Impact Investing in South Africa

As Chapter Two notes, South Africa has particular issues that make it challenging for sustainable enterprise owners to become successful. This has helped the scene of impact investing gather momentum recently. The landscape of impact investing will be focused on a number of factors within South Africa: the socio-economic context, entrepreneurial ecosystem, trends in impact investing, regulatory frameworks, barriers and challenges.

2.4.1 Socio-economic Context

Since South Africa suffers with socioeconomic issues and aims for stability and development, impact investment has great effects on its economy. South Africa has an average unemployment rate of 33% while young people's first quarter of 2024's unemployment is about 45% (Stats SA, n.d.). Therefore, a great tool for economic stimulation and job creation would be capital investments in companies engaged in sustainable entrepreneurship. Furthermore, South Africa witnessed a notable influx of foreign direct investment of up to R96 billion in 2023, 1.4% of the GDP (PwC, 2024), despite the economic challenges brought about by the COVID-19 epidemic. This highlights even more, how impact investments could accelerate economic growth and attract more capital resources to assist sustainable entrepreneurship so enabling these companies.

Impact investing is rising in South Africa, as evidence of the global pattern. 2020 African Investing for Impact Barometer indicated that the impact investment activities experienced significant growth, with the majority of the funds directed toward sectors like renewable energy, affordable housing, and education (Anwana & Anwana, 2020). Furthermore, impact investments in the region are mobilised by both the local and the international investors who address the socio-economic problems and also seek financial returns (Sibanda, 2021). Even though the market is currently expanding, it is fledgling and is faced with problems such as limited awareness and a lack of supportive infrastructure that hinder its growth (Kruger & Steyn, 2020).

2.4.2 Entrepreneurial Landscape

South Africa's entrepreneurial landscape has huge potential, but it experiences significant challenges. The Global Entrepreneurship Monitor (GEM) indicated that entrepreneurial intentions in South Africa reached 10.1% with adults aiming to start businesses within three years (Bowmaker-Falconer et al., 2023). This startup culture has potential, but it dropped significantly from 20% in 2021 (Bowmaker-Falconer et al., 2023). In addition, South Africa's

unemployment rate still stands at 45% in the first quarter of 2024 as highlighted by Stats SA (n.d.), which hinders South Africa's economic growth and the drive for entrepreneurial ventures and fuels economic inequalities.

On the economic inequalities, South Africa's Gini coefficient was at a high score of 63 in 2023, which is amongst the highest in the world (Dyvik, 2024). This is a disparity limiting business opportunities and disposable income for the broader population, creating a less favourable ecosystem for businesses to grow and be sustainable. However, this also presents an opportunity for impact investing to create a conducive environment for business growth and scaling by assisting with funds.

Furthermore, there is limited access to capital for many aspiring sustainable entrepreneurs. Venture capital investments experienced a growth of 7.1% from 2017 to 2024 reaching US\$630 million, which is a relatively slow growth compared to other developed markets like the United States, which raised US\$264, 500 million by 2024 (Statista, 2024). This is where impact investors would play an empowering role by focusing on investing in sustainable entrepreneurship enterprises that are in need of capital to upscale or grow.

2.4.3 Impact Investing Trends

Statista (2024) pointed out a rising trend in impact investing in South Africa to address economic and social challenges, with investors seeking opportunities in this space. Rossi et al. (2023) indicated similar views in the year prior and added that the increase in impact investment funds is attributable to the increased demand by asset owners such as the Public Investment Corporation. Figure 1 shows that in the latest trends, ESG integration is the most used impact investment strategy at 53,7% in the South African market, and general impact investment strategies are the least utilised at 7,20% (Dhlamini et al., 2022).

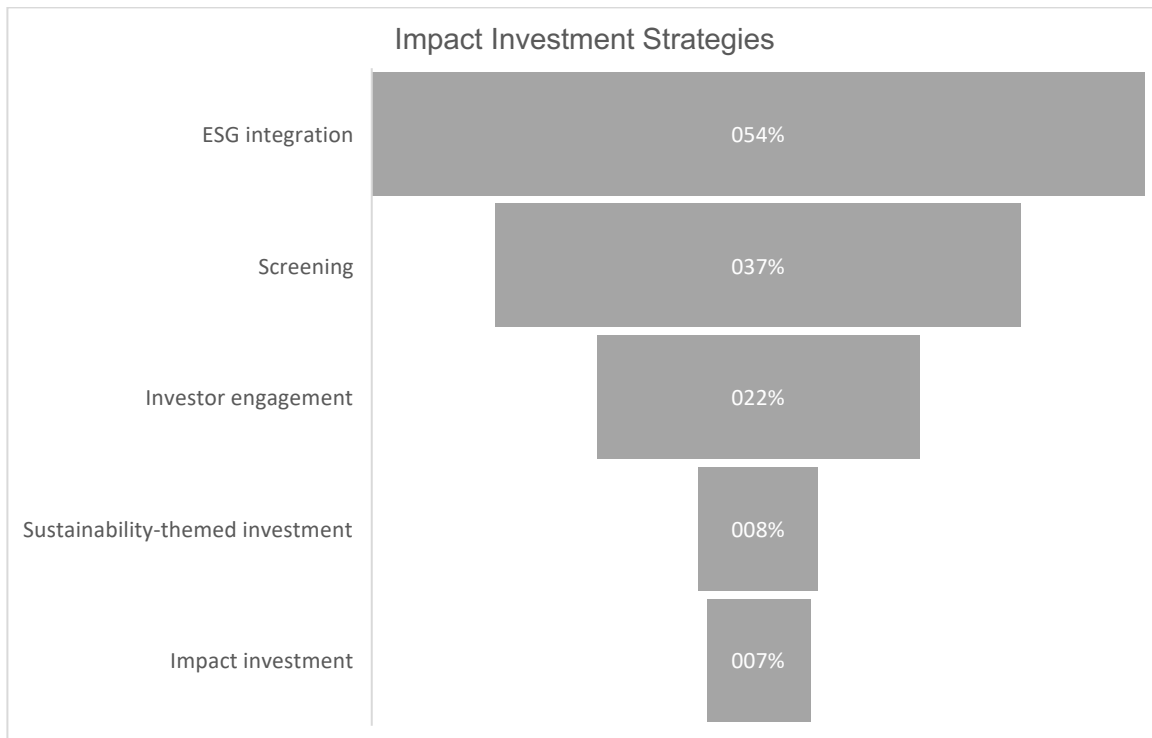


Figure 1: Impact investment strategies (Dhlamini et al., 2022)

2.4.4 Regulatory Frameworks

The regulatory framework for impact investing in South Africa governs and facilitates the impact investing practice shaped by policies, incentives and policies. The key regulatory frameworks in impact investing include the Income Tax Act, Investment Structures, Blended Finance instruments and Controlled Foreign Company (Mbona & Saville, 2024).

Incentives for impact investing are outlined in the Income Tax Act to encourage impact investing initiatives (Bafana & Duffy, 2019; Mbona & Saville, 2024). The structure of the investments can take the form of indirect investments via intermediary funds, direct investments through loans or equity, or a combination of direct and indirect investments (hybrid) with blended financing, as governed by the Investment Structures framework (Agrawal, 2018; Moran & Ward-Christie, 2022). Then, investments are structured according to the Controlled Foreign Company Rules (Mbona & Saville, 2024).

Another regulatory framework for impact investors is the Impact Principles which provides guidance on the design and application of impact management systems to ensure that impact funds are managed properly to minimise risks. The principles architect is shown below (Impact Principles Organisation, 2023).

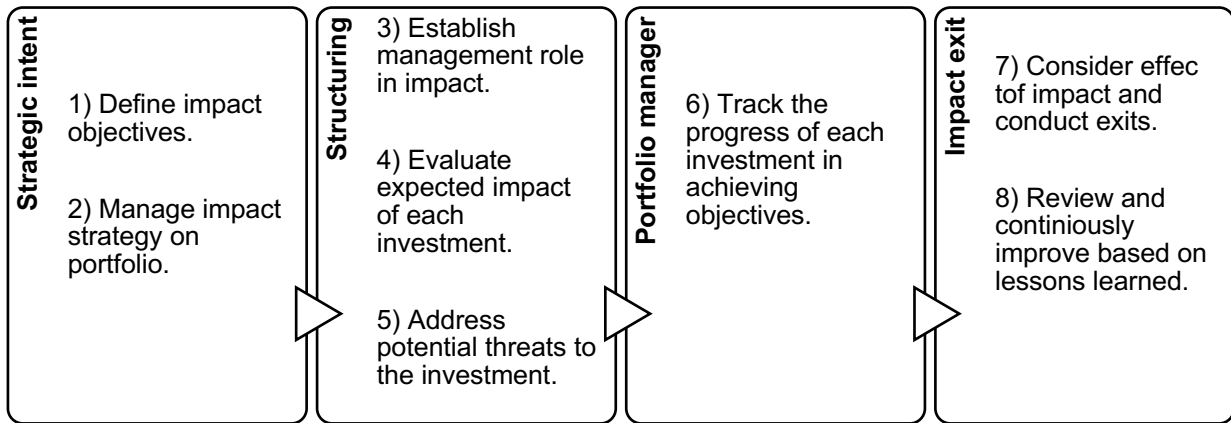


Figure 2: Impact investment governing principles (Impact Principles Organisation, 2023)

2.5 Impact Fund

Impact funds are a type of investment fund mainly created to make a positive environmental and social impact (Hockerts et al., 2022). Depending on the impact investment type, impact funds are constructed with the intent of generating environmental and social benefits along with financial gains (Alijani & Karyotis, 2019).

2.5.1 Impact Fund Construction

Dufour (2019) suggested an approach that forms part of the investment value chain that can be used alongside other frameworks to construct an impact fund (Figure 3).

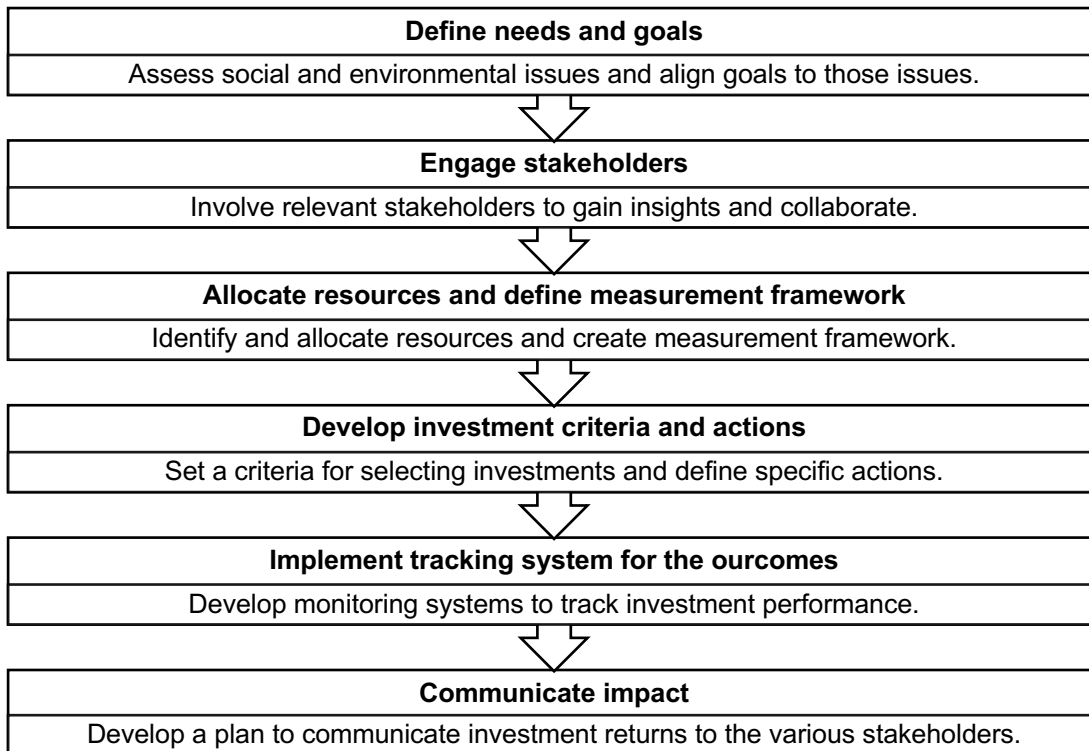


Figure 3: Impact Fund Construction

2.5.2 Impact Investing Risks

2.4.2.1 Financial Risks

The potential for financial loss is perceived as a risk to impact investors (Hand et al., 2021). Financial risks are attributable to factors like poor operational performance, market volatility, and a lack of financial controls, all of which would negatively affect the financial returns of the impact investment (Islam, 2023). Impact investors considering an investment opportunity would have to compare their expected financial return with the risk they can tolerate and make adjustments to lower the identified risks (Paetzold et al., 2022).

2.5.2.2 Market Risks

Volatile market conditions including economic downturns, competitiveness, and changes in consumer behaviour and their demands, define market risks (Hand et al., 2021). For example, a sustainable enterprise might find it difficult to reach its expected impact and financial returns if it loses consumers or encounters strong rivalry. Managing this risk would require impact investors develop an understanding of market dynamics and participate in future research to keep ahead of trends and new themes in the external and impact investment market that could influence their investments (Islam, 2023).

2.5.2.3 Regulatory Risks

The main risk associated with regulations is potential changes to compliance requirements, laws and policies that could significantly affect impact investments (Schlütter et al., 2023). Changes in regulations could specifically impact operational viability and the financial performance of these investments, which may deter potential investors (Barber et al., 2021; Islam, 2023). For this reason, impact investors need to remain informed about any new regulatory developments to manage this risk.

2.5.2.4 Impact Risks

Impact investments, despite their good intentions in helping to make positive social and environmental contributions, run the danger of not producing the expected environmental or social result (Hand et al., 2021). This could be due to various reasons including unforeseen changes in the market, macroeconomic and microeconomic environment, disengaged community members or ineffective strategy implementation. Although the impact investors may have little or no control over some of these risks, measuring the impact performance would help in mitigating the risk (Islam, 2023).

2.5.2.5 Liquidity Risks

When it becomes difficult to turn the impact investment into a financial benefit without influencing the price, gives rise to liquidity risks (Hand et al., 2021). Longer payback times along with less liquidity than more traditional investments make impact investments unique (Barber et al., 2021). Furthermore, impact investors might find it difficult to get out of their investments or might have to lengthen their investment times, affecting their portfolio liquidity. Impact investors would thus have to have an exit strategy in place and also consider liquidity restrictions in order to control this risk (Hand et al., 2021).

2.6 Impact Investment Financial Performance

By investing in environmental and social impact-related businesses, promising performance results can potentially be yielded. About 79% of investors in a Hand et al. (2023b) survey reported either meeting or surpassing their financial expectations from their impact investments. This indicates that impact investing is not necessarily a trade-off with good financial return, but an additional benefit that would make a positive change on a social or environmental level.

2.6.1 Factors Affecting Impact Investment Performance

There are several factors that affect the performance of impact investment initiatives: market conditions, management capability, sector focus and investment structure.

2.6.1.1 Market Conditions

Market conditions including market demand, inflation, and economic stability can either improve or risk the performance of an impact investment as Yousaf et al. (2022) and Hand et al. (2023a) hinted at. For example, the growing demand for renewable energy in the market has led impact investors benefiting from investing in renewable energy sources as more companies commit to lowering their emissions by using renewable energy instead of coal-based energy, so increasing investment returns as well.

2.6.1.2 Management Capability

Management capability speaks to an impact investing organisation leadership team being equipped with the necessary resources and skills to ensure that the impact investment performs optimally (Broadstock et al., 2020). For example, if a sustainable entrepreneurship venture in the renewable space receives investment funds, the management team of the venture must be capable of scaling the business by purchasing cutting-edge and reliable renewable technology to grow the business and generate more returns.

2.6.1.3 Sector Focus

Conversely, sector focus affects financial performance by carrying along risk and threat profiles growth and scaling potentials (Barber et al., 2021; Hand et al., 2023a). In this instance, by concentrating on housing, for example, where real estate companies create reasonably priced homes in areas lacking sufficient housing, a leadership team able to cut construction time and expenses without sacrificing the quality of the building project will enhance impact investment returns.

2.6.1.4 Investment Structure

Furthermore, influencing the investing performance is the structure of the investment (Cojoianu et al., 2022). Lehner et al. (2019) underline that the two main financial instruments are private equity and private debt and would affect performance differently with equity investments producing better financial returns.

2.6.2 Due Diligence by Impact Investors

Due diligence would be required of an impact investor who is interested in sustainable entrepreneurship to ensure that they are aware of the potential financial return of their investment and possible risks that could produce negative returns (Agrawal & Hockerts, 2019b). Marti et al. (2023) added that an impact assessment also needs to be conducted to assess the environmental and social returns along with the financial benefits. This would increase the likelihood of meeting post-investment goals in terms of financial return and impact objectives. In essence, conducting due diligence is a way of minimising investment risk and meeting or exceeding projected returns.

2.7 Impact Investing Barriers

Though impact investing is becoming more popular, the impact investing industry still faces obstacles that impede the broader expansion (Phillips & Johnson, 2021). Below are the main obstacles.

2.7.1 Lack of Awareness and Understanding

One of the barriers faced by impact investors is a lack of awareness or understanding of the impact investing concept which often leads to confusion about the criteria and goals of the investment (Lehner et al., 2019). This lack of information can lead to possible investors being reluctant to make investments for social and environmental effects in addition to financial ones

(Friede, 2019). A company that offers solar panel installation services looking to expand or scale its operations, for instance, may need an impact investor who can enable and support its expansion, but if the potential investor is not aware of the positive social impact that comes with the financial returns, they may be sceptical of investing in the solar panel service business. Hence, it's important to create awareness and ensure a thorough understanding of the impact investment ecosystem.

2.7.2 Limited Access to Funds

According to Steuer and Troger (2022), the main reason for the lack of sufficient financial resources for sustainable businesses is the inability of traditional investors to take risks, and consider impact investments as high-risk investments with uncertain returns. Many sustainable entrepreneurs struggle to attract enough capital investments from potential impact investors (Lange, 2019). This is attributable to the perceived risk of investing in sustainable businesses, difficulty in proving that they are profitable and the longer time horizon for returns, which then poses a challenge for potential investors to make funds available for these businesses (Schoenmaker & Schramade, 2019).

There are also limited funds to meet the projected returns and minimise the risks associated with the impact investment (Lehner et al., 2019). Furthermore, economic instability, which could be intensified by political disturbances or fluctuating exchange rates, poses a threat to investor confidence, therefore reducing the amount of impact capital that can be invested in the country (Montes & Nogueira, 2022). For this reason, impact investors opt not to invest due to the deficit in available funds to meet the risks and return expectations.

2.7.3 Ambiguity in Performance Measurement

The subjective nature of evaluating corporate social performance (CSP) makes it difficult to have proper metrics for impact investments (Daugaard, 2020). Meanwhile, financial measures applied in conventional investment approaches do not reflect environmental and social impacts of an investment. For instance, an investment into a business that provides clean water to disadvantaged areas might have financial and social benefits, but the social benefits cannot be quantified easily compared to the financial returns. This ambiguity in performance measurement makes it difficult for investors to assess whether their social benefits can justify the financial outlay (Moroń & Klimowicz, 2021).

2.7.4 Regulations

Regulatory frameworks are not fully developed to incentivise or support impact investing in many countries including South Africa (Camilleri, 2020). There have also been some inconsistencies in the regulations that are available and the absence of supportive policies which can discourage potential impact investors (Agrawal & Hockerts, 2019a). If a green bond aimed at financing renewable energy initiatives faces regulatory barriers in a country that does not have clear guidelines on the issued bonds, then it can prevent the impact investor and issuer of the bond from taking part fully.

2.8 Impact Investing Enablers

2.8.1 Key Drivers and Motivators for Investors and Entrepreneurs

Creating a favourable environment for impact investment that produces social and environmental benefits along with financial gains depends much on impact investing enablers (McCallum & Viviers, 2020). According to Phillips and Johnson (2019) and Dauggy (2019), innovative financial instruments, performance metrics, market awareness, government involvement in supporting policies, capacity building inside communities, and the rising demand for social and environmental impact initiatives are the main enablers of impact investors.

Several growth drivers and motivators have been positively influencing the impact of investing development in South Africa. The expanded attention to social and environmental matters among large numbers of investors and the urge to give back to society promotes participation in impact investing (Kölbel et al., 2020). Innes (2021) suggests that having both financial and social impact returns provides a strong appeal to investors. For many entrepreneurs, the ability to access financing that aligns with their mission and values is a critical push factor. Furthermore, the accumulation of data on the performance of impact investments over the years, showing their ability to produce both financial and social returns, is a great motivation for investors (Allen, 2023).

2.8.2 Government Intervention

Government intervention through policies that include regulatory framework, incentives, and tax benefits, are enablers that provide a structure required to encourage capital flow into sustainable entrepreneurship (Watson et al., 2023). These supportive policies would also encourage impact investors to fund sustainable enterprises.

2.8.3 Role of Education and Awareness in Promoting Impact Investments

Creating awareness in the market of the benefits of responsible and sustainable business practices would increase demand for sustainable entrepreneurship and impact investments (Lotfi et al., 2018). Similarly, as stated by Urban and George, 2018, education and awareness play an important role in advocating for impact investments in South Africa. Acquiring a greater understanding of impact investing mechanisms and advantages is seen as the way to eliminate the cultural and perceptual barriers (Bengo et al., 2021).

Initiatives like impact investing workshops, seminars, and conferences are crucial in educating prospective investors and entrepreneurs (Jia & Desa, 2022). In their study, Logue and Grimes (2022) found that educational courses that demonstrate practical approaches and real examples of successful impact investment projects are very effective as they showcase the opportunities that are available. Furthermore, media and academic research should promote the culture of impact investing, ultimately leading to a more knowledgeable and engaged investment community (Ewim, 2023). Furthermore, this awareness would lead to the adoption of social and environmental reporting practices and performance measures.

In addition, there is a growing demand on a global scale for sustainable practices driven by organisational values and customer preferences for sustainable solutions and responsible business operations (Shao & Ünal, 2019). This should be accompanied by capacity building within communities to equip community members with the necessary skills and support for sustainable entrepreneurs committing to making a positive difference in the social and environmental landscape (Gurău & Dana, 2018).

2.9 Impact Investment Measurement

Using the performance measuring process across the impact value chain, shown below, impact investment is assessed via a methodical approach that evaluates how successful and impactful investments are, in reaching the intended social outcomes (Dufour, 2019).

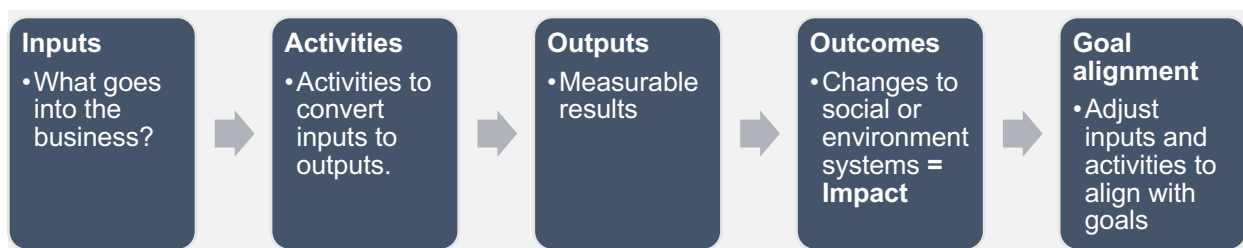


Figure 4: Measurement process through impact value chain (Dufour, 2019).

The inputs are resources invested such as capital and human resources. Activities would include any deliverables aimed at addressing a social or environmental need. The outputs are usually quantifiable and can include the number of services delivered, the number of people trained, or the number of products sold. The outcomes then become the result stemming from the output, and this may include an increase in the number of skilled employees on the renewable energy topic. The last step is an alignment between the outcomes and the activities. In this way, the entire process would assess how the inputs were transformed into outcomes.

2.10 Sustainable Entrepreneurship Overview

2.10.1 Definition of Sustainable Entrepreneurship

Sustainable entrepreneurship (SE) is a type of entrepreneurial activity that goes beyond generating profit and focuses on combining environmental, social, and economic values (Terán-Yépez et al., 2020). It aims to ensure the well-being of future generations by creating products, processes, and services that bring gains to individuals, the economy, and society (Terán-Yépez et al., 2020). Sustainable entrepreneurship has drawn more attention as suggested by Muñoz and Cohen (2018) since it is the answer rather than the source of social inequality and environmental damage.

Schaltegger & Wagner (2011) defines sustainable entrepreneurship as a business approach where companies use sustainable business practices to balance the effects of their commercial, social, and environmental operations in order to increase efficiency and competitiveness. To promote sustainability, sustainable entrepreneurship involves identifying, developing, and seizing business opportunities that benefit local communities on a social and environmental level (Muñoz & Cohen, 2018). The intentions of sustainable entrepreneurship are summarised in the table below. The intentions of sustainable entrepreneurship are summarised in the table below.

Table 2: Sustainable entrepreneurship motives (Vuorio et al., 2018)

Motive	Description
Value creation	Sustainable entrepreneurs seek to create economical and non-economical value.
Prioritise sustainability	Positive sustainability-oriented entrepreneurial intentions.
Perceived entrepreneurial desirability	Sustainability entrepreneurs are motivated by the desire for success and fulfilment from engaging in sustainable practices.
Market demand	Demand for sustainable practices is growing and promote sustainable entrepreneurship.

2.10.2 Difference between Traditional and Sustainable Entrepreneurship

In traditional entrepreneurship, the primary objective is to create shareholder value and maximise profits (Battilana et al., 2022). The performance measurement is centred on financial metrics such as return on investment, market share and revenue growth (Castellas et al., 2018). Moreover, traditional entrepreneurship businesses often use extensive natural resources with little or no regard for environmental degradation (Ye et al., 2020). Practices may include substantial pollution, emission and waste levels.

In this instance, success is measured by financial indicators for profit-driven companies in line with good contributions to the social and environmental ecology (Schaltegger et al., 2019). Sustainable entrepreneurship business models also emphasise sustainable practices including minimising waste, using resources effectively, and lowering carbon emissions to build a sustainable closed-loop system (Kara et al., 2022).

2.10.3 Types of Sustainable Enterprises

There are three types of sustainable enterprises: Triple Bottom Line (TBL), Corporate Social Responsibility (CSR) and Green Entrepreneurship.

TBL sustainable entrepreneurship incorporates sustainability efforts into their operations to improve the overall performance of the business even though they primarily operate with the intention of making a profit and meeting other financial targets (Gu et al., 2022). The focus for TBL sustainable enterprises is on three dimensions including social, environmental and financial. They engage in profit-driven initiatives such as cost-saving, waste reduction, and improved efficiency.

CSR is a sustainable entrepreneurship that strives to balance profit and social and environmental impact, often placing financial gains on par with ethical considerations and sustainability (Silvestri & Veltri, 2020). The balance between purpose and profit becomes core to a responsible sustainable entrepreneurship's business model and operations. Moreover, ethical practices are also integrated into operations, which include accountability, honest communication and transparency with stakeholders.

Green entrepreneurship enterprises are centred on solving specific environmental challenges, with sustainability being the core of their business model (Zhao et al., 2021). These enterprises provide services or products that directly address critical needs such as renewable energy, which is in line with the enterprise's commitment to conducting business in an economically viable and environmentally responsible way (Silvestre et al., 2018).

2.10 Sustainable Entrepreneurship in South Africa

2.10.1 Sustainable Entrepreneurship Landscape

The sustainable entrepreneurship landscape in South Africa reflects the country's clear environmental, social, and economic needs. According to the GEM report by Bowmaker-Falconer et al. (2023), there has been a drop from 48% to 37% in the actual practice of social sustainability from 2021 to 2022. However, South Africa has seen a growing strategic intent to engage in sustainability which gives a positive outlook on the landscape but several barriers including funding, diminished the practical implementation of these strategies, which highlights a gap that impact investors can address (Bowmaker-Falconer et al., 2023).

Even though the sustainable entrepreneurship landscape has a positive outlook, there are still significant challenges faced by sustainable entrepreneurs in accessing funds. Sustainable enterprises have difficulties securing funds due to long payback periods and perceived risks associated with sustainable venture businesses (Zhan & Santos-Paulino, 2021; Schlütter et al., 2023). However, there are successful cases that illustrate the potential for impactful sustainable businesses. For example, the South African Renewable Energy Independent Procurement Programme (REIPPP) has attracted about R202 billion since its inception in 2011 (DTIC, n.d.).

As South Africa battles with its socio-economic challenges, sustainable entrepreneurship is part of the solution to reducing economic inequalities, inclusive growth and social and environmental responsibility.

2.10.2 Sustainable Entrepreneurship Trends

From 74% in 2021 to 82% in 2022, the GEM report by Bowmaker-Falconer et al. (2023) shows that social and environmental sustainability has been favourably trending among entrepreneurs. This reflects the increasing acceptance of including models and business practices with sustainability concepts. However, the number of companies actively implementing social and environmental sustainability dropped from 48% in 2021 to 37% in 2022, implying that the companies that committed to sustainability struggle with implementing their sustainability plans. This is a definite evidence that South Africa's aspirations for sustainable entrepreneurship is growing, but practical application lags.

2.10.3 Regulatory Frameworks

Encouragement of sustainable entrepreneurship depends much on regulatory systems. Using these frameworks, sustainable business practices can be controlled to attain sustainability objectives including lowering of harmful emissions, environmental protection and resource preservation (Rosário et al., 2022). This would need coordinated efforts among markets, businesses, and governments.

NEMA is a regulatory framework that promotes the sustainable use and conservation of natural resources (South African Government, n.d.). It places emphasis on sustainable development objectives to ensure that the environment is managed in alignment with economic and social needs. The Act further provides frameworks for waste management, pollution control and environmental impact assessment, which are all critical for sustainable entrepreneurship (NEMA, n.d.).

Another regulatory framework is the Broad-Based Black Economic Empowerment (B-BBEE) Act, which sets out to empower Black South Africans and entrepreneurs who have been historically disadvantaged and encourage inclusive business practices (DTIC, 2019). The Act considers skills development, socio-economic development, and management control, with a view towards sustainable enterprise growth.

2.12 Sustainable Entrepreneurship Key Benefits

Among the major advantages of sustainable entrepreneurship are long-term viability, social and environmental benefits, and how investor interest is positively influenced (Muñoz & Cohen, 2018).

2.12.1 Long-Term Viability

Sustainable enterprises with business models that fit to profit from long-term financial gains aim at reaching responsible social and environmental goals (Veleva, 2021). The alignment between ecological and economic goals would improve corporate resilience and position it favourably in a market with a high demand for sustainable practices, so making it long-term viable (Muñoz & Cohen, 2018).

2.12.2 Environmental and Social Benefits

Sustainable entrepreneurship also produces environmental and social benefits as the enterprises aim to facilitate social equity, improve the well-being of community members and restore environmental balance through sustainable practices (Muñoz & Cohen, 2018). Sustainable businesses would, for instance, advocate fair labour standards, assist local businesses, and lower waste and carbon emissions. This is in line with objectives of sustainable development, promotes a structural change towards sustainability, and influences market conditions and legislative frameworks favourably (Terán-Yépez et al., 2020).

2.12.3 Impact Investor Interest

Since impact investors seek to create positive and quantifiable environmental and social impacts along with financial gains, sustainable entrepreneurship fits particularly well with their interests (Muñoz & Cohen, 2018). As demand for ethical investment rises, impact investors are looking for chances that benefit the surroundings and society (Chatzitheodorou et al., 2019). Sustainable enterprises show a dedication to solving problems including economic inequality, poverty, and climate change, so offering those possibilities (Schaltegger et al., 2018). Common interests help communities, businesses, and investors to work cooperatively for favourable results.

2.13 Sustainable Entrepreneurship Key Challenges

Although sustainable entrepreneurship has the ability to solve socio-economic problems in South Africa, it also suffers obstacles that prevent it from realising its best capabilities. Limited access to funds, legal restrictions, and innovation and technology constraints define these difficulties (Hoogendoorn et al., 2019).

2.13.1 Lack of Funding Access

Accessing funding required for either starting, expanding, or scaling firms presents difficulties for sustainable entrepreneurs. This has mostly to do with the claimed risk associated with sustainable business models (Mansouri & Momtaz, 2022). Their emphasis on social and environmental problems makes their profitability and long-term viability questionable; hence, prospective investors could consider sustainable entrepreneurship as high risk (Hoogendoorn et al., 2019).

2.13.2 Administrative Barriers

Major challenges of sustainable entrepreneurship are presented by complicated administrative procedures (Hoogendoorn et al., 2019). Starting a business and managing operations aimed for sustainable entrepreneurial needs are difficult due to administrative complexity and legal systems (Rosário et al., 2022). Furthermore, there are not enough tools to enable sustainable entrepreneurs to negotiate the constantly evolving industry where rules can change regularly. Keeping up with these changes would need more resources.

2.13.3 Lack of Access to Information

Lack of access to relevant and vital knowledge that would help a sustainable entrepreneurial enterprises to be successful is linked to informational barriers (Hoogendoorn et al., 2019; Argade et al., 2021). One of the main sources of information is market data particular to the sustainable entrepreneurial niche, which is rare and challenging to access, thus impeding the capacity to make well-informed decisions based on market data.

2.14 Funding of Sustainable Enterprises

Funding for sustainable enterprises comes in different forms: impact investment funds, socially responsible investing, green bonds, venture capital, private equity, angel investors, government grants and crowdfunding (Vismara, 2019; Croce et al., 2021).

Table 3: Sustainable enterprise funding types (Vismara, 2019; Cojoianu et al., 2022)

Funding	Description
Impact investment funds	A fund dedicated to enterprises focusing on financial gains and social or environmental impacts.
Socially responsible investing	Selects investments based on ethical criteria
Green bonds	Bonds are fixed-income financial instruments designed to support initiatives that have environmental benefits.
Venture capital	Venture capital firms invest in early-stage sustainable entrepreneurship ventures with high growth potential.
Private equity	Invests in scaling enterprises with proven business model and significant impact potential.
Angel investors	Individuals who provide capital for startups, often in exchange for ownership equity or convertible debt.
Government grants	Government may offer subsidies and grants to support sustainable practices and innovations.
Crowdfunding	Raising funds from a large number of people.

2.15 Relationship Between Impact Investing and Sustainable Entrepreneurship

Barber et al. (2021) define impact investing as an investment committed to producing positive social and environmental impact in addition to financial returns. On the other hand, sustainable entrepreneurship is an enterprise in the social and environmental setting aimed at producing both financial and non-financial benefits (Hummels & Argyrou, 2021). Therefore, both impact investors and sustainable entrepreneurs are aligned and have similar goals in addressing environmental and social challenges but at the same time generate economic value.

The partnership between impact investors and sustainable entrepreneurs can be a catalyst that allows these enterprises to succeed because shared value creation can be the basis for innovation and growth (Holtslag et al., 2021).

2.15.1 Shared Objectives

While sustainable entrepreneurs measure performance through the lens of the planet, people and profit, impact investors seek to fund enterprises that actively address environmental and social issues and measure performance through a similar lens to sustainable entrepreneurs (Agrawal & Hockerts, 2019).

2.15.2 Aligned Mission and Strategies

Sustainable entrepreneurs base their business models on sustainability and aim to address challenges such as unemployment, climate change, and other social and environmental issues. The capital needed by sustainable entrepreneurs to start, scale or grow their businesses is provided by impact investors given that these enterprises would generate significant impacts that align with their impact investment missions and strategies (Barber et al., 2021).

2.15.3 Measurement

Along with financial gains, impact investors and sustainable entrepreneurs need ways to measure social and environmental impact (Mansouri & Momtaz, 2022). This is to guarantee that sustainable entrepreneurial activities benefit from the money invested by impact investors towards sustainable businesses and that there are positive social and environmental contributions (Castellas et al., 2018). This also helps investors to do their due diligence evaluating the businesses they would like to support.

2.15.4 Impact Investment Support

In addition to the financial investment provided to sustainable enterprises, impact investors can provide significant benefit to the sustainable entrepreneur, by implementing non-financial support initiatives that aim at improving both social and environmental impact and financial rewards (Nachyła & Justo, 2024). These initiatives ensure that the businesses they invest in are truly sustainable, which benefits both the enterprises and the investors by creating long-term resilience and impact (Nachyła & Justo, 2024).

2.16 Theoretical Frameworks

Impact investing has become a powerful tool to fuel the sustainable entrepreneurship ecosystem (Han & Shah, 2020). However, impact investors and sustainable entrepreneurs battle with a lack of information on their transactions (Bengo et al., 2021). For this reason, the research focuses on the information asymmetry theory, to address the asymmetries due to a lack of information.

2.16.1 Theories Underpinning Impact Investing

Several theories help build up the understanding of what an impact investment is and how its essence can be defined when speaking about the offering. Stakeholder Theory which Freeman (2010) has introduced, established that, besides shareholders, other stakeholders

should also be taken into consideration before making a business decision (Kivits et al., 2021). This is in consonance with the goals of impact investing, given that its goal is to bring about positive social and environmental impacts. Similarly, Social Capital Theory by focuses on roles played by networks and relations in economic activities, and therefore, trust and cooperation are vital in driving impact investments (Freeman et al., 2020; Hidalgo et al., 2024). Arena et al. (2018) highlight the issues of Information Asymmetry between impact investors and social enterprises. Investors are susceptible to capital loss due to a lack of awareness, conflicting goals and a lack of historical data regarding the dangers and implementation of impact investing (Hockerts & Agrawal, 2019; Bengo et al., 2021). These theories provide the framework for understanding the behaviour of investing with a positive impact.

2.16.2 Theoretical Approaches to Understanding Sustainable Entrepreneurship

The theoretical framework of sustainable entrepreneurship can be traced in various fields of knowledge, including business, economy, and environment (Silvestri & Veltri, 2020). The triple bottom line concept, equally applies, especially when it comes to sustainable entrepreneurship and maintaining economic, social, and environmental goals at par (Terán-Yépez et al., 2020). Also, the Resource Based View (RBV) of the firm suggests that sustainable competitive advantage derives from valuable, rare, inimitable, and non-substitutable resources and capabilities such as environmental conservation and social responsiveness (Lubis, 2022). These theoretical frameworks are broad models for understanding the relationship between sustainable entrepreneurship and impact investing.

Of all the theories mentioned above, the Information Asymmetry Theory is the best applicable theory that will be applied in this study as it will address the information gap between impact investors and sustainable entrepreneurs.

2.16.3 Information Asymmetry Theory

Impact investing has become a powerful tool to fuel the sustainable entrepreneurship ecosystem (Han & Shah, 2020). However, impact investors and sustainable entrepreneurs battle with a lack of information on their transactions (Bengo et al., 2021). For this reason, the research focuses on the information asymmetry theory, to address the asymmetries due to a lack of information.

2.16.4 Definition of Information Asymmetry Theory

Information asymmetry theory is when various parties involved in a transaction have access to information at different levels, causing misalignments between the parties (Ahmad et al., 2023). These misalignments in information can affect the outcomes of various contexts such as impact investment decisions (Ajmi et al., 2019). For example, when an impact organisation decides to offer shares to the public for the first time, the management team of the company has more information about future prospects, risks and the financial health of the company than external potential investors.

2.16.5 Types of Information Asymmetry

There are two types of information asymmetries: adverse selection and moral hazard (Bergh et al., 2019).

Adverse Selection

Adverse selection arises before the transaction is made and it is the period when investors would need to make a decision based on their selection criteria as to which initiatives or businesses to invest in (Bergh et al., 2019; Ahmad et al., 2023). For example, an impact investor receives multiple proposals from startups requesting funding, but some of these startups might be exaggerating their projected financial and social impacts to attract funding. Consequently, the investor might select a startup that does not genuinely prioritise social impacts and then does not deliver on the expected social benefits as the investor couldn't assess the proposal accurately.

Moral Hazard

Moral hazard occurs after a transaction when the venture is in operation and performance is measured (Amit et al., 2022). It involves a risk that the entrepreneurs may deviate from the investors' interests and the agreed-upon impacts and financial benefits after securing the funding (Ahmad et al., 2023). An example would be a startup entrepreneur who has received funding from an investor and decided to divert some of the funds towards personal benefits, and the investor not being able to monitor day-to-day operations, and the startup might not reach the set impact targets as the funds were not utilised efficiently.

2.16.6 Strategies to Mitigate Information Asymmetry

Although there are several strategies that can be applied to mitigate information asymmetry, the two critical strategies are, monitoring and reporting practices and actively engaging stakeholders (Cui et al., 2018; Bellavitis et al., 2019).

Monitoring and Reporting Practices

Entrepreneurs and investors can consider adopting transparent reporting and monitoring practices including disclosing business activities (Cui et al., 2018). This entails providing stakeholders with meaningful information beyond legal and compliance requirements and financial data. Monitoring and reporting practices improve the information environment and indicate a commitment to transparency and accountability (Bellavitis et al., 2019).

Stakeholder Engagement

To build trust and a positive reputation towards stakeholders there would need to be active engagement among stakeholders (Cui et al., 2018). These engagements must be aligned with stakeholder expectations (Bergh et al., 2019). For example, a sustainable entrepreneur can continuously engage their impact investor to ensure that the investor has all the information regarding business operations that could affect the expected investment returns. On the other hand, the investor can also engage the sustainable entrepreneur if there are any new developments or insights from their end.

Relevance of Information Asymmetry to the Study

The research study is centred on empowering sustainable entrepreneurship through impact investing. To eliminate asymmetries between impact investors and sustainable entrepreneurs, the information asymmetry theory becomes relevant as it addresses misalignments through the following key actions: reducing uncertainty, understanding investor behaviour, building trust, facilitating well-informed decisions and encouraging innovation (Bergh et al., 2019; Du et al., 2020). This ensures that both parties can work effectively to achieve impact objectives (Bergh et al., 2019).

2.17 Conclusion

Chapter 2 reviewed the literature on impact investment, indicating that it is growing as an important tool for encouraging sustainable entrepreneurship, with substantial potential to address socioeconomic and environmental concerns in South Africa. The findings suggest that impact investments provide both financial returns and positive societal benefits, aligning

closely with the goals of sustainable enterprises. This field has seen significant growth both globally and in South Africa, where the potential for social impact is particularly great due to the country's struggles with inequality, unemployment, and environmental concerns. There is a broad awareness of the various kinds of impact investments, their advantages, and the processes by which they can contribute to long-term development.

However, there are gaps that still not clear on how best to structure and deploy impact investments to maximize their effectiveness, especially in the unique context of South Africa. For instance, while the literature provides a foundational understanding of impact investing strategies, it lacks a detailed examination of how these can be tailored to enhance the growth and scalability of sustainable enterprises specifically within the South African context. Furthermore, while risks and rewards are acknowledged broadly, there is limited insight into how South African investors and entrepreneurs perceive these aspects, particularly in comparison to traditional investments and businesses. Using the Information Asymmetry theory underlined the need for monitoring and reporting practices and efficient stakeholder involvement to remove the asymmetries between impact investors and sustainable entrepreneurs, thus enabling a more cooperative and powerful engagement between the parties.

This review connects directly to the research questions by identifying both known factors and areas for further exploration. The questions seek to clarify how impact investments be designed to support sustainable entrepreneurship, get into the specific risks and rewards perceived by both parties, and examine the design factors that could enhance scalability in South Africa's sustainable enterprises. Addressing these will advance our understanding of how impact investing can be optimized to unlock sustainable development potential in this unique and dynamic market.

CHAPTER 3 – RESEARCH QUESTIONS

3.1 Introduction

Chapter three describes the main research questions along with the sub-questions that will guide the research into the role of impact investing in fostering sustainable entrepreneurship in the South African context. This chapter builds on the insights discussed in chapters one and two, which altogether provide South Africa's socio-economic, impact investing field and sustainable entrepreneurship landscape and the frameworks and theories that support the study.

Chapter one provided insights into the socio-economic challenges faced in South Africa, including economic inequalities, high unemployment rates and the pressing need to contribute to sustainable development initiatives. These challenges necessitate investment strategies that are innovative and can address environmental and social concerns while generating cash flows and maximising profits (Mogapi et al., 2019; Kajjita & Kang'ethe, 2020). This chapter highlighted a crucial research problem which is that traditional investment strategies worsen the challenges faced by sustainable entrepreneurs by overlooking the broader implications of their investment decisions. This problem is increased by barriers including lack of access to funding, and asymmetries between impact investors and sustainable entrepreneurs.

Chapter two provided the literature review that delved into the theory and frameworks relevant to sustainable entrepreneurship and impact investing. This chapter explored various aspects of the study including definitions, motives, advantages and drawbacks of impact investing, and South Africa's context. Emphasising the need of improving support systems and successful cooperation, literature underlined the need to know the dynamics between sustainable entrepreneurship enterprises and impact investors (Di Vaio et al., 2022). For instance, the theory of information asymmetry addresses the knowledge gaps between impact investors and sustainable entrepreneurs, possibly impeding capital flow from investors to businesses (Bengo et al., 2021).

With the insights gained from chapters one and two, the research questions in this chapter were developed to unpack the complexities of impact investing and its capability to encourage and foster sustainable entrepreneurship within South Africa. The research questions were designed to focus on addressing the identified research objectives and guide the research process to succession. These questions are directly to the findings from the literature review in chapter two.

3.2 Main Research Question

How can impact investments enable and support sustainable entrepreneurship in South Africa?

This primary research question relates to Chapter Two's section 2.15 on the link between impact investing and sustainable entrepreneurship. It explores the underlying processes by which impact investing can support and enable sustainable entrepreneurship while also giving social equity and economic development top priority, so addressing the issues noted in Chapter One.

3.3 Sub-Research Question One

What are the perceived risks and rewards associated with impact investing in sustainable enterprises?

This sub-question directly relates to sections 2.3, 2.6.2, and 2.12 of chapter two, which speak to impact investment and sustainable entrepreneurship barriers and enablers, respectively. In this case, the perceptions of investors when investing in sustainable businesses are examined as this research sub-question uncovers the elements that influence investment decision-making processes and sustainable entrepreneurial strategies. This further aids in mitigating risks and enhances the attractiveness of sustainable businesses

3.4 Sub-Research Question Two

How can impact investments be designed to foster the growth and scalability of sustainable enterprises in South Africa?

This sub-question directly links sections 2.5.1, 2.6, 2.6.2, and 2.14 of chapter two. These sections explore the construction of impact funds, performance indicators of impact investing and funding of sustainable enterprises, which is relevant to support the growth of sustainable enterprises. This helps the research to provide helpful recommendations meant to support the successful collaboration between sustainable entrepreneurs and impact investors

3.5 Conclusion

In conclusion, chapter three presented the study questions meant to direct the investigation on the link between impact investing and sustainable entrepreneurship. These questions were also related to insights gained from chapters one and two, therefore ensuring that the study stays focused on handling challenges and research prospects found in chapter one.

CHAPTER 4 – RESEARCH METHODOLOGY

Chapter 4 details the research approach and design employed to address the research questions presented in Chapter Three. A qualitative method was chosen to explore the role of impact investing in fostering sustainable entrepreneurship in South Africa. Data collection involved conducting semi-structured interviews with professionals in impact investing and sustainable entrepreneurs. The data was analysed by identifying emerging themes, guided by the literature review in Chapter Two. The chapter concludes by discussing issues related to validity, reliability, ethics, and the limitations of the study.

4.1 Purpose of Research Design

This study is exploratory in nature, which seeks to uncover new perspectives, ask new questions, and reevaluate topics from a different viewpoint (Saunders & Lewis, 2018). Exploratory research focuses on uncovering details about a topic that may not be well understood by the body of knowledge. This research adopts an exploratory approach with the aim of uncovering the reasons behind impact investing as a method for fostering sustainable entrepreneurship in South Africa. Therefore, this exploratory approach facilitates a comprehensive understanding of the social dynamics at play.

4.2 Philosophy

The research philosophy specifies the fundamental assumptions about the ways of gathering, analysing and interpreting data to explain phenomena in the universe (Saunders & Lewis, 2017). Given the nature of this research, it follows the interpretivism philosophy, which, as described by Saunders and Lewis (2018), highlights the importance of recognising and understanding the differences among humans in their capacities as social actors.

In this research, the interpretive philosophy assists in uncovering the intricate, subjective realms of impact investing (Yanow, 2017). Interpretivism offers a high level of insight into the experiences of all stakeholders involved in impact investing, from individual investors to entrepreneurs (Defebvre, 2021). Therefore, this attitudinal approach acknowledges that the actual experience of impact investing is influenced by individual perceptions, social environments, and cultural backgrounds (Meng et al., 2022). Interpretivism is suitable for examining how these factors intersect to determine the practices and effects of sustainable entrepreneurship in South Africa, providing a deep understanding of experienced realities and social constructs (Durkee, 2021).

Packard (2017) explains that interpretivism as a philosophical approach, suggests that intentional actions and interactions between individuals form social structures like markets and entrepreneurial activities. This viewpoint highlights how important it is to comprehend these behaviours on a personal level in order to understand the larger social order. Therefore, in order to explore the underlying factors that shape impact investors' perspectives towards sustainable entrepreneurs, the research adopts an interpretivism philosophy.

4.3 Research Approach

A research approach is a general framework or method that is used in a study, encompassing techniques to respond to certain research questions (Saunders & Lewis, 2017). An inductive approach is applied in this study, which is a research approach that entails collecting data and having patterns, themes and theories appear naturally, without being needed to test predefined hypotheses (Ngakane, 2022). Saunders and Lewis (2018) state that the inductive approach allows for an open exploration of themes, as it does not start with predefined notions. This approach is especially helpful in areas like impact investing, where there are numerous social factors and often personal views. It offers the flexibility to adapt the research focus based on insights gained through interviews. Therefore, an inductive approach is suitable for this study because it allows the research to unfold based on the views and insights gathered from impact investors and entrepreneurs, without preconceived notions.

4.4 Methodological Choices

The methodological choice applied in this study follows a mono method approach using a qualitative method to collect and analyse data. By focusing on data collection methods such as interviews, this methodology allows for an investigation of the factors that shape investors views within specific social settings (Saunders & Lewis, 2018).

4.5 Strategy

The strategy used in this study is the Narrative inquiry, which, according to Saunders and Lewis (2018), is an account of an experience given in a chronological order that shows a flow of connected events that, when considered as a whole, are significant for the narrator and provide the researcher with meaning. The use of narrative inquiry is appropriate for this study since it enables an examination of impact investors' experiences. This method, which emphasises comprehending the context and significance of viewpoints, is consistent with the study's goal of revealing the perspectives from which investors view and engage with entrepreneurs.

4.6 Time Horizon

Due to limited time to conduct this research, this study employs a cross-sectional design, which involves a study of a specific subject at a given point in time (Saunders & Lewis, 2018). A cross-sectional approach thus becomes viable owing to the dynamic nature of impact investing, which enables the research to capture current developments and ongoing practices (Mbandlwa, 2023). This technique is useful in investigating the current views as well as the short-term effects of impact investing, providing timely findings on the topic. Unlike a longitudinal study that concentrates on a specific subject for a prolonged duration (Saunders & Lewis, 2018), cross-sections are sufficient in pointing out present trends, opportunities and challenges within the impact investing of South Africa (Seabe et al., 2024).

4.7 Population

Every decision is based on the most probable sample of the population (Saunders & Lewis, 2018). Saunders and Lewis (2018) define population as the entire group of members under study, similarly, Saunders et al. (2009) describe it as the complete set of cases from which a sample is drawn.

The target population for this study consists of two groups, first group being entrepreneurs and the second group being impact investors. Focusing on entrepreneurs, the study will concentrate on sustainable enterprises operating in South Africa. Regarding impact investors, the study will include investment professionals from registered financial services firms such as impact funds, development finance institutions and pension funds operating in South Africa.

4.8 Unit of Analysis

In business research, the unit of analysis refers to the individual or entity from which data is gathered, as outlined by Kumar (2018). It essentially determines 'what' or 'who' is the focus of the study in the context of business research (Kumar, 2018). Therefore, in this study, individuals (entrepreneurs) will be regarded as the unit of analysis for the first group and individual experts representing impact investment firms for the second group.

4.9 Sampling Method and Size

Sampling is the process of choosing a portion of a population to represent the entire population based on various characteristics (Lohr, 2021). The researcher will evaluate the suitability of the sample in each reviewed article concerning the research question being addressed (Saunders & Lewis, 2018). Furthermore, this assessment will be necessary when devising a strategy to gather primary data to respond to the research question (Saunders & Lewis, 2018).

The study will apply the purposeful sampling method, a non-probability sampling technique in which sample members are chosen using one's judgement based on a variety of potential premises and reasons (Saunders & Lewis, 2018). The researcher chooses participants with the knowledge, relationships, and expertise relevant to the research topic (Meng et al., 2022). Therefore, this procedure assures that the data collected is relevant to the research.

A similar criterion to Mogapi et al. (2019) will be adopted for selecting impact investment professionals that will be interviewed. Interviewees will be professionals mainly in investment management or asset management with at least two years of experience. They should hold roles such as CEO, divisional head, manager, associate, investment consultant, or analyst. Target professionals will be employed by financial services organisations such as traditional investment firms, venture capital or private equity impact investment-focused firms, investment consultancy companies representing funds, pension funds, development finance institutions, and banks with impact investing or financing divisions.

With regards to sustainable entrepreneurship, eligible entrepreneurs to be interviewed will be from businesses in South Africa for at least one year demonstrating a strong commitment towards sustainability. Therefore, these businesses must meet several key criteria encompassing environmental, social, and economic factors. Critically, these businesses should align their operations with the Triple Bottom Line approach, balancing profit, people, and planet in their decision-making.

Participants for this study will be contacted via their official contact details and professional social media profiles, such as LinkedIn. Additionally, personal connections will be utilised, given the researcher's expertise in the investment management sector.

In this study, the researcher anticipates a sample of approximately 18 participants in total, evenly distributed with 6 participants from each of the two groups. This approach aims to achieve data saturation, ensuring that no new information is generated from additional interviews. Such a method ensures both convenience and accuracy in portraying the focus and background of impact investing and sustainable entrepreneurship.

4.10 Measurement Instrument

The data collection techniques most commonly employed include participant observation, interviews, and focus group discussions (Moser & Korstjens, 2018). In this study, the researcher will use interview guides as a useful instrument to ensure that information is

gathered equally from all participants, in every sample. Semi-structured interviews will be conducted in this research. Semi-structured interviews are more flexible than structured interviews; they provide detailed information and establish a structure for comparison for all the participants (Innes, 2021). This data gathering technique involves the researcher using a series of thematic questions that are predetermined, but changing the sequence of themes and questions as necessary (Saunders & Lewis, 2018). The researcher will have the flexibility to skip certain topics and questions and to pose extra questions when deemed suitable (Saunders & Lewis, 2018).

The interviews will feature open-ended questions aimed at exploring the significance of impact investing in fostering sustainable entrepreneurship, the partnership between impact investors and sustainable entrepreneurs, and the ways in which impact investing can aid in the expansion of businesses. Participants in both groups will respond to the same initial questions, though the follow-up questions may vary. The ethical clearance procedure will be followed for all standard questions, and approval will be obtained prior any interviews taking place. Table 4 below shows the relationship between the research questions and the interview questions.

Table 4 Relationship Between Research Questions and the Interview Questions

Research Questions	Literature Review
Research Question 1: How can impact investments enable and support sustainable entrepreneurship in South Africa?	2.15. Relationship Between Impact Investing and Sustainable Entrepreneurship
Research Question 2: What are the perceived risks and rewards associated with impact investing in sustainable enterprises?	2.6.2 Impact Investing Risks 2.3 Benefits of Impact Investing 2.12 Sustainable Entrepreneurship Key Benefits
Research Question 3: How can impact investments be designed to foster the growth and scalability of sustainable enterprises in South Africa?	2.5.1- Impact Fund Construction 2.6- Impact Investment Financial Performance 2.6.2- Due Diligence 2.14- Funding of sustainable enterprises

4.11 Data Gathering Process

To gather the data for analysis, the researcher developed an interview guide to enhance the questions that each participant will address. The interview guide will be guided by the results of the literature review and will employ an open-ended strategy to examine the nuanced nature of impact investments as a tool for sustainable business development. Through the use of open-ended questions, participants can shared responses that perhaps contain a detailed and nuanced view of their experiences and/or perspectives (Dali & Charbonneau, 2024).

The researcher adopted the following approach to create a semi-structured interview guide (Salmons, 2011):

- (1) Determine the need for a semi-structured interview and assess its suitability as a data collection method (Moser & Korstjens, 2018);
- (2) Gather and apply existing knowledge to thoroughly understand the phenomenon being investigated (Moser & Korstjens, 2018);
- (3) Draft an initial interview guide by applying the gathered knowledge (Moser & Korstjens, 2018);
- (4) Conduct a pilot test of the draft interview guide to ensure it covers relevant topics adequately and to decide if there's a need to revise any questions (Moser & Korstjens, 2018);
- (5) Finalise the interview guide to ensure it facilitates the collection of detailed data in a structured and coherent manner (Moser & Korstjens, 2018).

Each interview will last 45 minutes to an hour, allowing deep discussions and discovering important topics. A voice recording device such as a cell phone is intended to be used to record semi-structured interviews that will take place in person. When conducting virtual interviews, the interviews will be recorded using either a voice recording device or the virtual platform itself. Permission will be requested from the participants prior to each recording of the interviews taking place.

4.7 Data Analysis Approach

Braun and Clarke (2006) describes Thematic analysis as a useful technique for finding and summarising data patterns. It involves the identification of themes that capture the fundamental ideas present in the data being analysed (Gupta & Sharma, 2022). Therefore, the approach used in this study to analyse the data gathered will be a thematic analysis. Using this method, it would be possible to discover recurring patterns, motifs and categories that emerge from the raw data without employing already known hypotheses (Proudfoot, 2023). Through inductive thematic analysis, the data is coded and organised, bringing out the themes (Mogapi et al., 2019). The process encompasses getting acquainted with the data, generating initial codes, searching for themes, reviewing themes, defining and naming themes, and producing the final report (Herrick et al., 2021).

Transcribing and analysing the data from interviews using qualitative data analysis software such as Microsoft Word and Atlas.ti will be done. Atlas.ti supports textual information organising, coding, and synthesis processes (Elliott-Mainwaring, 2021). Atlas.ti helps to identify recurring themes and narratives faster, which can be attributed to the rich textual data

(Sutopo, 2023). The software is specifically designed to promote rigour and systematic research, which in turn increases the credibility and reliability of the findings.

4.8 Data Storage

To ensure secure and long-term storage, the data will be kept on cloud storage platforms such as Google Drive, iCloud etc. Furthermore, local storage solutions such as flash drives and external hard drives, will be used to safeguard the data for up to 10 years.

4.9 Quality Controls

To ensure the reliability and validity of the data, the quality control measure that will be implemented is Triangulation. Triangulation involves using multiple independent data sources or methodologies for gathering data within a single study to confirm that the data accurately reflect what is believed to be the case (Saunders & Lewis, 2018). The approach involves collecting data on the same phenomenon using different methods (Lune & Berg, 2017). Consequently, this study adopts triangulation to enhance the quality of the research.

4.10 Ethical Considerations

The GIBS ethics committee will be approached for ethical approval. Participants will know the research study's aim, the rights of participants, and measures taken to protect their privacy and data confidentiality. Informed consent will be obtained from all participants prior to the start of their participation, thus giving them the opportunity to take part in the study willingly and with a full awareness of the research process (Chen and Harrison, 2020). All data will be anonymised and securely stored, to maintain confidentiality. Identifying information will be stripped from transcripts and analysis files. Ethical consideration of such nature is of crucial significance to maintain the rights of participants and the integrity of the research process.

4.11 Limitations

Given the limited time available for this research, there may be challenges in collecting all the necessary information. Additionally, the qualitative nature of this study restricts the ability to generalise findings across a broader population. Qualitative research focuses on depth and richness rather than width, and therefore, what is discovered in one setting may not necessarily be relevant in another (Pizzi, 2021). Moreover, there is a potential for bias in conducting the interviews, as the researcher's background as an investment professional in the impact investing sector could influence the responses.

CHAPTER 5 – RESEARCH RESULTS

Chapter Five presents data gathered from 18 semi-structured interviews with impact investment professionals and sustainable entrepreneurs in South Africa. The analysis followed a thematic approach, identifying and interpreting recurring themes and patterns to understand interviewees' perspectives on how impact investing can drive sustainable entrepreneurship in the region.

5.1 Introduction

There were 18 semi-structured interviews that were conducted over a two-month period. The 18 interviews were made up of 9 interviews with investment professionals within the impact investing field and the remaining 9 interviews were with sustainable entrepreneurs. 1 interview with an impact investment professional was held in person, and the remaining 17 interviews were held virtually. The attached interview guide was used to guide the interviewees towards achieving the main objective of this research study, which is to describe how impact investing can stimulate the establishment and growth of sustainable enterprises in South Africa. With the interviewees' consent, all interviews were recorded and were later transcribed. Furthermore, Atlas TI was used to analyse the transcription.

All interviewees were given the background and objective of this research study. Furthermore, interviewees were requested to give an overview of their organisation and what they do. This initial discussion was to provide the interviewees with the understanding of the research question and to get them comfortable in answering the questions. Subsequent to the initial discussion, the questions from the research guide then followed. In some instances, interviewees needed clarity on the questions, therefore, some of the questions had to be rephrased to give the interviewees a clearer question to their understanding. Using Atlas TI software, the themes identified from the interviewees were then coded.

5.2 Data Characteristics

The impact investment field is still an emerging concept in South Africa compared to developed markets. Furthermore, many impact funds are still trying to define themselves and see which sectors they can invest in. However, some impact funds have a clear mandate and specific sectors that they focus on. Furthermore, some of the impact funds do not look for sustainable enterprises to invest in, as they use the UN Sustainable Goals as a guide to making investments in these businesses. With regards to sustainable enterprises, there are numerous entrepreneurs who have a sustainability focus, focusing on providing goods and services that have a focus on social, environmental and economic impact. However, some entrepreneurs

were not aware that they can regard themselves as sustainable entrepreneurs or business owners. Most of them, their drive is in doing social good and having a positive impact on the environment.

The breakdown of the 18 interviewees for this study are listed below. The list is broken into two groups, impact investment professionals and sustainable entrepreneurs.

5.2.1 Impact Investment Entities Characteristics

The below table provides the types and focuses of the various impact focused entities in which the interviewed participants are from.

Table 5: Impact Investment Entities Characteristics

Characteristic	Category	# Entities
Entity Role	Fund Manager	6
	Asset Manager	3
	Development Finance Institution	1
Sector Focus	Infrastructure	5
	Agriculture	3
	Energy	3
	Manufacturing	1
	Financial Services	1
	Healthcare	1
	Resource Efficiency, Water, Waste Management, Large-Scale Utilities	1
	Sector Agnostic	1
Asset Classes	Private Equity	6
	Fund of Funds	1
	Debt	2
	Real Estate	1
	Venture Capital	1

The majority of the entities in which the impact investment professionals work at are Fund Managers, with the remaining being Asset Managers and one Development Finance Institution. This indicates a strong emphasis on direct investment management with a focus on impact-driven goals. Furthermore, a significant number of entities are involved in Infrastructure investments, with other recurring sectors including Agriculture and Energy. Other sectors, such as Manufacturing, Financial Services, Healthcare, and Resource

Efficiency, each have minimal representation, indicating that infrastructure and energy are central to most of these impact entities impact investment strategy. This shows a widespread interest in foundational sectors that can drive large-scale, sustainable impact. Private Equity is the predominant asset class, showing a preference for equity-based investments. Other asset classes, such as Fund of Funds, Debt, Real Estate, and Venture Capital, appear less frequently, suggesting a narrower focus on growth and development capital rather than a diversified asset approach. This implies that the entities favour growth and development capital in order to scale impactful businesses.

a) Roles of Impact Investment Entities

To detail the roles of the impact investment entities of the investment professional, the table below summarises each entity’s role, sector focus, asset classes, investment types, and sustainable development priorities, categorising them based on their approach to private equity, venture capital, or other funding structures.

Table 6: Roles of Impact Investment Entities

Interviewee #	Entity Role	Sector Focus	Asset Classes	Funding Type	Sustainable Enterprise Focus
Interviewee 1	Fund Manager	Infrastructure (Energy: Renewable, Natural gas, Hydrogen, Energy services)	Private Equity	Equity and Quasi Equity	ESG, Socio-economic development, Community Development, Job Creation
Interviewee 2	Asset Manager	Infrastructure	Fund of Funds	Equity, Debt	ESG, Community Support, Job Creation
Interviewee 3	Fund Manager	Financial Services, Food and Agriculture, Mobility and Logistics, Energy, Education, Healthcare, Female-led businesses	Private Equity	Growth Capital	ESG, Financial Inclusion, Bottom of the Pyramid Impact
Interviewee 4	Development Finance Institution	Infrastructure, Energy, Financial Institutions, Corporates	Private Sector Funding	Growth Capital, Project Finance	ESG, Economic & Social Development, Environmental benefits

Interviewee 5	Asset Manager	Infrastructure, Agriculture, Renewable Energy, Property, Water, Socially Responsible Projects and Businesses or Developmental Assets	Private Equity, Debt, Real Estate	Equity, Debt	ESG, Job Creation, Community Impact, Affordable Goods
Interviewee 6	Fund Manager	Agriculture (Sustainable Food Production), Manufacturing, Renewable Energy, Infrastructure (energy, water, logistics)	Private Equity	Growth Capital	ESG, Job Creation, Environmental sustainability
Interviewee 7	Fund Manager	Resource Efficiency, Water, Waste Management, Large-Scale Utilities	Private Equity	Growth Capital	ESG, Resource Efficiency, Waste Management, Positive social and environmental impact
Interviewee 8	Asset Manager	Sector Agnostic: Green Technology, Green Hydrogen, Technology-Driven Businesses	Venture Capital	Growth Capital	ESG, Decarbonization, Skills Transfer, Job Creation, Women Empowerment, Black Management
Interviewee 9	Fund Manager	Healthcare: Infrastructure & Businesses	Private Equity	Growth Capital	ESG, Healthcare Access, Environmental Sustainability

Growth Capital is the primary funding type, reflecting a focus on scaling established businesses rather than early-stage venture investments. Some entities also use Equity and Debt, providing flexibility in financial structuring for diverse business needs.

All entities have a strong ESG (Environmental, Social, and Governance) commitment, with additional focuses on Job Creation and Community Development. Many entities also target specific impact areas such as Economic and Social Development, Environmental Sustainability, Financial Inclusion, and Resource Efficiency. This consistent focus on sustainability indicates that these entities are highly impact-oriented, with goals beyond financial returns.

b) Impact Investment Professionals Roles

The table below provides an overview of the roles of impact investment professionals among the nine interviewees.

Table 7: Impact Investment Professionals Roles

Impact Investment Professional Role	Interviewees
Investment Analyst	2
Investment Associate	1
Investment Manager	4
Fund Principle	1
Managing Director	1
Total Interviewees	9

The most common role among the interviewees is the Investment Manager, role indicating a significant focus on middle to senior level management responsibilities in overseeing investment portfolios. There are two participants who hold the Investment Analyst roles, suggesting support for analytical and research functions within the investment teams in the entities they work for. Other roles include Investment Associate, Fund Principal, and Managing Director, indicating that there is representation across various levels of seniority, from analytical and operational roles to strategic and executive positions. This distribution suggests a well-balanced participants from the impact investment field, with the majority of them focusing on investment management and support, complemented by strategic leadership.

c) Investment Professionals Years of Experience

The below table provides an overview of the years of experience across different roles held by impact investment professionals.

Table 8 Investment Professionals Years of Experience

Impact Investment Professional Role	# Interviewees	Years		
		Min	Max	Average
Investment Analyst	2	3	5	4
Investment Associate	1	-	4	4
Investment Manager	4	6	12	9
Fund Principle	1	-	11	11
Managing Director	1	-	11	11
Total Interviewees	9	4.5	8.6	7.8

Most of the interviewees who are impact investment professionals are Investment Managers, who have the widest work experience range, with 6 to 12 years and an average of 9 years, indicating substantial mid-level expertise in the impact investment field. Investment Analysts have an average of 4 years which suggests early career professionals in analytical roles. An Investment Associate has 4 years' experience, and a Fund Principal and Managing Director each have 11 years, showing that there is a blend of early to senior-level experience across the organisation.

The overall average years of experience among all interviewees is 7.8 years, with a minimum of 4.5 years and a maximum of 8.6 years. This indicates a relatively well experienced professionals for this study, with most professionals possessing mid-to-senior level experience, which shows a balanced level of expertise in impact investment.

5.2.2 Sustainable Entrepreneurs Data Characteristics

a) Profile of Sustainable Enterprises

The table below provides an overview of the sustainable enterprises based on the interviewees' roles, industry or sector, business type, years in existence, business category, and the current business stage.

Table 9: Profile of Impact-Driven Businesses by Ownership, Sector, and Business Stage

Interviewee #	Role	Industry/ Sector	Business Type	Years	Category	Business Stage
Interviewee 10	Co-Owner (Not Founder)	Environmental Services	Water Treatment	16	Established Business	Growth
Interviewee 11	Founder & Business Owner	Food and Beverage Services	Zero-Waste Store	7	Established Business	Growth
Interviewee 12	Founder & Business Owner	Consumer Goods	Eco-Friendly Products	7	Established Business	Growth
Interviewee 13	Founder & Business Owner	Health and Personal Care Products	Beauty Products	1	Start-Up	Early-Stage
Interviewee 14	Founder & Business Owner	Agriculture & Processing	Agriculture Processing	2	Start-Up	Early-Stage

Interviewee 15	Founder & Business Owner	Energy and Engineering	Engineering Services	8	Established Business	Growth
Interviewee 16	Founder & Business Owner	Energy Efficiency Solutions	Energy Solutions	7	Established Business	Growth
Interviewee 17	Founder & Business Owner	Clean Utilities Infrastructure	Clean Utilities	2	Start-Up	Early-Stage
Interviewee 18	Founder & Business Owner	Sustainability Consultancy	Consultancy	3	Start-Up	Early-Stage

Most of these enterprises are founded and owned by the interviewees, except for one which the interviewee is a co-owner but not the founder. This suggests a strong alignment between the business mission and sustainable values as founder-led companies often reflect the personal commitment of their founders to sustainability and social responsibility, which is typically at the core of a sustainable enterprise.

The businesses fall into two main categories: Established Businesses (7+ years old) and Start-Ups (1-3 years old). Established businesses are generally in the growth stage, while start-ups are in the early stage, showing that more mature businesses are focused on expansion, while newer businesses are in the initial phase of building their market presence.

These businesses operate in sectors traditionally associated with sustainability, such as Environmental Services, Food and Beverage (zero-waste), Consumer Goods (eco-friendly products), Agriculture, Energy, and Clean Utilities. These sectors naturally lend themselves to sustainable practices, as they often prioritize resource efficiency, waste reduction, and environmental responsibility. Furthermore, businesses, such as those in clean utilities, energy efficiency, and zero-waste retail, specifically address challenges related to climate change, resource scarcity, and social equity. This focus on impact aligns with the principles of a sustainable enterprise, which seeks not only financial returns but also positive environmental and social outcomes.

5.3 Main Research Question

How can impact investments enable and support sustainable entrepreneurship in South Africa?

To explore how impact investments can enable and support sustainable entrepreneurship in South Africa, interviewees were asked a series of questions to gather their views. These questions focused on three areas: preference for sustainable businesses by impact investors, preference for impact investors by sustainable entrepreneurs and the support provided beyond the financial investment, and the support needed by sustainable entrepreneurs. The reason for the three areas was to assess if there is an alignment between the two groups.

5.3.1 Shared Objectives

Both impact investors and sustainable entrepreneurs share common objectives which is to generate a financial return while generating meaningful, positive impact on society and the environment. Impact investors establish funds with explicit mandates to achieve both financial returns and measurable impact targeting sectors like renewable energy, water and waste. Similarly, sustainable entrepreneurs are driven by the "triple bottom line"—people, planet, and profit driving their efforts into businesses that address critical environmental and social challenges.

Financial Sustainability

Both groups recognize the importance of financial viability. Interviewee 8, who is an impact investor stated: *"Ultimately, a business is only sustainable if it's financially sustainable"*. This sentiment is echoed by sustainable entrepreneurs, with Participant 14 noting: *"From a financial perspective, our project is hugely financially viable"*

Although all participants from the sustainable entrepreneurs group stated a preference for impact investors, when asked to compare them with non-impact investors, some expressed scepticism about the existence of genuine impact investors in South Africa.

Participant 14 strongly believes that impact investing is a myth, stating he has never encountered an impact investor that truly focuses on impact over financial returns: *"I will say that I've not ever to date, South Africa or elsewhere in the world, managed to speak to an impact investor that actually focuses on impact. I do not believe, I do not believe impact"*

investing actually exists. I believe it is a buzzword that people are using to make and feel, make themselves or the company feel important.”

Participant 11 share a similar sentiment, noting that while he's met a few funds regarding themselves as impact investors, when details were discussed, they reverted to a typical venture capital mindset focused primarily on financial returns:

“So I've met one or two, like niche, niche kind of funds that call themselves impact investors. But the minute you sit down with them, you realise that they're almost using the term ‘impact investor’ as a marketing front to attract whatever, but when you actually get down to the nuts and bolts and start looking at the business, it's not patient capital, it's very, they immediately kind of snap into that regular VC mindset”

5.3.2 Aligned Mission & Strategies

As stated, sustainable entrepreneur's run profit driven businesses that focus on the centred on the people, planet, and profit approach. Both groups emphasize the importance of creating positive change beyond financial returns. Interviewee 2, who is an impact investor states, *“So one of the key things that we look at is the 17 SDG goals. So we'd use that as a metric”*. Similarly, a sustainable entrepreneur, Participant 11 mentions, *“We obviously align our business model with quite a few of the UN SDGs, the primary one is SDG 11, which is responsible consumption”*

5.3.3 Measurement

Impact investment managers and sustainable entrepreneurs use different methods to evaluate the impact of their investments and initiatives while ensuring they align with both goals and societal objectives. These approaches rely heavily on frameworks and specific metrics well as organised tracking systems designed to comprehensively capture the range of social and environmental impacts. Compared to the two, it was clear that impact investors are more organised regarding measuring impact compared to sustainable entrepreneurs, as impact investment interviewees were able to clearly describe how they measure impact, whereas, sustainable entrepreneurs could not.

Contracts and Legal Undertakings

According to the results, impact investor usually set clear ESG expectations through legal agreements. According to Interviewee 7, they include ESG undertaking in the legal agreement:

“So, from a shareholder agreement perspective, we make it a legal undertaking, right for the management team to deliver on ESG undertakings.”

Impact Frameworks

Frameworks such as the UN Sustainable Development Goals (SDGs) and IFC Performance Standards offer a structured approach to setting and assessing impact. As Interviewee 2 noted, *“So one of the key things that we look at is the 17 SDG goals. How? So we’d use that as a metric.”* Interviewee 4 also mentioned using a similar framework stating *“So if you have a look at an IFC performance standards, there are a number of standards that we then, for our own purposes, break that down into certain deliverables.”*

Impact Measurement Metrics

Specific metrics are used to evaluate measurable outcomes such as job creation and environmental impact, as Interviewee 6 stated, *“So we measure things like demographics of those jobs. We measure things like, you know, income level of those jobs.”*

For Sustainable Entrepreneurs

Sustainable entrepreneurs integrate ESG principles more organically, often aligning with SDGs and focusing on environmental and social goals. However, many approach ESG without strict frameworks. Interviewee 10 states, *“so we don't really, it's not a hard and fast incorporation. So as long as if we go out and we have ESG related spending or projects on our side, we do try and get involved with companies who are looking for their own ESG spending, predominantly listed companies”*, reflecting the flexible integration of ESG based on business needs.

Other interviewees from the sustainable entrepreneurs could not clearly state how they measure impact, however, they refer to SDGs as a guide, as Interviewee 11 stated, *“our business model aligns with, like the quite a few of the UN SDGs, the primary one is SDG 11, which is responsible consumption”* illustrating how SDGs help inform their sustainability goals.

5.3.4 Impact Investment Support

Support Provided by Impact Investment Investors to Sustainable Entrepreneurs

Board Participation and Strategic Guidance

The interviewees mentioned getting board seats to guide strategic direction and maintain a level of influence over business decisions as a support. As Interviewee 5 explains, *“when we*

take meaningful stake in that business in terms of equity, we demand a seat on the board to give it strategic guidance.”

Strategic guidance also involves acting as a “sounding board” for management. According to Interviewee 3, *“we are management sounding board, because at the end of the day, management are also trying this out, which means that they don't have all the answers just yet.”* This ensures that entrepreneurs have access to seasoned advice as they navigate new challenges.

Technical Assistance and Business Support

Investors provide technical assistance to address specific operational needs. Interviewee 2 highlights that *“there's also a technical assistance vehicle, which is very key to the success of businesses. It could be money to help you prepare the site, money to help you engage with communities.”* This ensures businesses have the resources they need to operate efficiently.

Governance and Compliance Support

Governance and compliance support are critical for maintaining ESG standards. Interviewee 7 notes, *“we've got dedicated environmental, social and governance teams that will sit with the company and actually help them get to their strategic goals.”* This team-based approach ensures businesses meet regulatory requirements and adopt strong governance practices.

Mentorship, Monitoring, and Ongoing Support

Regular mentorship is provided to ensure sustainable growth and stability, with Interviewee 3 stating, *“we meet with every CEO at least once a month...we're constantly on the ball around what is happening.”* This ongoing involvement helps entrepreneurs stay focused on achieving their strategic and operational goals.

Network and Market Access

Impact investors open up networking and market opportunities, enhancing business growth. As Interviewee 6 mentions, *“our job is to create...help them grow without necessarily being operationally involved.”* This facilitates access to markets and clients, boosting business scalability.

Networking support includes connecting entrepreneurs with better suppliers or new customers, as Interviewee 7 explains: *“we would be able to provide the companies with...better supplier or new customer.”* This network-driven support optimizes supply chains and enhances profitability.

Support Preferred by Sustainable Entrepreneurs from Impact Investment Investors

Technical Assistance

Entrepreneurs seek project preparation funding and support for groundwork, such as engaging with local stakeholders. Interviewee 17 emphasized, *“I say technical assistance, they give you, like project preparation funding that helps us with our prep work, because there's a lot of work we need to do, the tenants on the ground and municipalities, etc.”* This support is essential for the foundational aspects of projects, especially in complex environments.

Mentoring

Beyond funding, entrepreneurs value mentorship, seeing it as crucial for business growth and development. As Interviewee 12 put it, *“We always say, ja, financial. But I guess it's more than just that, it's be mentoring...connections, opening doors.”* Mentorship also includes added management and advisory skills, which entrepreneurs see as critical to building a sustainable business foundation.

Interviewee 11 noted, *“any entrepreneur or small business owner would definitely jump at the opportunity of having support beyond just financial...management skills, advisory skills.”* This underscores a widespread desire for experienced guidance.

Financial Modelling and Legal Advisory

Entrepreneurs also need expertise in financial modelling, legal support, and negotiation to effectively manage investment terms. Interviewee 10 highlighted this need, stating, *“Ideally we would like assistance with everything from the modelling to the legal advisory to even the negotiation, because they are the ones with the wallets.”* This type of support helps entrepreneurs navigate complex financial and legal landscapes, ensuring well-structured investments.

Networks

Access to networks, especially for international distribution, is another crucial area of desired support. Entrepreneurs see value in investors who can open global channels, as expressed by Interviewee 14: *“The ideal investor for us would be...someone with international ties that can help us set up distribution channels and sales channels to an international market.”* This access can significantly expand market reach and enhance growth potential.

Sustainable entrepreneurs want impact investors who provide technical, mentoring, financial, and networking support, viewing these areas as essential for driving sustainable growth and market expansion beyond mere capital infusion.

5.3.5 Conclusion

Impact investments enable sustainable entrepreneurship in South Africa by aligning financial goals with social and environmental impact. Both impact investors and sustainable entrepreneurs share similar approaches, such as the “triple bottom line” approach, focusing on people, planet, and profit. Investors support entrepreneurs through board participation, strategic guidance, technical assistance, governance support, and networking. These resources help entrepreneurs meet regulatory standards, improve operations, and expand market access. Although some there is some uncertainty about the true commitment of impact investors, their support fosters resilient, sustainable growth, contributing to a stronger, more inclusive economy.

5.4 Sub-Research Question One

What are the perceived risks and rewards associated with impact investing in sustainable enterprises?

5.4.1 Impact Investing Risks

The interviewees provided a comprehensive view of the risks and challenges in impact investing but some also emphasised that the risks that they have identified are not so different from non-impact investors. Furthermore, their responses highlighted the complex nature of impact investing and the need for a multifaceted approach to risk management.

When asked about the key risks associated with investing in sustainable businesses, one of the interviewees stated *“I don't think that there's any sort of specific risk that is different from, you know, sort of traditional private equity investing. I think you face, you know, the usual stuff.”*

The table below outlines the main risks that were identified by the interviewees from the impact investment professionals group.

Table 10: Impact Investment Risks

Number	Impact Investment Risks
1	Financial and Return Risks
2	Market Risks
3	Regulatory Risks
4	Impact Risks

Financial Risk

The participants in the impact investment group stated that they face financial risks, such as the potential of losing their initial invested capital or failing to achieve the targeted returns.

Investors when making investments are focused on receiving their initial capital back as well as achieving the expected return as highlighted by Interviewee 2: *"The easy one is that we're not going to get our money back. That's a possibility, is that it's gone. We give you this money and you're going to screw up this fund, and we're not going to get anything out of it."*

Interviewee 2 further mentions the concern on not reaching the targeted returns, although the initial capital may be recovered, stating: *"And then second theory to that is that we're not going to get our targeted returns? Yeah, I mean, we can maybe get our capital back, but you don't manage to actually get the targeted returns that we wanted."*

Market Risks

Market risks come from general economic factors, such as foreign exchange rates and market volatility, which are similar to those faced by traditional businesses. Some market risks are more specific, like commodity risk, which directly exposes a business to fluctuations in commodity prices often driven by broader market forces. Interviewee 7 highlighted commodity risk as one of the key risks they monitor in sustainable enterprises within the agriculture sector, stating: *"..we actually invested into an agri processing business literally two months ago. [...] one of the key output is a single commodity, which is another kind of big risk."*

Regulatory Risks

One of the key risks the participants tend to look out for is regulatory requirements, particularly in sectors where compliance approvals are essential as mentioned by the Interviewee 9, that to investing in sectors such as healthcare, requires compliance as it a highly regulated area:

"Compliance being one, you know, it's quite a highly regulated area, so compliance being one."

Impact Risk

Participants highlighted impact risk, noting that the inability to accurately quantify or measure impact presents a significant challenge. Interviewee 6, highlighted this stating: *"we think that one of the biggest shortcoming for impact funds is the inability to measure the impact."* And because this inability, business may regard themselves as impactful, whereas they are not, as stated by Interviewee 6: *"...people who sometimes I don't think is deliberate, but, a lot of instances actually deliberate, but in some instances not. Its people think about a business and say, well, we're going to have this impact on this business, but you see, if you are unable to quantify what that impact would be, you would have problems."*

There also negative perceptions surrounding impact investing which can create significant challenges for impact investment funds in meeting their mandated goals. This issue often arises when investee companies, having received impact-focused funding, lack strong motivation to achieve competitive returns, as highlighted by Interviewee 8: *"You've got people that say, actually, if you invest for impact, then you must not have expectations of a high return."*

Liquidity Risk

Liquidity was also highlighted as a major concern, as some of the investments are tied up in businesses or projects that cannot return capital back as when expected. This is a common issue in private market investments, including many impact investments, which are often illiquid. This lack of liquidity can be challenging for investors who may need timely access to their capital.

Interviewee 6 identified liquidity as a significant risk in impact investing, similar to traditional private equity: *"One of the biggest risk is liquidity. But liquidity is not specific to impact investing. It's just, you know, relevant to a any private markets investment. And so liquidity tends to be one of those that's on top for me."*

Due to investees not being able to return the initial capital back to investors as result of illiquidity, they would often request for extensions which is a potential risk as it may delay the investment exit resulting in the investor having a reduced returns, as stated by Interviewee 2: *"Guys come into us and asking for extensions because they're not able to, so I think one that's*

lighter is capital raising extensions. That's not bad, I mean, that that we can manage. But I think a harder one, a tougher pill to swallow, is extensions regarding exits."

5.4.2 Benefits of Impact Investing

Interviewees from both groups shared their perspectives regarding the benefits of impact investing, and if it's a driver for unlocking more sustainable enterprises and boosting economic growth in the country.

Environmental Benefits

Interviewee 15, highlighted that due to climate issues, impact investing can benefit the environment positively which may not be a financial rewarding now but could play a significant role in the long term: *"The benefit is not financial, you know, it's actually not financial immediately, but this climate change, thing will eventually impact our finances in every business."*

Interviewee 11 also mentioned a similar view, stating that impact will eventually be an entrenched criteria due to climate change issues: *"I think because of things like climate change and the issues that are plaguing us, I think it's going to, you know, expedite things quite considerably. So, I think impact is going to become like an entrenched criteria for investment."*

Social Benefits

Interviewee 7 mentioned that the impact investing can benefit the society by reducing poverty and inequality: "Number one, poverty alleviation. Um, that would be a very big one. Number two, gender inequality within the country". Similarly, Interviewee 8 mentioned the critical role that impact investing can play in the society: *"Critical role, because the triple what do you call it dilemma, or triple threat that we have of high unemployment, inequality and poverty can only be solved if we also think about the people and community impact of investments."*

Economic Benefits

Interviewee 1 mentioned that impact investing can catalyse industries in South Africa, stating: *"So you'll find, especially given our context, we're still developing in my view. So you will find a need, for a lot of industries to be catalysed"*

Interviewee 10 mentioned the challenges that with basic needs which government should be providing but is now being provided by the private sector, highlighting that the investments made by the private sector should be regarded as impact: "So you see that there's a big move

shift from what is traditionally provided by the government into the private sector. And in all those shifts, and all those, these are shifts of basic needs, so whatever investments of the private sector that goes into that should be considered impact.”

5.4.3 Sustainable Entrepreneurship Key Benefits

Long Term Viability

The significance of understanding market need and strategically growing the business to satisfy future demands was emphasised by the interviewees. As Interviewee 10 noted, *“I think in the water space, we are definitely going to see an increased drive for opportunities and projects”* highlighting the expected growth in impact-driven sectors.

A strong commitment to environmental goals can underpin business viability, especially in sectors where environmental impact is prioritised. This alignment with sustainability enhances the business’s longevity and attractiveness to environmentally conscious investors, as highlighted by Interviewee 14: *“The future viability of our business is really all focused on environmental sustainability [...] we tick every single one of those requirements due to the agri-nature of the project.”*

5.4.4 Conclusion

Impact investing in sustainable enterprises provides both familiar and unique risks. It also offers substantial rewards that can lead to lasting positive impacts on society and the environment in the long run. While there are risks involved, impact investing efforts are seen as crucial for driving change by helping reduce poverty and tackling climate issues while boosting industries forward in a sustainable manner that aligns with global goals, for a more resilient economy.

5.5 Sub-Research Question Two

How can impact investments be designed to foster the growth and scalability of sustainable enterprises in South Africa?

5.5.1 Impact Fund Construction

The way in which an impact fund is designed plays an important role on how well it can support the expansion and grow businesses since it affects both the short-term success of these businesses and the long term systemic change required for a more equitable and sustainable South African economy. For instance, an investment fund may be set up to focus on short-term transactions, which means it would want its invested capital to be returned quickly. This

could have a detrimental effect on a business as they sometime take longer than expected to return the capital back. Therefore, as one of the most important factors in building a fund, interviewers were asked to describe their investment criteria for sustainable enterprises.

This approach aimed to identify the core criteria shared among investors, providing insights into the essential items that sustainable enterprises should meet to attract funding. The table below lists the key attributes that impact investors prioritise when assessing potential investments.

Table 11: Investment Criteria Key Attributes

Number	Investment Criteria Key Attributes
1	Mandate Fit
2	Sector Preference
3	Financial Viability and Profitability
4	Impact Goals

Mandate Fit

Impact investors focus on alignment with regards to their mandate, ensuring that each investment that they make addresses the core objectives. Mandate fit is an investment criteria that was mentioned by most of the participants, as it guided them in making investments towards enterprises that can create impact, rather than treating impact as an ancillary benefit. This aligns with Participant 6 statement, that prior a decision being taken to whether pursue a potential investment transaction, they first check if it meets the mandate: *"One of the things that we do, and that we do upfront is the mandate fit of a transaction"*

Participant 3 highlighted the importance of having intended impact as part of the mandate: *"Our theory of change says that we support businesses that actually have impact, at its very core. So impact isn't an incidental thing that sits as an extra tab on CSI on their website. It's actually core to the business model of our portfolio companies."*

This perspective suggests a strict alignment with the fund's mission, where impact is inherent to each portfolio company's operations. Similarly, Participant 6 highlights mandate compliance as an upfront priority, stating: *"One of the things that we do, and that we do upfront is the mandate fit of a transaction."* This proactive assessment helps ensure that each investment aligns with the impact fund's overall purpose from the beginning.

Participant 9 provides a slightly different take by focusing on whether investments fill an "under-serviced" market gap, hinting that mandate fit should also consider the broader impact

of serving unmet needs. This implies that while core alignment is essential, there's flexibility if the investment fills a critical gap that benefits underserved communities. These are some of the comments made:

"I would say that, does it fit the mandate in terms of filling the gap? You know, are we addressing a need, or is it just another investment?"

"So then it becomes a big case for us to say that the market is there, but it's under-served. So addressing that gap for us, it becomes one of the key critical criteria of how we invest."

The results highlight how a mandate fit acts as the cornerstone of an impact fund, ensuring that each investment choice is in line with the goals and principles of the fund. The impact fund construction process prioritises investments that align with the fund's goal in order to develop a portfolio that is centred on bringing about significant, mission-driven change in the areas it serves.

Sector Preference

Investors often focus on specific sectors that align with their mandate, impact priorities, targeting industries with high potential for social and environmental benefits. The interviewees described numerous sectors that they participate in, whereas one Interviewee focused on one sector.

Interviewee 3 described three thematic areas they consider, rather than specific sectors, which allows for a broader, impact-oriented approach that might include various industries that meet their thematic criteria: *"So from a sector perspective, there are, call it, three main sectors that we think about, or maybe not sectors, but maybe themes that we think about."*

On the contrary, Interviewee 7 provided a more defined scope by highlighting sector limitations and being specific by highlighting *"resource efficiency, renewable energy, water, and waste."* As the only sectors that they invest in. This narrower focus reflects a commitment to sustainable sectors with measurable environmental and social benefits.

Interviewee 6 mentioned a high-level test, stating, *"it's as simple as knowing whether this business, at least at a high level, can meet one or one or more of those four impacts."* This perspective emphasises sector alignment based on the potential to create impact, suggesting flexibility within the bounds of key impact objectives.

Although most sector preferences are in line with sustainability objectives, Interviewee 3's more expansive thematic approach stands in contrast to Interviewees 7's stricter sector limitations. This disparity highlights a conflict in the creation of impact funds to decide whether to maintain flexibility across several industries with the potential to make an impact or to concentrate just on a few businesses with significant sustainability potential.

Financial Viability and Profitability

Financial viability and profitability are essential considerations, as they ensure that the fund can meet its return expectations while sustaining its impact-driven mission. The responses from various Interviewees highlight specific criteria around financial stability, profitability metrics, and minimum return thresholds.

Interviewee 1 suggests that for an enterprise to be considered for investment, it must meet a baseline financial threshold, which likely reflects the overall value of the project, stating: *"usually there's a minimum investment amount that you would require, okay, which is the total project value"*. This type requirement ensures that the fund commits only to enterprises of a certain size and stability, aligning with the fund's financial expectations.

Interviewee 3 reiterates the importance of financial returns, even in an impact fund setting, noting, *"We do have minimum financial return requirements in our fund. So there is a minimum that we look at, but within that minimum, we don't let go of that minimum, per se, for the sake of impact."* This statement confirms that while impact is critical, profitability remains non-negotiable. The fund will not compromise on its financial return thresholds to accommodate an enterprise that only meets impact criteria.

Financial viability and profitability are core pillars in impact fund construction, as they ensure that the fund remains financially sustainable while achieving its impact objectives.

Impact Goals

In an impact fund, alignment with impact goals is crucial. These criteria ensure that investments are not only financially viable but also contribute positively to social and environmental objectives. The responses from interviewees highlight the different ways in which impact goals are integrated into the investment process, including upfront planning, impact measurement tools, and compliance with international standards.

Interviewee 4 goes into detail about the importance of upfront planning for impact, explaining, *"we then look at the impact side of things. We actually plan the impact upfront. We want our clients to be compliant with IFC performance standards in terms of social environmental issues."* This approach demonstrates a proactive stance, with a structured planning process that ensures alignment with established social and environmental standards, specifically those set by the International Finance Corporation (IFC). By setting these expectations early, the fund encourages enterprises to consider impact goals as core to their operations, not as an afterthought.

Interviewee 9 emphasizes the importance of demonstrating tangible outcomes, such as job creation, which ties into the fund's social impact goals: *"So there's a need for a demonstration that there is going to be a creation of employment to this development."* This perspective confirms the importance of measurable outcomes that stakeholders can track and evaluate, especially in terms of socioeconomic benefits like employment. It highlights the fund's commitment to delivering real, observable impact, which can strengthen its credibility and appeal to socially conscious investors.

The discussed criteria create a balanced and rigorous framework that aligns financial success with meaningful impact, empowering the fund to drive sustainable, scalable change in its target sectors. Through thoughtful construction, an impact fund can fulfil its mission while delivering lasting benefits to communities and investors alike.

5.5.2 Impact Investment Financial Performance

Impact investors have different perspectives on balancing financial returns with social and environmental goals. The results show that some see returns as the most important requirement to integrating impact into their financial mission, as well as battling with trade-offs and measurement challenges.

Most of the interviewees emphasised the importance of financial returns and suggest that, while impact is valued, the financial aspect remains a primary requirement. Interviewee 1 mentioned that they have a minimum financial return that they to get regardless of the impact requirement: *"So we do have minimum financial return requirements in our fund. So there is a minimum that we look at, but within that minimum, we don't let go of that minimum, per se, for the sake of impact."*

Similarly, Interviewee 2 highlighted that getting the minimum financial returns is important: *“Returns at the forefront of what we do. It's a prime, it's in our DNA. That's essentially what we need to achieve, primarily, beyond before, anything and everything else”*

However, there were interviewees who see impact and financial returns as mutually reinforcing, with the belief that proper governance, environmental stewardship, and social responsibility can enhance financial outcome. Interviewee 8, highlighted impact and financial returns work complement each other, stating: *“They go hand in hand, because you can make profits in the short run, but if you're not taking care of the environment and your people, there will be no business to run in the future.”*

5.5.3 Due Diligence

Due diligence is a critical part of impact fund criteria as it helps investors in mitigating potential risks. The interviewees brought up due diligence as a critical key factor in deciding which businesses to consider proceeding with.

Interviewee 1 and Interviewee 4 highlighted its role in ensuring alignment with financial and impact goals. Interviewee 1 emphasized the importance of both initial due diligence and ongoing engagement, explaining that they assess whether enterprises stick to the commitments made at the time of investment: *“So one is the initial DD, that's important, and then ongoing engagement. So, to see, are you veering too far away from what you had promised us, or are you keeping in line with what you promised us?”* This approach helps the fund maintain accountability over time, allowing for adjustments if a company deviates from its mission or financial path.

Interviewee 4 adds that due diligence involves a close assessment of the business plan and financial model, with a focus on verifying the assumptions underlying these documents: *“during our due diligence, we essentially assess, I guess the assumptions that are underlying the business plan, the financial model, you see how realistic they are.”* This rigorous initial evaluation of financial projections and operational feasibility ensures that the enterprise's goals are achievable and sustainable.

5.5.4 Funding of Sustainable Enterprises

Funding Provided to Sustainable Entrepreneurs

The results show that funding provided to sustainable entrepreneurs can use a combination of equity and debt structures to provide tailored funding solutions based on the unique needs of each enterprise.

Interviewee 4 emphasizes a broad approach, offering *"everything from ordinary equity to senior debts and everything between."* This indicates that their fund can address a wide range of financing needs, from early-stage to growth-stage and established companies, ensuring a diversified portfolio that mitigates risk while maximizing impact.

Interviewee 5, emphasised that it depends on the stage of where the business is at: *"From an equity perspective and debt as well, it'll generally be where businesses have already proven that they sustainable from a cash flow perspective"*

Interviewee 8 describes their dual strategy: *"So when I talk about direct investments, it's a typical, you know, private equity investment"*. This approach allows for a hands-on role in companies with strong growth prospects, giving the fund more influence over decision-making.

Interviewee 3 focuses on early to mid-stage enterprises, particularly those needing a financial boost after proving their business model: *"We think about where the business is relatively early stage... typically we are at post-seed, but probably around Series A, maybe just before Series A."* By targeting businesses with established market validation but limited funding, this approach fills a critical funding gap, enabling companies to scale sustainably.

Impact funds often invest based on the stage of the enterprise, offering different types of support to early-stage and growth-stage businesses. Interviewee 7 emphasizes growth-stage investments, aiming to help businesses expand to the next level without immediate pressure for dividends: *"Growth stage. Definitely, that's our forte... we're not in the business of immediate dividend extraction."* This strategy allows companies to reinvest cash flows to fuel further growth, enhancing long-term sustainability and impact.

Though private equity investment is provided by all parties, there are differences between traditional private equity funding and early stage funding, which is usually provided by venture capital. There may be some misunderstanding regarding the precise kind of capital that these

private equity funders give because the majority of them provide both expansion stage and early stage financing.

Funding Preferred by Sustainable Entrepreneurs

There are a many ways in which sustainable entrepreneurs can get funded. However, Each funding strategy is designed to align with the unique needs of sustainable enterprises, providing the right capital, expertise, and flexibility to drive growth while achieving social and environmental goals.

Interviewee 2 explains that their private equity approach is structured within different pillars that focus on varied asset classes: *"So we break it up into different pillars, those predominantly focused on the different asset classes. So we'd have your infrastructure. You would have direct property. We'd have private equity, of course, to try and drive a bit of a high return there."*

Interviewee 4 describes their flexible debt financing structure, ranging from ordinary to senior debts: *"We do everything from ordinary equity to senior debts and everything between."*

Interviewee 3 explains their focus on post-seed and Series A stages, where the business has some market traction but needs support to scale: *"We think about where the business is relatively early stage, no one is quite willing to take the risk. I'm not too sure how much you know about VC language around this, but typically we are at post-seed, but probably around Series A, maybe just before Series A."*

5.5.5 Conclusion

Investors can encourage scalable and sustainable business enterprises by creating impact funds that prioritise mission alignment, sector focus, financial sustainability, and measurable impact. This approach not only strengthens business resilience, but also contributes to South Africa's long-term economic and social development by establishing a framework for sustainable growth that meets both investor expectations and pressing societal requirements.

CHAPTER 6 – RESEARCH DISCUSSION

Introduction

Chapter 6 presents an analysis of the study's findings from chapter 5, addressing the main and sub-research questions. The results were gathered through using the criteria listed in Chapter Four through semi-structured interviewees with 18 participants in the impact investment professionals and sustainable entrepreneurs. Chapter 6 explores the role of impact investments on supporting sustainable entrepreneurship in South Africa by looking at shared objectives, mission alignment, impact measurement procedures, and investor support. This chapter, based on participant insights, shows both the potential and obstacles of accomplishing financial and social goals. The discussion puts into perspective these findings within previous studies, providing an alternative perspective of the relationship between impact investors and sustainable entrepreneurs.

6.1 Main Research Question

How can impact investments enable and support sustainable entrepreneurship in South Africa?

The objective of this main research question was to gain insights into the underlying factors by which impact investing can support and enable sustainable entrepreneurship while also giving social equity and economic development top priority. By focusing on the shared objectives, mission and strategy alignment, impact investment support, and impact measurement, the goal was to understand the relationship between impact investing and sustainable entrepreneurship.

6.1.1 Shared Objectives

The results revealed that impact investors do prioritise investments in businesses and projects which can generate both financial returns and positive social and environmental impacts. The impact investment participants described their investment mandates and the types of sustainable enterprises they would consider for investment, which aligned with Barber et al. (2021)'s statement that impact investors seek to generate both positive social or environmental outcomes alongside financial returns.

The results revealed that sustainable entrepreneurs' goal is to generate profit while offering goods and services that are socially and environmentally responsible. Some participants went further, highlighting the specific UN Sustainable Development Goals (SDGs) they are committed to, underscoring their dedication not only to generating profit but also to creating

positive social and environmental impacts. This is in accordance with Sadiq et al. (2022) who states that sustainable entrepreneurship is about building ventures that are both economically viable and environmentally responsible, with a clear commitment to advancing the SDGs.

The research results made it clear that there is a shared value created between the two groups, as impact investing aligns well with sustainable entrepreneurship because it seeks to generate positive social and environment impact while generating positive financial returns, whereas the goals of sustainable entrepreneurship focus on creating businesses that address environmental and social challenges while being economically viable.

6.1.2 Aligned Mission and Strategies

Sustainable entrepreneurs expressed a strong interest in collaborating with impact investors; however, they expressed their concerns that impact investors are not always prioritising the "impact" aspect of impact investing but rather focused much more on the financial returns. This supports Paetzold et al. (2022) finding that it can be difficult for investors to define exactly what impact investing entails and what constitutes an impact investment outside of financial return concerns, suggesting that the term "impact" should be clearly defined.

The results also revealed that sustainable entrepreneurs doubt the existence of true impact investors in South Africa, suggesting that while some may label themselves as impact investors, they ultimately adopt a venture capitalist mindset, prioritising financial returns over social and environmental impact. This finding is in accordance with that of Agrawal & Hockerts (2019), who found that impact investors who ignore businesses' social objectives may give the impression that they are simply interested in obtaining financial rewards.

6.1.3 Measurement

Impact investors and sustainable entrepreneurs need effective ways to measure social and environmental impact alongside financial returns. This is required because the dual mandate of impact investors is that their investments should not only produce financial returns, but they must also generate measurable social and environmental benefits. To ensure alignment, both impact investors and sustainable entrepreneurs must establish methods to measure these impacts. This is in accordance with Castellás et al. (2018), who suggest that, due to the challenges that both investors and entrepreneurs face in impact measurement, a more coordinated approach could help both parties advance their understanding of what is important and useful in assessing impact.

Determining impact measurement methods is important during the initial due diligence phase, as impact investors need to have clear targets for social and environmental outcomes, which can often be the deciding factor for them to proceed with an investment or not. Mansouri and Momtaz (2022) highlight the importance of this concept, emphasizing that while a focus on sustainability can enhance a business's initial appeal and valuation, it may also lead to financial challenges once the business becomes funded and operational. As a result, participants from both groups were asked to share how they measure social and environmental impact in their respective contexts. This aimed to highlight the common approaches and identify any gaps in impact measurement practices between investors and sustainable entrepreneurs.

The results indicated that there are various methods used to measure impact by investors which include contractual agreements, the use of frameworks, specific metrics, and specialised tools amongst others. This aligns with the findings of Bengo et al. (2021), who argue that a standardized impact measurement process is not practical due to the diverse sectors investors focus on. Instead, they found that a transaction based approach tailored to each deal with specific key performance indicators is the most effective way to measure true impact.

In contrast, the results indicated that most sustainable entrepreneurs do not have formal methods for measuring impact, with some referencing UN SDGs as a framework to assess whether they were making an impact. Others mentioned having conducted their own impact measurement calculations, however, they acknowledged that these were informal as they were self-made metrics. This is not unique, as entrepreneurs usually do not have an impact measurement system until they approach financiers as Bengo et al. (2021) highlighted.

Since many of these entrepreneurs are still growing their businesses, one participant noted that they currently lack the capacity to implement formal measurement tools or strategies.

As part of the technical and business support offered by impact investors, sustainable entrepreneurs would benefit a lot with the assistance in establishing formal impact measurement tools and frameworks for their enterprises.

6.1.4 Impact Investment Support

To foster sustainable entrepreneurship in South Africa, sustainable entrepreneurs will need support from their funders that goes beyond financial investment. Participants were very clear

in mentioning that they would greatly appreciate the additional support from impact investors, complementing the capital provided to them.

The results indicated that the support that they would like to get include technical assistance, particularly in project preparation, financial modelling assistance, legal advisory, mentorship, and most importantly, access to networks. Access to networks was the popular support preferred by the entrepreneurs, as they believe it will be crucial for driving the growth of their businesses.

Participants from impact investors group stated that they provide additional support beyond financial investment. All participants mentioned that they require a seat on the board to offer strategic guidance. Some investors also mentioned that they provide support in a form of technical assistance, business support, and compliance support, particularly in relation to ESG standards. Some of them mentioned that they provide monitoring and ongoing support, and a few of them stated mentorship verbatim. However, some view board participation and the provision of strategic guidance and ongoing support as a form of mentorship. Only two participants explicitly identified network and market access as part of their support offerings.

There is considerable alignment between the types of support offered by impact investors and what sustainable entrepreneurs typically seek. However, some entrepreneurs expressed a clear preference for limiting investor involvement, specifically stating that they do not want investors participating on their board or in their day-to-day business operations. This could be challenging, as Gompers et al.(2016) states that investors often prefer to hold board seats, which are seen as a crucial governance tool for overseeing managers on behalf of shareholders.

6.1.5 Conclusion

There is a strong opportunity for impact investing to support sustainable entrepreneurship in South Africa by aligning financial goals with social and environmental impact. Both impact investors and sustainable entrepreneurs share a commitment to creating positive change, but challenges remain in balancing financial returns with the social mission at the heart of sustainable business. By fostering shared goals, aligned strategies, and open communication on expectations, impact investors and entrepreneurs can create mutually beneficial partnerships.

6.2 Sub-Research Question One

What are the perceived risks and rewards associated with impact investing in sustainable enterprises?

Sub-Research Question One aimed to explore the perceived risks and rewards of impact investing in sustainable enterprises, focusing on factors that may deter impact investors from supporting sustainable entrepreneurs in South Africa. This question highlights not only the primary risks identified by impact investors but also the benefits associated with impact investing and supporting sustainable businesses, their interest in sustainable enterprises.

6.2.1 Impact Investing Risks

a) Financial Risks

Impact investors face significant financial risks, such as the potential of losing their initial invested capital or failing to achieve the targeted returns. Paetzold et al. (2022) note that impact investors often find it challenging to anticipate financial outcomes from their impact investments and to navigate the impact investing market, largely due to the concept of additionality and the associated expectation of potentially lower financial returns.

The results indicate that impact investors monitor financial risk as one of the primary risks. The participants agreed that financial risk is a common concern that is typically monitored, similar to the approach taken in traditional, non-impact investments. This is in accordance with Islam (2023) who highlighted that managing financial risk is relatively straightforward in impact investing, as it largely relies on financial risk management knowledge adapted from traditional investment practices.

Participants revealed that their concern is a possibility of not recovering their invested capital, with one participant specifically mentioning that, while they might recover their initial investment, they may not achieve the targeted returns they had anticipated. Participants also expressed different views on whether investing in sustainable enterprises is financially rewarding. Some highlighted a common perception that investing for impact means sacrificing high returns. Similarly, another participant mentioned the widespread belief that financial returns and sustainability are mutually exclusive pursuits.

Contrary to these views, some of the participants argued that the idea of sustainable investments being less profitable is misleading. They emphasised that true sustainability is not only the environmental impact but also financial stability. Therefore, for a business to be

considered genuinely sustainable then it must achieve both environmental and financial sustainability. Islam (2023) highlighted managing financial risk is not as complicated, since the financial risk management knowledge is borrowed from traditional investment can be used to a large extent in impact investment.

b) Market Risks

Market risk is also a key concern for impact investors. However, participants noted that this risk is not unique to sustainable businesses but affects all types of businesses equally. One participant even remarked, in a light-hearted way, that market risk applies universally, whether a business is sustainable or not, as it impacts them all in similar ways.

c) Regulatory Risks

One participant raised regulatory risk as a significant concern, particularly in sectors like healthcare, where strict compliance with regulations is essential. They emphasized that businesses in such sectors require necessary approvals and licenses before they can operate, which can impact the timeline and viability of investments.

d) Impact Risks

Impact investment participants highlighted the risk associated with the inability to measure impact effectively. According to Islam (2023), the three primary sources of impact risk are the operations of investee companies, the operations of the investors themselves, and the activities within the broader investment ecosystem. One participant noted that failing to meet impact goals poses a significant risk, as achieving these goals is a critical success factor for their funds. This is a valid concern because, according to Islam (2023), impact risk management is far more difficult than financial risk management. The difficulties in understanding impact and impact risk across many, often time-separated operational levels and across different environments are the source of this complexity.

Another participant added that when sustainable businesses are unable to quantify their impact, it can sometimes result in greenwashing. They further explained that, in some instances, entrepreneurs unintentionally misrepresent their impact due the lack of capacity, such as having measurement tools to quantify the impact their business generates, which can create challenges. This is supported by another participant who stated that accurately measuring and reporting on environmental impact is especially challenging, as it demands specialised expertise and resources. Islam (2023) suggests that investors set up control

measures to influence key stakeholders both within and beyond a firm's boundaries to effectively manage impact risk.

e) Liquidity Risks

Participant mentioned liquidity risk as a significant financial concern. There was a general view that liquidity poses a major risk, as investments tied up in businesses or long-term projects can result in delays in capital returns. Participants noted that liquidity challenges are not unique to impact investing but are relevant to any private market investment. As a result, when invested companies are unable to return the capital or meet the promised financial returns, they often request extensions which in turn, impacts the investor's overall return.

6.2.2 Benefits of Impact Investing

Impact investing offers a range of benefits, including environmental, social, and economic gains. This means that, beyond achieving positive social and environmental outcomes, investors also receive a financial return. By investing in sustainable businesses, impact investors can fulfil their impact goals while meeting their financial objectives. Participants from both groups shared their perspectives on the benefits of impact investing, with a particular focus on its impact in South Africa.

The overall results suggest that impact investors recognise the importance of achieving both environmental and social outcomes alongside financial returns. Several participants emphasized that they do not view these goals as mutually exclusive as both must be met. However, some investors did note that, while they aim to balance impact with financial outcomes, they would not consider businesses with low financial returns, as they have specific return targets to achieve. Therefore, there is ambiguity around how they balance the different outcomes in their decision-making, as these outcomes are often viewed independently. This is in accordance with Holtslag (2021), who highlights the lack of clarity on how impact investors manage financial, social, and environmental risks and whether this balance is effectively optimised. In addition to that, many sustainable entrepreneurs also see the benefit of impact investing and its role in the South African.

a) Environmental Benefits

The results suggest that participants are conscious of the need to address environmental challenges particularly given global issues like climate change resource scarcity and pollution, which impact investing can do. This confirms the statement made by Berk and Binsbergen

(2021) that socially conscious investing aims to reduce societal and environmental costs through deliberate investment decisions.

They see environmental benefits as a core component of impact investing to fulfil mandates on climate action and renewable energy amongst others, as one participant noting that water scarcity in South Africa, and impact investing can play critical a role.

The results also show that investors prioritise enterprises that have a positive contribution to the environment as these enterprises align with frameworks such as UN SDGs that emphasize environmental outcomes. This is in line with the findings of Paetzold et al. (2022), who found that impact investors prefer investments that are linked to SDGs that have high impact and financial returns.

b) Social Benefits

The results show that impact investing is viewed as essential for addressing core societal issues like poverty, inequality, and unemployment in South Africa. Participants emphasized that meaningful social change requires deliberate action and funding, particularly in regions facing significant socioeconomic disparities.

The results also showed that there is a growing expectation that businesses should contribute to social equity, and impact funds are directing funds to initiatives that promote job creation, gender equality, and community welfare. This is in accordance with Jabłoński and Jabłoński (2021), suggesting that a business's value proposition should extend beyond purely economic factors to encompass social dimensions as well. This approach reflects a shift toward accountability, where investors use their influence to ensure businesses not only deliver financial returns but also support inclusive and resilient communities. This agrees with Trelstad (2016), who argues that for impact investors to realise their intended impact, the companies they invest in must remain aligned with the investors' impact goals. Impact investing, therefore, is seen as a pathway to build a more equitable society, aligning business growth with broader social progress.

c) Economic Benefits

The results indicate that the participants see impact investing as a powerful economic driver, particularly in areas where government services have failed in South Africa, creating space for private sector involvement in essential services like healthcare and education.

The results also highlighted the need for large-scale, high-impact investments that can catalyse sectors vital for development, such as water infrastructure and energy. One of the participant notes that the shift toward private provision of basic needs as a result of government service failure, presents both a challenge and an opportunity for impact funds to step in and improve service quality. Therefore, investment in sustainable initiatives is appealing, given the many challenges South Africa faces. This aligns with Jabłoński and Jabłoński's (2021) assertion that economic profit is only socially acceptable when it contributes to positive social outcomes.

A participant emphasised the critical role of impact funds in enabling entrepreneurship, particularly among small-scale and emerging ventures that require support in business acumen and resources to scale. This supports the argument made by Jabłoński and Jabłoński (2021) that investments in companies that create value with a focus on sustainability and have a positive social impact should be more beneficial for future generations than strong attempts to maximise profit and social inequality.

By providing more mission-driven and aligned support than typical financial institutions, impact investors can not only close a service gap but also encourage innovation and entrepreneurship.

6.2.3 Sustainable Entrepreneurship Key Benefits

a) Long-Term Viability

Sustainable entrepreneurs seek to generate long-term gains for the environment, society, and economy simultaneously.

The results indicate that entrepreneurs recognize several critical factors for the long-term viability of sustainable enterprises which focus on market analysis, financial viability, and adherence to core values.

The results indicated the importance of market analysis and strategic growth, where understanding market demand is essential to planning for sustainable expansion. Most of the participants rely on self-funding but are eager to grow their businesses, making them open to investor support. However, as per the result show, some entrepreneurs face difficulties securing funding due to the small size of their businesses, which limits their ability to expand. Veleva (2020) confirms this, stating the need for these entrepreneurs to first develop products and services and scale them, a significant contribution to sustainability transitions and a large

overall sustainability effect. This objective, however, presents challenges, as start-ups often have limited resources for scaling or may intentionally restrict growth to stay true to their mission. Which is confirmed by Lee (2020), who states that traditional funders, including institutional investors, banks, and governments, often find that impact enterprises require investment amounts too small for private equity funds, leading them to invest through other types of investment funds instead.

The results also showed that sustainable enterprises naturally attract a loyal customer base aligned with their values, as awareness around health and environmental issues grows, these businesses tend to experience increased engagement and advocacy from customers who share their values. Veleva (2020) states that sustainable business models are unique in their emphasis on defining and conveying a sustainable value proposition to customers.

The results also showed operational benefits, as a result of ESG integration, which fosters a positive work environment and enhances employee retention. Additionally, the results also showed that sustainable enterprises get access to sustainability-focused funding which provide them with a competitive advantage, enhancing the company's visibility and appeal to larger corporations and financial programs.

b) Environmental and Social Benefits

Regarding the environmental benefits, the results indicated that the business models of the sustainable enterprises are designed to minimise environmental harm, from responsible sourcing of raw materials to using methods that conserve water and avoid harmful chemicals. These approaches not only meet sustainability standards but also position the businesses as environmentally responsible entities, effectively "ticking all the boxes" of eco-friendly practices.

On the social benefits, the results revealed that sustainable enterprises have a strong commitment to supporting communities and fostering inclusivity within the workforce. The results also demonstrated the sustainable enterprises undertake initiatives to address community needs, such as providing essential resources like water to underserved populations, directly impacting local welfare. Participants highlighted supporting local economies by partnering with small businesses and creating jobs, especially for underrepresented groups, including women, youth, and people of colour.

c) Impact Investor Interest

The results suggest that impact investors see sustainable enterprise and projects as attractive due to their ability to deliver "dual returns," combining both financial and social or environmental benefits. One respondent highlighted that investments in sustainable offer competitive financial returns alongside the satisfaction of making a positive difference. They highlight that a well-crafted portfolio can achieve a balance where investors enjoy an acceptable risk profile, robust financial gains, and meaningful social or environmental impact. These results show that investing in sustainable enterprises is increasingly viewed not as a compromise but as an opportunity to achieve strong financial returns while contributing to broader societal goals.

6.2.4 Conclusion

Sustainable enterprises benefit from the long-term viability and customer loyalty that come from prioritising ethical practices and ESG standards. This alignment between impact investors and sustainable entrepreneurs highlights a shared commitment to creating positive change. With greater clarity in risk management and impact measurement, impact investing has the potential to build a resilient, inclusive economy in South Africa, delivering both financial gains and broader societal benefits.

6.3 Sub-Research Question Two

How can impact investments be designed to foster the growth and scalability of sustainable enterprises in South Africa?

Sub-Research Question Two aims to explore how impact investments can be structured to promote the growth and scalability of sustainable enterprises in South Africa. This question addresses the pressing need for more impact-focused funds be established and to support sustainable entrepreneurship that is not only financially viable but also socially and environmentally beneficial.

6.3.1 Impact Fund Construction

The results indicate that impact funds are structured with a dual focus on generating financial returns and creating positive social or environmental impact. Each fund operates under a specific mandate and some focuses on impact themes, which are often aligned with frameworks such as Sustainable Development Goals or national development priorities. This is consistent with the findings of Paetzold et al. (2022), who showed that impact plays an

important role when investors strategically prioritise impact themes and consider how those themes align with frameworks such as the SDGs. For instance, the results revealed that one of the impact funds has four core themes: job creation, environmental sustainability, closing infrastructure gaps, and sustainable food production. These themes are mapped to both the UN Sustainable Development Goals and the National Development Plan.

The findings also highlight that impact funds concentrate on certain asset classes and sectors. These funds may invest across a range of asset classes, including private equity, infrastructure, real estate, and debt, often targeting sectors with high potential for impact, such as renewable energy, healthcare, education, and agriculture. This is in line with Ormiston's (2015) assertion that impact investments exist all existing asset types and can be structured as debt, equity, or hybrid financing, offering a range of potential financial returns.

The results confirmed that all impact funds have specific investment criteria. These criteria typically include financial viability, measurable impact potential, alignment with the fund's impact themes, and the business stage of the enterprises they invest in. Impact funds stand apart from traditional investments because they require impact additionality as part of their investment criteria. However, Ormiston et al. (2015) study contradicts this, as it state that assessing impact investments on financial criteria, using the same professional processes and techniques applied in traditional investing, has been and will continue to be essential for engaging investors.

The results also highlighted the importance of portfolio construction for impact funds. Many funds balance their portfolios to manage risk and optimize impact by, for example, mixing higher-risk investments with more stable ones or balancing infrastructure investments with other asset classes.

6.3.2 Impact Investment Financial Performance

The results indicate that impact investors generally seek a balance between financial returns and positive social and environmental impact, though their approaches to this balance differ. For some investors, financial returns are the primary requirement, with impact objectives seen as secondary or complementary. This group tends to believe that while impact is valued, it should not come at the expense of financial performance. For these investors, financial viability is the priority, and impact considerations are only integrated if they align with or enhance profitability. Ormiston et al. (2015) highlight that some investors have adopted impact

investment strategies, with some targeting commercial financial returns, while others choose to accept lower returns to achieve a greater social or environmental impact.

The results also indicated that other investors take a more holistic view, seeing impact and financial returns as supporting each other. They argue that sound governance, environmental stewardship, and social responsibility are not just ethical goals but can also enhance financial performance. This perspective suggests that by prioritising these aspects, investors can achieve better returns over the long term, making impact objectives an essential part of the financial strategy rather than an add-on. In contrast, Jeffers et al. (2024) found that when traditional funds transition to impact-focused funds, their total returns tend to be lower than those of comparable non-impact funds.

Smaller boutique investment firms face unique challenges in balancing financial and impact goals as highlighted by the results. Compared to larger impact funds or institutions, these firms may lack the financial flexibility to prioritise social impact if it compromises returns. For them, achieving both financial returns and social impact simultaneously can be particularly difficult, as they cannot afford to reduce return targets solely to achieve impact outcomes.

The results also showed that some impact investors view financial returns and impact as separate objectives, each requiring different measurements and strategies. This perspective underscores the difficulty of blending these goals into a combined measure of success and reflects the challenge of satisfying both financial and social mandates within a single investment framework.

When evaluating sustainable enterprises, the results indicated that most impact investors do not differentiate return expectations between sustainable and traditional businesses, holding both to similar financial performance standards. This is in accordance with Barner et al. (2021) findings, that financial returns are the same for both impact and traditional investments. However, for certain higher risk projects, such as greenfield investments, some investors adjust return expectations to account for the additional risk. This indicates a nuanced approach, where return expectations are adapted based on the specific risk and nature of the investment.

The results revealed that financial returns remain important for impact investors, but there is a shared commitment to integrating social and environmental goals in their investment decisions. While some treat these outcomes as inseparable from financial performance,

others manage them as parallel but distinct objectives, demonstrating the diverse approaches within the impact investment landscape.

6.3.3 Due Diligence by Impact Investors

During the due diligence phase, investors conduct a thorough evaluation of both the impact and financial aspects of a potential investment, helping them in determining whether to proceed with an investment (Islam, 2023). Investors aim to clearly communicate their expectations regarding exit opportunities and scalability to the investee enterprises during the due diligence phase (Agrawal & Hockerts, 2019). They establish common social, commercial, and cultural goals investees reducing the likelihood of misalignment after the investment is made (Agrawal & Hockerts, 2019).

The results highlighted the important role of due diligence and risk assessment in the impact investment process. Impact investors rely on thorough due diligence to identify and understand potential risks early, allowing them to anticipate and prepare for risks that might arise later. This process includes feasibility studies, financial modelling, scenario analyses, and risk projections amongst other. Going through comprehensive assessments, investors can make informed decisions regarding the viability of their investments, thus protecting both financial returns and social or environmental impact goals. Ormiston et al. (2015), however, found no difference in the due diligence procedures of impact investors compared to non-impact investors, aside from the inclusion of impact as an additional factor in the process. However, this contrasts with Agrawal and Hockerts (2019), who found that the due diligence process for venture capitalists differs from that of impact investors, following a linear approach focused primarily on profitability, scalability, market acceptance, and a profitable exit opportunity.

The results reveal that impact investors approach due diligence with a strong emphasis on mitigating specific risks, such as greenwashing. One participant emphasised that due diligence allows them to identify risks that can be mitigated and to make informed decisions about those that cannot be fully controlled, choosing to either accept these risks or decline the investment. To ensure that investors only invest in businesses in which they have a high level of confidence, this emphasises the necessity of a careful and thorough approach to risk assessment.

The results further highlighted the importance of establishing an ESG compliance baseline during the initial due diligence phase, during which documents like the Environmental and

Social Action Plan (ESAP) are reviewed and discussed. According to Mykhaylenko et al. (2021), the ESAP guarantees that the project is implemented in compliance with the investor's needs and includes specifics of the conditions of the agreement. One participant mentioned the use of an ESAP being included in legal agreements early on, which will be continuously monitored to ensure compliance.

The results illustrate that due diligence is not a one-time process but an ongoing commitment that involves setting a clear ESG baseline, monitoring, and regularly assessing progress. This approach helps impact investors safeguard their financial and impact objectives, reducing risks while ensuring that sustainable enterprises remain aligned with their initial commitments.

6.3.4 Funding of Sustainable Enterprises

There are numerous funding sources available for businesses, including private equity, venture capital, debt funding, and grant funding, among others. Sustainable entrepreneurs often need different types of funding based on their business stage or specific needs, such as growth capital. This section presents results for both sustainable enterprises and impact investors, covering the types of funding impact investors provide to sustainable entrepreneurs and the types of funding these entrepreneurs prefer.

Asset Classes

Ormiston et al. (2015) indicate that impact investments have been made across various asset classes, including private equity, real estate, venture capital, and private debt. Additionally, firms may pursue multiple investment strategies, as these categories are not mutually exclusive (Cojoianu et al., 2022).

6.3.4 Funding Provided to Sustainable Entrepreneurs

The results indicate that impact investors are using a variety of funding structures to support sustainable enterprises and projects in accordance to each specific mandate. These funding structures are each tailored to specific stages of business development and sectors.

a) Private Equity and Private Debt

The results revealed that some investors are open to providing debt, referred to as private debt or unlisted credit, to businesses. Additionally, private equity emerged as the most common funding structure which is provided to businesses that have proven cash flow stability. This is in accordance with Cojoianu et al. (2022) finding, that impact investors most

frequently employ private equity as an investment vehicle. When private equity has been invested, investors often take an equity stake and a board seat to guide growth and ensure secure returns.

The results also revealed that growth-stage funding and early-stage funding are two common strategies employed by impact investors. Castellás et al. 2018 suggest that impact investors may provide early-stage funding, but given the risk, they will want higher returns. With growth funding, investors aim to help businesses to grow sustainably. Additionally, the results indicate an emphasis on early-stage funding in the form of private equity rather than venture capital, which presents a somewhat confusing strategy, as early-stage investments are typically associated with venture capital. This aligns with Lee's (2020) statement that impact investments from venture capital typically focuses on investing in relatively early-stage companies.

b) Venture Capital

The results revealed that participants view venture capital funding as higher risk, and that this type of investment often involves smaller deal sizes as a strategy to mitigate that risk. Only one participant highlighted that their fund is only focused venture capital, acknowledging its high-risk nature. This is consistent with Lee's (2020) finding that venture capital can achieve relatively high returns with a relatively modest amount of committed investment capital.

c) Fund of Funds

The results revealed that there are fund managers that employ a "fund of funds" strategy, investing indirectly in startups or projects through other funds that specialise in certain projects such as sustainable infrastructure and as early-stage businesses. This approach broadens their reach within the entrepreneurial ecosystem. Fund of funds and intermediary investments channel capital into wider economic segments, especially underserved areas like townships and rural regions. This structure allows impact investors to support smaller startups indirectly and promote inclusive growth by leveraging the expertise of specialised funds and intermediaries.

The results reflect a nuanced approach to funding, with impact investors applying diverse strategies that balance financial returns with sector-specific needs and social and environmental impact. Each funding structure, whether from private equity to venture capital, cater to different stages of business development, ensuring that capital flows effectively to areas that align with both investor and societal goals.

6.3.5 Funding Preferred by Sustainable Entrepreneurs

The results reveal that sustainable entrepreneurs have different preferences for funding options based on their business needs, growth ambitions, and the practical realities of the funding landscape in South Africa.

Private Equity

The results revealed that a common preferred funding option for many entrepreneurs is equity funding, especially entrepreneurs with growth ambitions. Participants who see their businesses scaling significantly, whether nationally or internationally, expressed a preference for equity funding, seeing it as a strategic choice that can facilitate substantial growth without imposing the financial burden associated with debt.

Debt

The results showed that debt funding was a preferred option for entrepreneurs focused on maintaining profitability without diluting ownership. Debt is especially appealing for businesses that do not require large capital injections for aggressive expansion. However, some entrepreneurs emphasise the importance of combining debt with equity in structured financing arrangements, indicating that debt is often seen as part of a diversified funding mix rather than the only solution.

Grants

The results showed grants were vaguely preferred with several participants acknowledging the potential benefit of grant funding but a couple expressed a frustration with access challenges. The appeal of grants lies in their non-repayable nature, which would allow entrepreneurs to fund social or environmental initiatives without the pressure of financial returns. However, as stated by Castellás et al. (2018), impact investment is not fit for grant financing because it is by definition focused on targeted financial rewards.

Venture Capital

Similar to grants, venture capital was viewed as less accessible funding option in the South Africa, with entrepreneurs stating that there is a shortage of venture capital funds in the country. The limited availability of venture capital suggests that South African entrepreneurs may face barriers when seeking high-risk, high-reward capital from investors willing to back

innovative, early-stage ventures. This gap may restrict the growth potential of startups that require the risk tolerance typically associated with venture capital.

Blended Finance Model

The results revealed that blended finance models are valued by some entrepreneurs. However, it was highlighted that there are challenges in securing blended finance due to the lack of understanding by the traditional banks. This presents an opportunity for impact investors to develop innovative funding structures such as blended finance models in which additional returns can be received as suggested by Paetzold et al. (2022).

Patient Capital

The results indicate that sustainable entrepreneurs would appreciate long-term, patient capital from impact investors who understand the nature of their businesses and are willing to prioritise impact and get their targeted returns after a long term period. According to Arena et al. (2018), this type of funding structure is attractive for entrepreneurs as it allows their businesses to grow and tackle social and environmental issues without the pressures of repaying the money as quick as possible. However, impact investors can also benefit, as patient capital, as stated by Cole et al. (2020), has the potential to produce high returns for investors who are willing to take a longer-term view, highlighting the mutual benefits of this approach for both entrepreneurs and investors.

6.3.5 Conclusion

The findings show a strong alignment between the aspirations of impact investors and sustainable entrepreneurs, who are both committed to creating positive social and environmental change alongside economic gains. However, the study also reveals key areas that require more deliberate structuring, such as defining impact metrics, refining funding models, and clarifying the roles of investors within enterprises. With better definitions regarding risk management practices and innovative funding approaches, impact investing in South Africa has the potential to establish a resilient and inclusive economy. By prioritizing both financial returns and measurable impact, impact investors can play a pivotal role in enabling sustainable entrepreneurship, ultimately driving social equity and environmental sustainability in the region.

6.4 Proposed Impact Investment Fund Model for Sustainable Enterprises

The impact investment fund model illustrated in Figure 5 offers a structured framework designed to facilitate and support sustainable entrepreneurship in South Africa. This model reflects the research findings on what sustainable entrepreneurs seek from impact investors, integrating key elements like funding structure, strategic support, and aligned objectives to foster long-term growth, social benefits, and environmental impact.

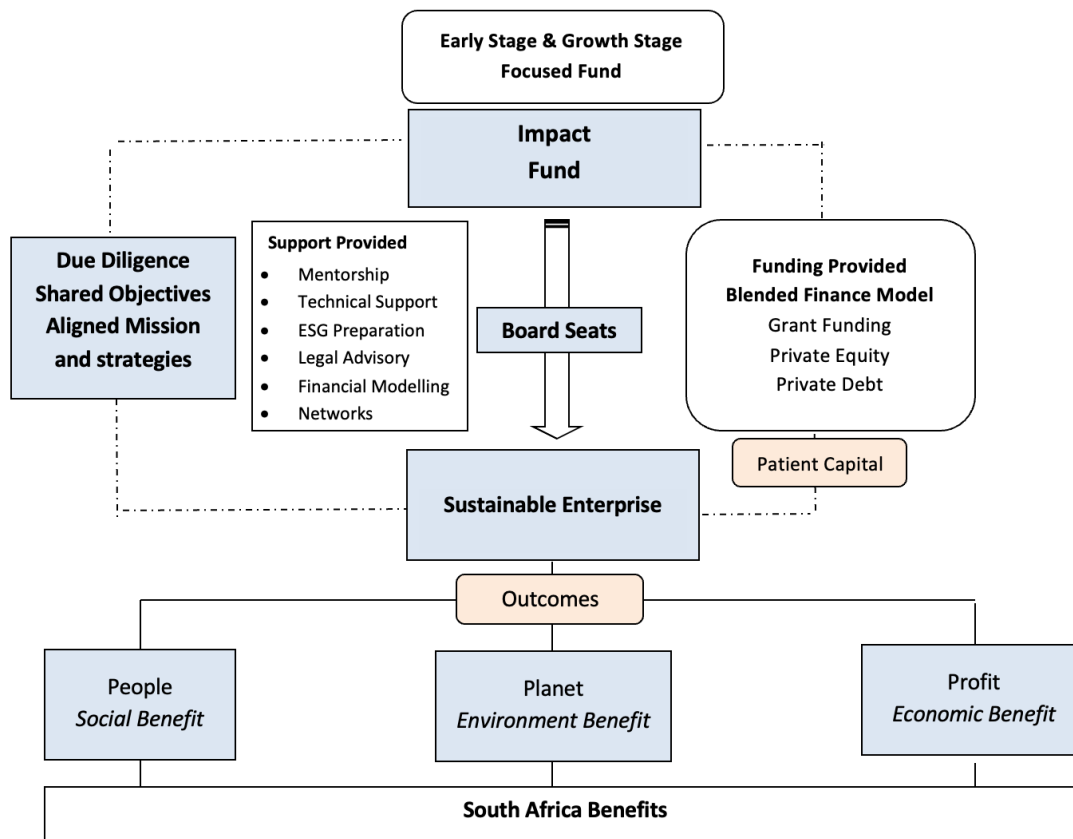


Figure 5: Impact Investment Fund Model developed by the author

The model begins by identifying the business stages targeted for funding by the impact investment fund: the early and growth stages. This focus addresses the gap in South Africa, where, according to the research results, there are not enough impact funds that support small sustainable businesses. The model then illustrates that the funding provided will be flexible, emphasising a blended finance model. This funding may include patient capital to support sustainable entrepreneurs in growing their businesses.

The figure then shows that support for the sustainable entrepreneur will extend beyond financial assistance. A due diligence process will ensure that both parties share objectives and that their missions and strategies are aligned. The outcomes align with the triple bottom

line framework, aiming to achieve financial, social, and environmental returns. Overall, this approach is designed to have a positive impact on the South African economy.

6.5 Conclusion

This chapter confirms that there is potential of impact investing in supporting and enabling sustainable entrepreneurship in South Africa. By aligning financial goals with social and environmental impact, impact investors and sustainable entrepreneurs can forge partnerships that contribute to meaningful societal change. Despite risks and challenges, there is a shared commitment to creating positive outcomes that extend beyond profit. The findings also highlight that impact investing must go beyond financial support to include mentorship, technical assistance, and network access, addressing the full spectrum of needs for sustainable entrepreneurs. Additionally, structured impact measurement frameworks are essential to showcase the social and environmental benefits achieved, reinforcing the value of these investments.

While impact investors face risks, they also recognise the rewards of contributing to a more sustainable and inclusive economy. Sustainable enterprises benefit from values-driven customers, ethical practices, and adherence to environmental, social, and governance standards, all of which contribute to their long-term viability. The alignment of goals and strategies between impact investors and sustainable entrepreneurs creates an opportunity to build a resilient and growing South African economy.

CHAPTER 7: CONCLUSION AND RECOMMENDATIONS

7.1 Introduction

Chapter One introduced the research, outlining the purpose, problem, and objectives. Chapter Two presented a literature review, building an argument based on existing literature and highlighting the need for this study by identifying gaps in knowledge. Chapter Three introduced the research questions, while Chapter Four detailed the qualitative research methodology used. Chapter Five presented the results, based on data collected from 18 participants in the fields of impact investment and sustainable entrepreneurship. Chapter Six provided a detailed discussion of the results.

A complete set of conclusions is presented in Chapter Seven, which also highlights the research findings and summarises the results. This chapter provide a comprehensive overview and significance of why the research was conducted on how impact investing can unlock sustainable entrepreneurship in South Africa. It addresses the knowledge gaps that the research aimed to fill, discusses the relevance of the study, and outlines its limitations, along with recommendations for future research.

7.2 Principal Findings

7.2.1 Main Research Question Findings and Interpretations

How can impact investments enable and support sustainable entrepreneurship in South Africa?

The objective of this main research question was to gain insights into the underlying factors by which impact investing can support and enable sustainable entrepreneurship while also giving social equity and economic development top priority.

The findings revealed important insights from the 18 participants, identifying shared objectives, aligned missions and strategies, impact investment support, and measurement as key areas for enabling and supporting sustainable entrepreneurship in the country. Most participants expressed a belief that collaboration would be possible if shared objectives were in place. However, some participants from the impact investment group noted scepticism about the true existence of impact investing in South Africa, as they felt that the few impact investors they encountered prioritised returns, behaving more like traditional investors.

All participants from the sustainable group highlighted that they would appreciate support from impact investors, other than just financial support, showing that sustainable entrepreneurs value access to networks, technical assistance, and mentorship just as much as financial backing. To fully leverage impact investment, more structured approaches to measuring impact will also be essential, as it allows both investors and entrepreneurs to track and showcase the positive outcomes of their work.

7.2.2 Sub-Research Question One Findings and Interpretations

What are the perceived risks and rewards associated with impact investing in sustainable enterprises?

Sub-Research Question One aimed to explore the perceived risks and rewards of impact investing in sustainable enterprises, focusing on factors that may deter impact investors from supporting sustainable entrepreneurs in South Africa.

The findings highlighted the complex balance of risks and rewards that impact investors perceive when deciding to invest in sustainable enterprises. Although, financial, market, regulatory, impact, and liquidity risks present real concerns, these investors also recognised the unique benefits, including positive environmental, social, and economic outcomes that align with their goals. Sustainable enterprises offer not only financial returns but also the potential to address pressing societal and environmental issues, creating value that extends beyond profit.

The findings also highlighted that impact investing in South Africa can be a powerful driver of economic growth, particularly in sectors where public services may be lacking. Therefore, by supporting businesses that prioritise environmental and social sustainability, impact investors are contributing to a more inclusive economy and encouraging entrepreneurial innovation. Sustainable enterprises, in turn, gain long-term viability through their commitment to ethical practices, loyalty from values-driven customers, and operational benefits from integrating environmental, social, and governance (ESG) standards.

The mutual interest between impact investors and sustainable entrepreneurs show a shared commitment to creating lasting positive impact. With greater alignment, clarity in risk management, and a focus on measurable outcomes, impact investing holds the potential to foster resilient, thriving businesses in South Africa—ones that not only generate financial

returns but also advance social equity, environmental responsibility, and community well-being.

7.2.3 Sub-Research Question Two Findings and Interpretations

How can impact investments be designed to foster the growth and scalability of sustainable enterprises in South Africa?

Sub-Research Question Two aims to explore how impact investments can be structured to promote the growth and scalability of sustainable enterprises in South Africa.

The findings highlighted the structure of impact funds, focusing on mandates, investment criteria, financial performance, and the due diligence processes conducted by impact investors. Additionally, the findings revealed how sustainable enterprises are typically funded by impact investors and highlight the types of funding preferred by sustainable entrepreneurs. The findings provided insights into how impact investments can be structured to promote the growth and scalability of sustainable enterprises in South Africa.

7.3 Research Significance

In South Africa, a country with many challenges such as high unemployment, socioeconomic inequalities, and environmental degradation, impact investing can play a big role in ensuring sustainable entrepreneurship (Samkange et al., 2021). Sustainable enterprises are able to address these challenges by creating jobs, promote economic growth, and implement environmentally friendly methods (Berk & Van Binsbergen, 2021).

Investors and entrepreneurs are increasingly focusing on business opportunities and projects that are environmentally and socially responsible, while still generating positive returns (Kölbel et al., 2020; Barber et al., 2021). The shared objectives and missions between impact investing and sustainable entrepreneurship create an opportunity for these two groups to collaborate effectively and contribute positively to the South African economy.

However, there is a misalignment between the two, as some investors still view sustainable enterprises as less lucrative compared to non-sustainable businesses. At the same time, many sustainable entrepreneurs are uncertain about how to access impact funds, with some doubting the existence of impact investing altogether. This lack of awareness on both sides leads impact investors to perceive sustainable enterprises as risky, while also not fully understanding the type of financial and non-financial support these businesses require for

growth. Therefore, this study assess how impact investing can play a role, in fostering sustainable entrepreneurship in South Africa.

7.4 Research Methodology

A qualitative approach was used in this study, involving a total of 18 participants—8 impact investment professionals and 8 sustainable entrepreneurs. Data was collected through semi-structured interviews, and Atlas.ti was employed to organize the data and identify themes, which were developed through inductive thematic analysis.

7.5 Academic Relevance of Findings

The study contributes to the existing literature on impact investing and sustainable entrepreneurship by providing insights into how impact investing can unlock sustainable entrepreneurship in South Africa. This aligns with the recommendations of Agrawal & Hockerts (2021) on the potential benefits of impact investing for developing countries. Furthermore, the study addresses the recommendations of Sascha et al. (2018) by analysing the perspectives of both entrepreneurs and investors on environmental, social, and sustainable business practices.

7.6.1 Industry Relevance

From an impact investment field, this study provides practical insights into how impact investments can foster the growth of sustainable entrepreneurship in South Africa. It reveals that, while impact investors and sustainable entrepreneurs share common objectives, there remains a misalignment in how they collaborate. Impact investors are often still perceived as traditional investors with a primary focus on financial returns. The study also highlights a gap in venture capital for early-stage funding, as most impact investors prefer to invest in businesses that are already operational and experiencing growth.

With regards to sustainable entrepreneurs the study highlights the lack of formal procedures for measuring their impact and integrating environmental, social, and governance (ESG) practices within their businesses. By addressing these gaps, this study serves as a valuable tool to help both impact investors and sustainable entrepreneurs align their missions and strategies, fostering collaboration that ultimately stands to benefit the South African economy.

7.9 Limitations

The literature reviewed in this study presents general challenges and benefits commonly experienced by both impact investors and sustainable entrepreneurs. However, these general

perspectives often overlook the specific challenges and advantages unique to each group, given their differences in sectors, business stages, areas of focus, mandates, and other factors. Consequently, the challenges and benefits highlighted in the literature are broad and may not fully capture the nuanced experiences of these distinct groups.

7.9 Recommendation for Future Research?

A key recommendation for future research is to explore the role of blended finance models within impact investing in the venture capital space, specifically focusing on startups and early stage businesses. This focus is essential due to the existing funding gap for these types of enterprises, which venture capital funds in South Africa should ideally address. Additionally, there is a need for greater understanding of how blended finance using a combination of grants, equity, and debt can support the growth of startups and early stage businesses, providing them with the resources they need to scale effectively.

Future research should also look into how blended finance models might be designed to give financial certainty while allowing startups to continue their growth trajectory. For example, combining non repayable grant money with patient equity investments could lessen businesses initial financial constraints while allowing investors to keep a share in the company's long term success. Debt packages, structured as low interest or revenue-based financing, can also be added as the business matures and demonstrates cash flow stability, resulting in a phased strategy that is consistent with the company's developmental goals and cash flow realities.

7.10 Conclusion

This research examined the role of impact investing in fostering sustainable entrepreneurship in South Africa. It also explored the risks and challenges that impact investors and sustainable entrepreneurs face in their interactions with one another. Additionally, the study investigated the preferences of sustainable entrepreneurs regarding support from impact investors, as well as the expectations of impact investors toward sustainable entrepreneurs, aiming to bridge the gap in understanding how these two groups can effectively collaborate.

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APPENDICES

Appendix 1: Consistency Matrix

Research Questions	Literature Review
Research Question 1: How can impact investments enable and support sustainable entrepreneurship in South Africa?	Sections 2.15.1, 2.15.2, 2.15.3, 2.15.4
Research Question 2: What are the perceived risks and rewards associated with impact investing in sustainable enterprises?	Sections 2.6.2, 2.3, 2.12
Research Question 3: How can impact investments be designed to foster the growth and scalability of sustainable enterprises in South Africa?	Sections 2.5.1, 2.6. 2.6.2. 2.14

Appendix 2: Ethical Clearance Approval

**Gordon Institute
of Business Science**
University of Pretoria

**Ethical Clearance
Approved**

Dear Gaone Segwe,

Please be advised that your application for Ethical Clearance has been approved.

You are therefore allowed to continue collecting your data.

We wish you everything of the best for the rest of the project.

[Ethical Clearance Form](#)

Kind Regards

This email has been sent from an unmonitored email account. If you have any comments or concerns, please contact the GIBS Research Admin team.

Appendix 3: Interview Guide

Questions to the Impact Investor (Professional)	Questions to the Sustainable Entrepreneur (Entrepreneur/Business Owner)
Business Overview	Business Overview
1. How would you describe your organisation/fund? What is its mandate?	1. How would you describe your business?
Preference for Sustainable Businesses	Preference for Impact Investors
2. Do you find sustainable businesses attractive for investment?	2. When starting or growing your business, do you seek funding (debt, private equity, grants, etc.)?
3. Are sustainable businesses more attractive compared to non-sustainable businesses?	3. Which type of funding do you prefer, and why (debt, private equity, grants, etc.)?
4. Which type of sustainable businesses do you prefer for your portfolio?	4. Do you find impact investors (with patient capital) attractive for your business?
	5. Are impact investors more attractive compared to traditional investors?
	6. Which type of impact investors do you prefer for your business?
Investment Criteria and Stages	
5. What is your criteria when selecting a company for investment?	
6. At which stage of the business (early stage, growth stage, or mature stage) do you prefer providing investment capital in a sustainable business?	
Risk Management and Challenges	Risk Management and Challenges
7. What are the risks and challenges associated with investing in sustainable businesses?	7. What are the challenges you face when raising funding or capital?
8. How do these risks and challenges affect the development of sustainable businesses in South Africa?	8. What challenges have you faced in securing impact investment, and how have you overcome them?
9. What strategies do you implement to manage these risks?	9. What are the main risks you face as a sustainable entrepreneur, and how do you manage them?
Support Beyond Financial Investment	Support Beyond Financial Investment
10. What type of support do you provide to sustainable entrepreneurs beyond financial investment (Value add)?	10. Other than financial support, what kind of support do you expect or prefer to get from an impact investor?
Impact and ESG Considerations	Impact and ESG Considerations

11. How do you define and measure the impact of your investments?	11. How do you incorporate ESG principles into your business operations, and what benefits have you observed?
12. Regarding ESG, which of the three elements (Environmental, Social, Governance) is the most important and challenging?	12. How do you measure and report the social and environmental impact of your business?
13. How do you ensure that the enterprises you invest in adhere to ESG standards over time?	
Financial and Economic Impact	Financial and Economic Impact
14. How do you balance financial returns with social and environmental outcomes (impact) in your investment decisions?	13. How do you assess the long-term viability of your business to attract impact investment?
15. How do you assess the long-term viability of a sustainable enterprise before investing?	14. What role do you see impact investing playing in the future growth and scalability of business in South Africa?
16. What are your expectations regarding financial returns from sustainable enterprises compared to traditional investments?	
17. What role do you see impact investing playing in the broader South African economy?	

Note: 'sustainable business' can be altered to a more specific business type, e.g., renewable energy, water, education, healthcare etc.

For instance, the question could be; "do you find renewable energy to be an attractive business for investment?"

Appendix 4: Consent Form

Informed Consent Statement

I am conducting research on how impact investing can play a role in fostering sustainable entrepreneurship in South Africa. Our interview is expected to last 45 to 60 minutes and will help me understand the factors that enable and prevent impact investments in SA with the intention of identifying how impact investing can best contribute to sustainable entrepreneurship. **Your participation is voluntary, and you can withdraw at any time without penalty.**

By signing this letter, you are indicating that you have given permission for:

- The interview to be recorded;
- Verbatim quotations from the interview may be used in the report, provided they are not identified with your name or that of your organisation;
- The data to be used as part of a report that will be publicly available once the examination process has been completed; and
- All data to be reported and stored without identifiers. If you have any concerns, please contact my supervisor or me. Our details are provided below.

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Phone: 079 410 3686

Signature of Participant: _____

_____ Date: _____

Signature of Researcher: _____

_____ Date: _____