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RESEARCH REPORT

SOCIALLY RESPONSIBLE INVESTING AND SOCIAL PRIVATE EQUITY IN SOUTH AFRICA

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ABSTRACT

The purpose of this exploratory research is to explore the nature of socially responsible investment (SRI) activity in South Africa. More especially, and on the back of the reported success of private equity in South Africa, the study seeks to establish the potential of a social private equity investment model as a subset of SRI?

The study interviewed twelve investment professionals using in-depth semi-structured interviews. The study found that, contrary to what the literature had revealed about trends in the UK and the US, the respondents had a more cohesive understanding of what characterised SRI activities. The study also confirmed developed market trends that scepticism about the commercial value offered by SRI activities still prevailed among investors. The study further revealed that a great deal of effort was being channelled towards the development of best-in-class measurement tools to measure and report on social value added, even by those who did not view themselves as being active in the SRI arena. Although still in its embryonic stage, respondents were found to be very positive about the potential for social private equity within the SRI arena.

The research makes recommendations that speak to the urgent need for improved and increased industry engagement on ways to develop the sector, as well as ways to market and increase the profile of the efforts and successes already achieved on both financial and social aspects.

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DECLARATION

I declare that this research 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 previously submitted for any degree or examination in any other university.

ZINGISA NOZUKO MTSHAZO **DATE**

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1.1 Introduction and context of Research Problem

1.2.1 Socio- economic challenges

Trainer (2002) argues that history has demonstrated the fundamental flaws that exist in the conventional economic development theory that assumes that a rising tide lifts all boats. That is to say, that the steadfast pursuit of growth in the national gross domestic product (GDP) will automatically grow the incomes, and improve the lives of all who fall within its net, thereby resulting in overall economic sustainability. In support of this contention, Akoum (2008) submits *that whilst the literature on the success of global poverty eradication, one of the* measures of sustainable development, appears to present contradicting views, the evidence shows that GDP growth alone is not a sufficient condition for poverty alleviation. As evidence of this, Kanbur (2008: p.3), reports that, despite experiencing positive growth rates over a continued period of time, post-apartheid South Africa has been "characterised by low growth and increasing inequality and poverty".

The numbers published by the Economist (2007) do not paint a particularly encouraging picture with respect to the sustainability of the South African economy, and paint an even bleaker picture for the rest of the African continent. South Africa is the highest ranked African state in terms of industrial output (at 28) followed by Algeria (36) and Nigeria (39). South Africa also lead other African states in terms of global manufacturing (26), and services output (28). South Africa has the largest economy on the continent, coming 28th in the global rankings followed by Algeria (48) and Egypt (50).

This sterling performance notwithstanding, South Africa ranked 13th in terms of lowest life expectancy, outranking Rwanda (16), Burkino Faso (28) and the Sudan (42). Futhermore, South Africa has the world's 3rd highest rate of unemployment (Economist, 2007).

It is against this backdrop that Randjelovic, Rourke and Orsato, (2003) propose that society should consider innovative investment mechanisms as a necessary component to supporting sustainable development. The bleak scenario painted above creates a fertile ground to explore socially responsible investing (SRI), as one such investment mechanism, to partially address issues of increasing inequality and poverty, and sustainable development, particularly in South Africa.

1.2.2 Developments in SRI

In 2003, the International Finance Corporation ("IFC"), a member of the World Bank Group, reported that the socially responsible investment (SRI) sector accounted for an increasing percentage of the economic growth in certain developed countries – at the time, estimated to be $2.7 trillion worldwide. Of greater significance, the IFC (2003), submits that the benefits of the growth in SRI, could significantly influence the manner in which investors contribute to sustainable development. The IFC (2003) further holds that these opportunities are still to be tapped into by developing and emerging markets.

The above trends and observations presented a timely opportunity to explore the nature of SRI activity in the South Africa, as a major developing and emerging market on the continent.

1.2 Motivation and relevance of study

According to the South African Venture Capital and Private Equity Association (SAVCA, 2007), reported the private equity industry grew into a R70billion industry in 2007 from R27.9billion in 1999. The phenomenal success of private equity in South Africa, considered together with the views of Cumming and Johan (2007:p. 395) who assert that "private equity is a viable and important asset class for institutional investors, and there is a growing trend towards socially responsible investment practices" informed, in the first instance, the rationale and motivation to appraise the South African experience in this regard. In the second instance, the researcher's previous employment experience as an advisor to private equity houses, provided anecdotal evidence of the efficacy of the private equity model as a sustainable enterprise value creation tool, and in formed the resolve to consider the possibility of its social application.

Internationally, research has accumulated in the broad sphere of SRI. However, South Africa has been found to have made less of a contribution to both academic, and industry generated research in this field. It is unknown, to which extent this form of investment is being embraced and practiced, or being debated by investment houses and firms around South Africa.

Accordingly, this report seeks to embark upon an exploratory search, with a view to gaining some understanding of the existence and nature of socially responsible investing in South Africa. In considering the dynamics and the progression of this investment sector in more developed economies, the researcher seeks to examine how reflective these issues would be in the local market. Consequently, it is intended that this paper will make some inroads to contributing to the gap in academic literature in respect of the landscape and nature of the SRI industry in South Africa.

1.3 Research problem

The reported under performance of South Africa in addressing the challenges of sustainable development, made it relevant at this time to examine how opportunities presented by both the reported positive trends in SRI internationally, and success of private equity locally could be exploited.

Therefore, the researcher set out to explore the nature of socially responsible investment activity in South Africa. More especially, and on the back of the reported success of private equity in South Africa, the study seeks to determine the potential of social private equity investment model as a subset of SRI?

1.3 Definition of Key Terms

1.3.1 Sustainable development

One of the better accepted measures of sustainable development is the extent to which a nation tends towards achieving the 8 Millennium Development Goals (MDGs). These goals broadly target development factors such as the reduction of poverty, the promotion of universal primary education, promotion of gender equality, the reduction of child mortality and ensuring environmental sustainability (Akoum, 2008).

A micro measure of sustainable development, such as that of a corporate enterprise, would relate to achieving both internal and external stakeholder growth and prosperity. The relevance of stakeholders is discussed more fully in the literature reviewed in Chapter 2.

1.3.2 Socially responsible investing

In this report, but more particularly in the context of the data collection tool and the results presented in Chapter 5, the term SRI refers to private sector financial investment into non-listed enterprises, which takes account of social, ethical and environmental criteria thereby considering a social as well as a financial return. This definition, adapted from McCann, Solomon and Solomon (2003: p.15), seeks to specifically exclude those investment practices associated with the stock market, and focus on those investments directed at social entrepreneurial enterprises.

For the sake of completeness in formulating the broader discussion around SRI activity in developed markets, this report will touch on the broader spectrum of investment strategies. Broadly speaking however, the term SRI is accepted to encompass what Haigh and Hazelton (2004: p. 59) describe as "the practice of directing investment funds in ways that combine investors' financial objectives with their commitment to social concerns such as social justice, economic development, peace or a healthy environment".

1.3.3 Private equity

Lopez (2008), broadly offers the following definition of private equity. Private equity refers to investments made by professional managers of investment funds in private companies. Funds are typically pooled from large institutional investors or high net worth individuals into a limited liability partnership structure, with the investors enjoying limited liability. A fund usually has a life of around 10 to 12 years over which time, the fund managers make investments according to an agreed fund mandate.

Investment into the private companies is usually made in the form of equity, thereby creating alignment between the fund and the management of the company into which the fund is invested. Invested funds, together with any gains made thereon, are distributed back to investors at the end of the fund life. The factors driving the success of private equity, and which make it appropriate for a social private equity model, are discussed later in this report.

1.3.4 Social private equity

Social private equity is in an investment model that applies the key principles of the private equity investment model and directs its investment efforts towards private enterprises or projects with a social development component.

1.4 Scope and limitation of research

The dearth in locally generated, publicly available, literature and resources on the subject of SRI in South Africa had an adverse impact on the depth of the enquiry that this research could undertake. The research consequently seeks to gain a better understanding of the perceptions of those professionals making inroads in the SRI sector in South Africa. As such, the research will not attempt to determine the transaction value of the activity being conducted in this sector.

Social enterprises – "trading organisations within the social economy" - have developed to take on many forms, including community businesses, co-operatives or voluntary organisations (Spear, 2006, p. 400). The role of the social enterprise as an efficient vehicle for delivering public benefit as well as addressing the social challenges of economic development is acknowledged by the researcher as being a significant, although not the sole, contributor to the growth of SRI (Spear, 2006; Harding, 2004). The significance of the role of the social enterprise in the development of SRI, will not be the scope of this paper to investigate advent or dynamics of this social phenomenon.

1.5 Structure of report

The report will begin with an extensive literature review in Chapter 2, initially setting out an overview of the developmental challenges facing South Africa. This serves to contextualise and provide relevance for this study. This will be followed by historical overview of the emergence of SRI as an investment option, before deliberating the form, application and challenges around the future development of SRI. Finally, consideration will be given to the adoption of a social private equity model in South Africa.

An attempt has been made, through the application of the methodology set out in Chapter 4, to study this phenomenon in South Africa, the results of which are presented and analysed in Chapter 5. Finally, the report will seek to draw key conclusions in Chapter 6, from the insights gained from the results gathered from the interview subjects, and therein also propose some recommendations for future research as well as highlighting some opportunities for taking the discussion of SRI forward for those playing an active role in this sector in South Africa.

CHAPTER 2: LITERATURE REVIEW

2.1 Economic Development Challenges

Trainer (2002) raises arguments that are diametrically opposed to the views put forward by classic economic theorists who seek to suggest that economic growth is either tantamount to development, or is a necessary and sufficient condition to achieving it. Development is evident in the observation of certain phenomena such as the reduction of infant mortality, the increase in life-expectancy rates and literacy, that is, overcoming those challenges succinctly encapsulated in the Millennium Development Goals (Kanbur, 2008). Akoum (2008: p.232) reviews the World Bank's GDP data series and comments on the results which indicate that "many countries with relatively high average annual GDP growth rates have had relatively higher shares of the population in poverty".

Essentially, argues Trainer (2002), the trickle-down effect expected to be attainable from the single-minded pursuit of economic growth, has not materialised in the developing world. He declares that basic needs of the populous also need to be attended to, because even in regions where development has been recorded to been on the increase, income disparities also show an upward trend. Trainer (2002) puts it to us that, the unit of measure should not be how much economies have grown, or how much development has taken place, but rather what changes have translated into improving the lives of those who are most marginalised.

Trainer (2002) argues that the free-market system advocated by classical economists has not resulted in an efficient allocation and employment of resources, and the tendency of markets, is to deprive the poor of resources they once had, whilst allocating scarce products and resources to the rich. The concern raised by Kanbur (2008) in this regard is around the widening income disparity gap resulting in increased social unrest. The escalation of social unrest destabilises a nation's entire economy, negatively impacting even those who enjoy prosperity within it.

The picture sketched out by the Economist (2007) figures, serves as clear evidence of the convictions put forward by Trainer (2002) and Kanbur (2008), that although economic growth is a necessary factor, it is insufficient, in and of itself, to adequately address the challenges of a developing economy. Against this backdrop, which highlights the flaws of classical economic development theory, one of the questions that will inevitably arise, is what is the role of business; or, in this instance, the role of the national economy, and within that, the market economy in addressing the challenges of sustainable development?

2.2 Shareholder value vs Stakeholder value

Picking up on the debate around the role of business Lougee and Wallace (2008), consider the views put first forward by Milton Friedman and Edward Freeman. According to the Lougee and Wallace (2008), Friedman postulates that the role of business is to maximise value for its shareholders – thus giving birth to the *shareholder value theory*. This, continue Lougee and Wallace (2008), implies that the only reliable measure of corporate success is the degree to which shareholder value is appreciated.

Falck and Heblich (2007), contend that Friedman's viewpoint is applicable where perfect order exists. In a perfect system, when resources are employed efficiently and put to their best possible use, then the needs of society can be optimally served. The authors correctly argue that the assumption of a perfect order can no longer be held to be valid. They point out further, that business exists and thrives in an attempt to satisfy the consumption needs of society. As such, in the pursuit of business success, such business cannot ignore the constituencies outside of the shareholder net.

On the other hand, the *stakeholder value theory*, according to Lougee and Wallace (2008), suggests that not only the ability to satisfy shareholder expectations, but also the satisfaction of other corporate constituencies, should be considered in the evaluation of corporate success. These constituents or stakeholders include customers, employees, suppliers, local communities and the society at large. Freeman, Wicks and Parmar (2004) do not envisage the stakeholder value theory as being in opposition to the shareholder value theory, but rather see it as an extension thereof. In their view, Shareholders are a key constituent in the broader stakeholder grouping. Agreement with this notion is articulated by Garriga and Melé (2004: p.54), who declare that "shareholder value maximisation is not incompatible with satisfying certain interests of people with a stake in the firm."

Freeman *et al* (2004), argue that profits are a critical feature of the broader value creation process. Heese (2005) notes in this regard, that international trends evidence an increase in legislative pressure for corporations to report on their non-financial performance – the so called triple bottom line. These views echoe those put forward by Trainer (2002) and Kanbur (2008), which imply that whilst economic growth is a critical and necessary component for sustainable development, the single-minded pursuit of GDP appreciation alone, will not necessarily have the effect of creating value for those who are outside of the formal economy.

Therefore, some additional intervention is required to lift all the boats in the harbour, as it were. This report seeks to explore and consider the potential of one such proposed intervention.

2.3 Nature of socially responsible investing

2.3.1 Introduction

Academics and investment professionals alike are still to reach agreement on the appropriate definition and scope of SRI. The diversity of names, include, amongst others, *ethical finance or investing* (Brown and Thomas, 2006; and Cowton, 2004), *social investing* (Dunfee, 2003) and *green investing* (Randjelovic, Rourke, and Orsato, 2003) are equally diverse in their scope of application. Dunfee (2003) is critical of this apparent confusion, which has a tendency to include contradictory or mutually exclusive strategies. He further cautions against thinking that every non-financially focussed fund can be considered to be an SRI fund. A point which is stressed repeatedly within this report is that the investment activity under consideration is at its core, commercially orientated.

2.3.2 History of SRI

The history of SRI has its roots in religious movements such as the Quakers who have been credited with being the founding fathers of negative screening. As early as the 18th century, Quakers consciously disinvested, or excluded from their investment activities, those industries which had business practices to which they were morally opposed, such as human trafficking, tobacco and gambling (Brown and Thomas, 2006). During the 1960s and 1970s , a period of heightened social activism, demand for improved financial transparency, along with the fervour that funds could be a tool for achieving social change helped fuel the growth of SRI in the US and UK (Brown and Thomas, 2006). In the 1980s the SRI movement gained significant momentum in the opposition to apartheid and the subsequent boycotting of businesses operating in South Africa (Brown and Thomas, 2006; Heese, 2005). In 1984, the Quakers launched the Friends Provident Stewardship Trust as the first UK ethical unit trust (Crowton, 2004). The trend in morally driven or ethically informed investment making decisions has gained momentum over the years and manifested itself in a variety of investment strategies, a few of which a touched on in broad terms below.

Recently, the Social Investment Forum ("SIF") (2007), a non-profit US based national membership association dedicated to advancing the concept, practice, and growth of socially and environmentally responsible investing, reported that SRI assets under management in the US increased more than 18% in the period from 2005 to 2007. During the same period, conventional investment assets under management are reported to have increased by 3%.

Despite the noteworthy growth of the phenomenon of SRI in developed markets, by and large, it is still considered to be doing so on the fringes of mainstream financial markets (Brown and Thomas, 2006; Dunfee 2003; Henningson, 2008; and Juravle and Lewis, 2008). The glaring observation that no one investment name, model, or strategy which defines what is broadly understood by the term SRI is cited as a contributing factor to the marginalisation of this sector, (Juravle and Lewis, 2008). The inconsistency in definition and nomenclature is argued to be one of the key impediments to the recognition by mainstream financial markets of this investment form (Cowton, 2004; Dunfee 2003; Michelson, Wailes, Van der Linde and Frost, 2004).

2.3.3 Investment strategies

The investment strategies discussed briefly below are identified as being commonly applied by social investors, with the aim of optimising social and financial returns (Asongu, 2007; Brown and Thomas, 2006; Lydenberg , 2007 and SIF, 2008).

2.3.3.1 Screening

Asongu (2007) describes screening as the intentional exclusion (or inclusion, as the case may be) of certain securities from a targeted investment spectrum based on pre-determined environmental, social and/or governance (ESG) criteria. To a large extent, investment activity that has fallen within the definition of SRI, has tended towards investment funds that have invested in publicly listed companies whilst applying some form of screening method in their investment strategy (Johnsen,2003; Randjelovic *et al*, 2003; Scholtens, 2007).

Screening can take the form of either positive or negative screens. Negative screening relates to excluding from an investment portfolio, those companies whose products and business are harmful to individuals, communities or the environment or those involved in business practices commonly referred to as sin sectors which include tobacco, arms, alcohol. (Brown and Thomas, 2006 and Michelson *et al* 2004). Henningsson (2008) confirms that recent research indicates that the greatest activity has been in funds applying negative screening processes. However, whether positive or negative, when social screens are considered in terms of the social need they seek to address, the end result is believed to be the same (Brown and Thomas, 2006).

2.3.3.2 Shareholder activism

Shareholder activism involves the active participation of socially responsible investors in the business practises of the companies they invest in, in respect of those practises which negatively impact upon the environment, human rights, labour practises and other such issues. In so doing, this strategy seeks to convince errant companies to change their business practices to include more ethical or socially responsible aims (Brown and Thomas, 2006).

Haigh and Hazelton (2004) argue, however, that shareholder activism has not yielded a significant degree of success because it is not a consistent strategy, but rather one that is practised on an *ad hoc* basis.

2.3.3.3 Community investment

Community investment seeks to direct capital from investors to projects and communities that do not have access to the traditional sources of funding. This SRI strategy aims to meet the capital needs of organisations that have a strong social or environmental focus (Brown and Thomas, 2006).

2.4 Impediments to mainstreaming of SRI

Whilst it is a widely held view that SRI is a growing phenomenon (Cumming and Johan, 2007; Dunfee, 2003; Henningson, 2008; Brown and Thomas, 2006). There is equally commonality of agreement that this investment form has not yet moved into the mainstream of financial markets (Juravle and Lewis, 2008; Dunfee, 2003; Henningson, 2008; Brown and Thomas, 2006). Juravle and Lewis (2008) suggest however, that some are of the view that the mainstreaming of SRI is already underway.

2.4.1 Naming

The lack of consensus on definition has characterised much of the debate in this area and is often cited as one of the key detractors from the mainstreaming of SRI activity.

Johnsen (2003) suggests that much of what is described as SRI, is merely a salve for those who wish to ease their guilt over what they deem to be the shortcomings of capitalism. Dunfee (2003: p.248) further argues that broad definitions of SRI tend to be "incoherent", oftentimes incorporating "contradictory or mutually exclusive strategies". Juravle and Lewis (2008) suggest that this in consistency in definition has contributed to the marginalisation of SRI.

To illustrate the extent of this confusion referred to above, table 1 sets out the range of names being applied in the UK to this field of investment activity.

Table 1

UK SECTOR TERMINOLOGY

No.	Term	Characteristics
1	Social finance	Finance used to support the social economy and socially and/or environmentally driven organisations. Social return is the prime consideration so SRI is excluded from this.
2	Solidarity finance	Typically used when all or a portion of the investment is used to support projects in developing countries. Sometimes used to denote investments that support social justice goals at home. Most widespread use is in France where it is used to denote the whole ethical finance sector.
3	Social investment	Investment in an activity where both a financial return and a social and/or environmental return is sought. Social return is the prime consideration so SRI would be excluded from this.
4	Socially responsible investment	Investment in publically listed companies that are screened to weed out those that produce negative impacts or to select those with positive impacts. Fits within a “do no harm” approach as opposed to actively seeking to promote social or environmental considerations.
5	Socially directed investment	Similar to social investment. Main consideration is the social return element.
6	Green investment	Primacy given to environmental considerations. Usually implies a positive stance. i.e. investing in renewable.
7	Community investment	Community investment is used when the social or environmental benefit go to benefit a local community. For example, an investment in a community development finance institution.
8	Alternative finance	More limited usage as many elements of ethical finance have entered mainstream thinking and have lost any alternative edge.
9	Ethical finance	Used interchangeably with ‘social finance’ and ‘alternative finance’.

Source- Brown & Thomas (2006: p 8-9)

The above table demonstrates the extent of overlap both in the nomenclature and the scope of application of terms broadly applied in the UK. In this instance, the term socially responsible investment is used to refer to investment in listed stocks. The definition of SRI applied in this report is more closely associated with what Brown and Thomas (2006) have referred to as community investment.

2.4.2 SRI and investor value

Citing Farmen and van der Wijst, Henningsson (2008), reports that socially responsible investments have become one of the fastest growing areas of the investment industry. On the basis of such reported successes, Dunfee (2003) contends that one might be justified in believing that SRI had the potential to break into the mainstream of financial market activity. However, Juravle and Lewis (2008) point out that SRI remains a considerably small percentage of the mainstream financial community. Juravle and Lewis (2008:p. 288) proffer that for as long as "the mainstream finance community believes" that social, ethical and environmental factors will erode value from the performance of an investment portfolio, the mainstreaming potential of SRI will hang in the balance. This constraint on SRI growth is also noted by Bakshi (2007), who puts forward that SRI growth rates have failed to impress many in the conventional investment world.

Dunfee (2003) is of the view that SRI, as an investment class in the broadest sense, has the potential to move from what he terms the *backwater* into mainstream financial investment markets. In order for such mainstreaming to occur, Cumming and Johan (2007) propose that an effective responsible investment programme should offer a mainstream value proposition by incorporating the objective to gain maximum possible return for stakeholders within acceptable risk levels, together with the aspect of combining social, moral and environmental concerns.

Dunn (2006) argues that the basis of conventional investment strategic theory has always been the relationship between risk and return. He sets out to consider a third value creation dimension, being impact, which places value on those benefits that one can receive from investing in the social good. Dunn (2006: p. 2-3) further suggests that, in drawing from the Modern Portfolio Theory, which seeks to maximise the risk and return benefits in terms of seeking out an *efficient frontier* an investor can optimise benefits at a *new efficient frontier* which framework enables "individual investment opportunities that transform the world for the better to be considered alongside traditional opportunities".

There is evidence to support the above contention, that SRI is able to provide a means of making money whilst achieving a social good. Juravle and Lewis (2008) suggest that no financial disadvantage has been identified in the comparison of the performance of SRI funds and conventional asset classes. Support for this contention is to be found in the views put forward by Cowton (2004), Dunn (2004),Haigh and Hazelton (2004), and Henningson (2008). Collinson, Cobb, Power and Stevenson (2007) go so far as to say that over the nine year period of their observation, SRI indices in fact outperformed their conventional benchmark counterparts.

Cumming and Johan (2007), suggest that one of the challenges holding back the move of SRI into the mainstream of investment markets remains the uncertainty around the development of a socially responsible generally accepted accounting standard. This is a contention shared by Dunfee (2003). Linked to that, is the necessary development of auditing standards developed around the unique skills of social screening and value determination (Dunfee, 2003). The growing importance of SRI funds has led, as noted by Henningson (2008: p.170), to the development of the "international voluntary reporting standards by Global Reporting Initiative" aimed at increasing the credibility of SRI.

2.4.3 Measuring social impact

In response to the prevailing scepticism around the value proposition offered by SRI activity, certain institutions such as the New Economics Foundation (2008), SIF (2008) and the Commonwealth Development Corporation (2006) have developed and continue to develop measurement tools that enable investors and organisations to measure more accurately how much and where social value is being created.

One such measurement tool, is the social return on investment (SROI) tool developed by the NEF (2008: p. 5), which purports to offer the following benefits:

- *Triple bottom line reporting* – provides a comprehensive approach to value that includes the economic, environmental and social;

- *Accountability* - by providing both numbers and a story, to support those numbers, the SROI process makes the creation of social value transparent;
- *Change management* - information highlighted by the analysis can provide vital feedback on the effectiveness of existing activities and areas of weakness;
- *Cost and time effectiveness* – by focussing on critical impacts, SROI can be a time and cost effective way to learn about the change a project or organisation creates; and
- *Ratio analysis* – the SROI ratio attest to being a simple and clear indicator of value an organisation creates for its stakeholders.

Dunfee (2003: p 250) points out that though are several tools that set out measure social performance, "the results are a mishmash of standards". Dunfee advocates for the development of something akin to the Generally Accepted Accounting Principles of applied with much confidence in the auditing world.

2.5 Equity funding structures for SRI

The benefits of equity funding structures are best understood when considered against their alternative, being bank loans, commonly referred to as debt finance. Brown (2006) proposes several reasons why equity finance may be beneficial for social enterprises, including alleviating the high cost of short term finance and the strain that this places on already challenged cashflows, thereby threatening the sustainability of the enterprise. Brown (2006) argues further that social enterprises do not have the pursuit of profit as their primary objective, hence the longer term nature of equity finance enables the social enterprise to focus on creating sustainability.

This view gives rise to the notion of patient money which refers to a form of funding that takes a longer view on the risk and return equation, that is a willingness to wait a little bit longer to achieve a return. Unlike debt finance, equity funding model, and the consequential interaction between investors and enterprise management serve to align the interests of these two groups (Moon, 2006), further improving the chances of the enterprise achieving sustainable growth. Research conducted by the New Economic Foundation (NEF) (2006) suggests that an estimated 55 000 social enterprises in the UK are maturing their businesses in such a way as to enable them to look to the markets for equity financing.

Brown (2006) is of the view that the scale of the SRI market in the UK provides a reason to believe that there remains some scope for many more social enterprises to raise long term capital from investors. Brown (2006) cautions, however, that in order for this growth opportunity to be tapped into, dedicated investment institutions will have to be put in place in order to connect ethical investors with social enterprises.

One of the critical obstacles to implementation of equity finance models for social enterprises is identified by Brown (2006: p. 74), as being "the potential conflict between shareholder interests and the social objectives of the social enterprise." This is a challenge because in private enterprises, ownership and control tends to remain in the hands of investor-shareholders, thereby creating an imbalance between stakeholder interests (Brown, 2006).

2.6 Success factors of private equity model

2.6.1 Alignment

The success of the private equity model has been underpinned by a number of factors, one of which is the extent of engagement played by the fund manager. As Cumming and Johan (2007) submit, private equity fund managers act as financial intermediaries between investors and entrepreneurial firms. In so doing, Cuny and Talmore (2007) proffer that private equity managers are able to contribute to improving operations, good governance and management skills transfer, thereby leading to improved and sustained business development. Within the context of SRI and social enterprises, Brown (2006) observes that equity finance can be pivotal in alleviating the pressure to service debt funding that often results in the premature failure of even sound social enterprises.

2.6.2 Skills transfer

Cuny and Talmore (2007) identify one of the key factors underpinning the success of the private equity turnaround model as the emphasis the model places on improving operations, by allowing for an enquiry into all turnaround possibilities, including secondment of management into the business to ensure skills transfer or even the replacement of existing management. Moon (2006) suggests that while the engagement process may appear cumbersome, it creates a greater sense of comfort with investors, who gain access to quality information as a consequence. This, in turn, serves to manage the risk-reward expectations of investors.

2.6.3 Relative liquidity

A further factor which contributes to the success of private equity as an investment model, argues Moon (2006), is that as a consequence of the commitment period of typical private equity fund structures, funding can be made available to investee companies in a manner that is less sensitive to general market conditions. This reinforces the notion of *patient money*, which is able to ride out the wave of turbulent market conditions. Accordingly, businesses with sustainable growth potential are able to access this type of funding even in relatively depressed market conditions (Moon, 2006).

2.6.4 Intimate company knowledge

Cumming and Johan (2007) suggest that the investment decisions that inform SRI for private equity are quite similar to those applied in relation to other asset classes. However, Moon (2006) argues that investors into private equity funds, not having access to publicly available information, will further conduct considerable screening processes and due diligence investigations which investigation will tend to include an assessment of the management team as well as contribute to a better screening process of enterprises with turnaround potential This process has the potential to yield benefits both for the private equity funders and the management team (Moon, 2006).

CHAPTER 3: RESEARCH QUESTIONS

The following questions have been formulated specifically as an attempt to assess SRI activity in South Africa, and to explore social private equity as a sub-set of this investment form.

3.1 Research question 1

Does South Africa have a common understanding of the nature of SRI?

With Research Question 1, the researcher set out to establish whether South African role payers in this sector, experienced challenges similar to industry forerunners like the US and UK, in the SRI arena with regard to the definition of SRI. It was furthermore pertinent, as a sub-set of this enquiry, to ascertain the precise nature of the definition of the nature and form of SRI in South Africa.

3.2 Research question 2

Is SRI an attractive proposition for the South African investment market?

In seeking to attract capital from investors, it is accepted that players in the SRI space are required to put forward a compelling proposition that provides a rate of return that corresponds with the risk in the underlying investment. Research Question 2 therefore seeks to enquire whether SRI was perceived by local investors as offering an attractive proposition that adequately balanced the risk-return equation.

3.3 Research question 3

Are there generally accepted measurement tools to measure the performance of SRI in South Africa?

The ability to measure and demonstrate not only the financial performance of an investment but also the achievement of the intended social impact is one of the contentious issues that have been cited as having an impact on the mainstream development of SRI. Various institutions such as the NEF (2008) are mobilising resources towards developing tools to measure social return on investment (SROI) in order to build up the credibility around SRI.

Research Question 3, addressed this particular issue and seeks to inquire about the nature and manner in which performance of SRI is appraised within the local setting.

3.4 Research question 4

Has the private equity model been explored as an SRI model in South Africa?

Having due consideration for some of the socio-economic development challenges facing South Africa, coupled with the recurrent failure of early stage entrepreneurial and social enterprises. Research Question 4 seeks to establish whether it was feasible to adapt a funding model, with a proven success record, such as private equity towards addressing some of the obstacles negatively impacting the sustainable growth of SRI initiatives. These obstacles include amongst others, limited access to skills, patient money and governance frameworks.

CHAPTER 4: RESEARCH METHODOLOGY

4.1 Method and rationale

Henning, van Rensberg and Smit (2004) suggest that where research seeks to explain the qualities of things or events rather than the quantities should use the qualitative research approach. According to Wisker (2001), exploratory research, as this study was, is used to discover, amongst other things, new knowledge or certain behaviour. Hence, this study made use of qualitative research tools and methodologies.

Zikmund (2003) proposes the following three reasons to why a researcher would undertake exploratory research:

(a) diagnosing a situation;

(b) screening alternatives; and

(c) discovering new ideas.

This study, to some extent set out to each of these things, in that the study reviewed the development of socially responsible investment models in developed markets, and examined which of these investment strategies had gained prominence in the South African market. Finally, this study considered how the adoption of a social private equity strategy in the South Africa market would be perceived by the study participants.

4.2 Population definition

The population for this report could be defined as all and investment professionals in the greater Johannesburg region.

4.3 Sampling and size

The researcher made use of non-probability judgment sampling technique. According to Zikmund (2003), this technique is most appropriate where the sample is selected based on the researcher's judgement about the appropriate characteristics required of each sample member. The researcher took cognisance of the fact that the judgement sampling technique is open to a degree of researcher bias.

The population sample was primarily based on convenience, as a consequence of accessibility of the participants identified. Other than the individuals identified below as confirmed, the remainder was anticipated to be secured through referrals from known participants, thus making use of a snowball mechanism.

In a study of this nature, Zikmund (2003), recommends that an appropriate sample size should range between five and twenty participants. The researcher initially set out to interview between 8 and 10 participants who were identified by means of a non-probability judgement sampling technique. An initial sample of 4 personal contacts of the researcher was selected based on convenience and accessibility. It was anticipated that the remaining 4 to 6 participants would be identified from snowball contacts from the initial pool of candidates. 7 participants were identified by way of snowball referrals. The last identified participant was a fortuitous respondent to a cold request for information sharing made by the researcher on a website. This request was made following a referral to this site by a source not identified within the initial list of 4 contacts. The complete list of participants interviewed is captured in Table 2 below.

Table 2 – Study Participants

Name	Designation	Organisation
Tshepo Mahloele	Chief Executive	Pan African Infrastructure Investment Fund
Terry Bantock	Partner	Brait Private Equity
Tshepo Headbush		Brait Private Equity
Kojo Parris	Chief Executive Officer Head Colloquium for Social Entrepreneurship	Social Private Equity South Africa Gordon Institute of Business Science
Jay Naidoo	Non-Executive Chairman	Development Bank of Southern Africa
Greg Voigt	Partner	Adlevo Capital
Busi Mabuza	Partner	Ethos Private Equity
Miana Naudé	Executive Director	Enablis Africa

Name	Designation	Organisation
Polo Radebe	Chief Executive	Identity Development Fund
Admassu Tadesse	Head: Private Sector Unit	Development Bank of Southern Africa
Mawuli Ababio	Managing Director	African Venture Capital Association
Ana Freitas	Project Leader	Dalberg Global Development Advisors

5.2 Characteristics of the study participants

Of the 12 participants in this study, 4 were white, 2 of which were women. The remaining 8 participants were black, 2 of which were women. The ages of the participants ranged from early 30s to early 50s. All the participants were based in Johannesburg, Gauteng. The experience of the participants was extensive and varied as all of the participants have had some experience with both local and international institutional investors and international investment funds. Interactions with all participants were recorded for authenticity and accuracy.

Although an interview guide was used to direct the discussions, study participants were not restricted in the scope and ambit of their responses. This being an exploratory study, it was important for the researcher to draw from as much knowledge and experience that the respondents were willing to share.

The opinions and views expressed by the participants in this study, are not intended to be representative of the organisations for which they currently work. These views are given in the personal capacity of each of the participants, drawing on their experiences both in and beyond the organisations for which they currently work.

4.4 Data collection

Zikmund (2003), explains that experience surveys tend to consist of semi-structured interviews with a small number of people who have been carefully selected on the basis of their experience. The researcher collected data by conducting in-depth semi-structured interviews. An interview guide was prepared in order to provide structure and ensure alignment of the discussion with the research propositions. However, respondents were granted latitude to discuss the questions with few constraints so as to enable the researcher to gain maximum advantage from the depth of their experience and knowledge.

4.5 Unit of measurement

The unit of measurement of this paper will be to assess the opinions of investment professionals on social investment activity in South Africa.

4.6 Data analysis

Initially the researcher will review secondary data, which as Zikmund (2003) explains, involves the investigation of data that have been collected and prepared for a purpose other than the project at hand. This data will provide the background that will inform the questions to be put foward in the discussion guide. Zikmund (2003) suggests that secondary data analysis is essential to the exploratory research process. The obvious limitation of this process is that the information cannot be critically interrogated.

Recorded interviews were transcribed verbatim for purposes of ease and accuracy of analysis. Burnard, Gill, Stewart, Treasure, and Chadwick (2008) propose that recorded material be transcribed verbatim so as to ensure authenticity. These transcripts were then reviewed in the context of the key findings of the literature reviewed in Chapter 2. Key recurrent themes were deduced from the analysis of the discussions. To this end, the researcher also compared and contrasted each of the interviews against each other with a view to verifying the prevalence of emergent themes and view-points.

As recommended by Burnard *et al* (2008), transcripts were inductively analysed using thematic content analysis. In following this data analysis technique the researcher identified specific themes that emerged from the respondent's perceptions. These themes and categories were verified against other data and the transcripts themselves. Where required by the context, verbatim responses of respondents were quoted, whilst ensuring that anonymity of respondents.

4.7 Validity and reliability of results

Three major threats to validity are identified in methodological literature as chance or random error, bias or systematic error and confounding (Zikmund, 2003). The role of chance in this study is not a critical to invalidate the results. Firstly the study design lends itself qualitative, exploratory methodology, characterised by convenient sampling, whose primary purpose is not necessarily to extrapolate or generalize the results to larger population.

Furthermore the study sample was of significant size to summarize the results into meaningful data.

Bias can be introduced in the study through differential data collection analysis and interpretation. To control for this systematic error, in design phase, the researcher specified prior to the conduct of the research, the manner in which the interviews would be conducted, how they would be standardised, by employing a semi-structured approach, with an interview guide.

Data analysis also followed a thematic approach that is easy to replicate, further validating the reliability of the results and the possibility to replicate the findings. Finally, it is assumed that since the study is exploratory in nature, the cause and effect relationship of variables is not primary, therefore confounding, which explores the relationship of variables is of no concern in this study. Based on these three threats to this study, and how they were managed, it is fitting to discuss the study results as there is enough evidence to suggest that the findings are meaningful and useful (valid and reliable).

CHAPTER 5: PRESENTATION AND ANALYSIS OF RESULTS

5.1 Introduction

This chapter will present results of the research interviews held with twelve respondents as identified in Chapter 4. A snapshot of the findings is captured in Appendix 2. The discussion guide used during the interview process is attached as Appendix 3. Although the respondents were encouraged to share their views freely, the discussion guide gives an indication of the interview questions asked in a bid to stimulate the discussion and obtain answers to the research questions. Appendix 2 does not fully capture all the themes and nuances that emerged during the discussions. It is intended that these will be more become more apparent in this Chapter 5.

These results are presented in the same sequence of the research questions set out in Chapter 3 of this report. However, in order to ensure anonymity of the respondent's view points, the order in which the respondents are listed in Appendix 2 is not the order in which they appear in Table 2, nor is the sequential order in which the interviews were conducted.

This chapter will endeavour to locate the views and issues raised with the interview respondents within the literature reviewed in chapter 2. In the presentation of research results, it is suggested that researchers guard against the temptation to present data in its rawest possible state (Holliday; 2008). Holliday (2008) posits that raw data without context or commentary creates a risk that the researcher's argument will not be evident. Consequently, the reader will be left wandering as to the point of the data to which he or she is being referred. For this reason, the findings presented in this Chapter 5 will also be concurrently analysed. The intention therein is to enhance the key insights discovered about SRI activity in South Africa.

5.2. Research question 1

Does South Africa have a common understanding of the nature of SRI?

5.2.1. South African social development challenges

The data collection tool applied did not seek to canvass the socio-economic challenges of South Africa with the participants. However, during initial interaction with the respondents, it became apparent that one could not credibly engage in the discourse around SRI in Africa, without touching on the socio-economic challenges facing the continent. Accordingly, the views of the respondents that emerged in this regard are briefly considered. The essence of these discussions intended to contextualise the relevance of the SRI debate to the business and broader economic context.

Of the 12 respondents, 8 of them felt it was important to contextualise their views with a brief examination of the socio-economic challenges facing South Africa and the rest of the sub-continent. These were aptly summed up by the respondent who said "*South Africa, with its development challenges has not applied itself to this area. It has always bothered my mind why it is, when we have such a sophisticated financial services sector with highly skilled people, therefore highly intelligent people, we have not seen any kind of effort being made to really look at this model and understand what we can achieve out of it as a developing economy.*"

Some strong views were presented on the economic landscape and the relevance of this enquiry into SRI at this time. One respondent opened up the discussion by pointing out that "*with 43% of the population statistically living on less than a dollar a day, there's no way you could have societal or sustainable economic development without there being an enormous backlash and societal disintegration.*" Essentially, some of the respondents suggested that South Africa had demonstrated a degree of short-sightedness in considering the ways in which business was addressing or contributing to the debate around sustainable development.

In view of the above, the point was made repeatedly that businesses needed to be conscious of their social environment, to the extent of realising that key business objectives and successes should be aligned with broader social objectives. These viewed echoed a great deal of the thoughts put forward in Chapter 2 about the stakeholder theory and the role of business.

A small number of respondents felt that the current legislative framework was geared towards supporting a few in the hope that the classic economic logic of the trickle-down effect would take care of the remainder of the population. One respondent expressively added to this debate by suggesting that South Africa's failing has been in "*disregarding the fact that economic miracles throughout the world have been build on social consensus...which implies that you understand that in order for this hand to work well, this hand also has to be functioning okay*". The thinking put forward, therefore, goes on to suggest that to the extent that there can be a shift towards rebalancing the nature of investing such that "*a more sensible platform for the creation of economic development*" can be established, South Africa will struggle to address the socio-economic challenges facing it.

5.2.2 Existence and common definition

The literature reviewed in Chapter 2, revealed that in considering the US and UK markets, the lack of agreement around nomenclature was one of the key impediments to the growth and mainstream recognition of SRI (Dunfee, 2003; Juravle and Lewis, 2008). It was therefore deemed important for the researcher to establish whether those active in this sector in the South African market, experienced similar challenges in this regard.

Upon initially delving into the discussion with respondents, it became apparent that most of them held the view that the South African market lacked a cohesive understanding of the nature and form of SRI. The supposed lack of definition was largely attributed to the fact that a wide range of activities could be classified into the broad definition of SRI. This spectrum of interventions is understood, in varying degrees, to include infrastructure funds right through to micro finance institutions, all of whom have the ability to impact society positively.

Responses from participants were aptly summed by the following comment "*I don't think South Africa has a definition*". Another respondent went on to add that they had "*looked at the landscape and I'm not convinced that there is sufficient information in South Africa that tells us anything about this*".

However, the results further indicated that despite all but one of the respondents operating under the notion that South Africa did not have a cohesive, commonly held understanding of the nature of SRI, their individual definitions and understanding of SRI showed a significant level of cohesion. As one of the respondents aptly summed up, "d*efinitions notwithstanding, people who are in this space tend to know what they are dealing with*". The data demonstrated that this contention was indeed true, as the results presented in the following section will demonstrate.

5.2.3 Personal understanding of SRI

SRI Brown and Thomas (2006:p. 5) rightly assert that "there is an urgent need to try and agree some basic terminology. This is not only critical from a research perspective; it is also in the sector's best interest in order to help it sustain its growth by prompting more consumers to choose ethical banking and investing options." This view is supported by Harding (2004), who on commenting primarily on the UK and US markets, contends that the ambiguity in definition of SRI has the effect of rendering this area of little interest to investors and makes it hard to measure the economic impact that socially responsible initiatives are able to create.

To unpack the extent of this concern in the South African context, it therefore seemed appropriate to establish just what the participants considered as SRI activity, if their initial views were that South Africa did not have its own definition. In mapping the South African SRI landscape, it was important to establish what those involved in this sector personally understood the concept of SRI to mean.

Despite the overall consensus that no cohesive definition of SRI exists in South Africa, 10 out of the 12 respondents presented largely similar characteristics of their personal understanding of what constituted SRI. These respondents established, separately but as a collective, that SRI constituted a high risk private sector, commercially driven, investment class that also seeks to have a tangible social and developmental impact.

To illustrate the points of similarity, some of the comments shared included the following - *"As I understand it, when we talk about socially responsible investment, we are talking private sector investment; we're talking investment in a particular asset class as well. So, we're talking private equity if you wish. In that class there is a sub-set which is SME focussed, which is tilted towards venture capital, early stage investments, investing in businesses that have high growth potential, and that can have a social and developmental impact".* Similarly, another respondent added - *"I see socially responsible investing from a commercial view, being that which involves the type of investment activities, the benefits of which are for social programs and are very good clear and distinct....the risk is high, but the returns are also very good".*

A further comment confirmed the commerciality of the investment strategy - *"For me it's a commercially driven initiative whose objective is not purely commercially driven, but also has aspects of economic development, or social development outcomes".*

To the credit of the South African market, the data seems to indicate that there was a relatively high degree of cohesion in terms of what activities are generally understood to fall within the ambit of SRI appears to be more narrow and focussed than what has been observed in more developed economies. There appeared to be far greater alignment of views than was evidenced in the table of definitions presented by Brown and Thomas (2006) and captured in Table 1 of this report.

In South Africa, the data demonstrated, there appears to be a clear focus on high impact and tangible interventions and far less emphasis placed on activities such as screening and shareholder activism. Consequently, with the appropriate interventions, the challenges of definition and terminology plaguing more developed economies are likely to be more easily overcome in this market.

5.2.4 High social impact

A majority of these respondents also shared the view that if SRI was to have a high social and developmental impact. SRI activity, it was viewed, would be targeted primarily at small medium enterprises (SME), as this was in their view, where the greatest economic activity was taking place, particularly in developing markets such as South Africa and the rest of the sub continent. Some of the views shared by respondents in this regard, included things like, "*my belief is that socially responsible investing is high impact. High impact meaning that you are addressing some of the key developmental needs of society".*

"...you would really be looking at a certain sector of the economy, which is the SME, small growth player, because basically, the bulk of economic activity in most African countries is in that area...mainly SMEs, unstructured businesses, businesses with growth potential but no access to financing, and so you would really be looking at that type of area".

One respondent whose passion for developing interest in this sector was particularly evident, added the following to the discussion - *"We are commercial, make no errors about that, because the only way to get sustainability is by delivering returns, but having done that, we get to do it in such a way that we are able to create sustainable enterprises, which is why we play in the SME space...and so we see the added value in this area."*

Of some interest, were a few of the respondents who debated whether large scale infrastructure projects could rightly be classified as being part of the SRI arena. The enormity of the socio-economic impact such projects had on underdeveloped communities is undeniable. However such projects fly very close to the realm of government investment and are oligopolistic in nature. This view was punctuated with the sobering reality that *"your definition of social investment in more poor communities can be far more stretched than what the definition would be in North America or Europe. In Africa, you'll find that whatever you do on the commercial side invariably has a big social impact, because of the nature of development on the continent."*

5.2.5 Screening

Several commentators on SRI in the UK and US (Dunfee, 2003; Haigh and Hazelton, 2004; Johnsen, 2003 and Schroeder, 2007), in their defining of the SRI phenomenon, spend a great deal of time focusing on investment activity undertaking by pension and mutual funds on the stock market, using various screening techniques. Even studies that measure the growth of SRI activity in the above developed markets, such as those regularly conducted by SIF (2008) and EIRIS (1999), have tended to report on growth in fund activity that focused on listed stocks.

Therefore it was interesting to note that with the focus being on the attainment of high social impact, most of the interview respondents generally did not consider the screening of listed stocks, being the strategy of choice applied to SRI in more developed markets, as falling into the ambit of what they understood to be SRI. This is likely to be a direct function of the low maturity level of economies in Africa and the nature of the social impact intervention that is required to constitute high impact.

A couple of the respondents did touch on the impact that regulatory intervention was having in driving conventional investment models towards a more socially responsible space. These interventions were taking place in areas of environmental and labour regulations, as well as through the broad-based black economic empowerment regulatory framework. One respondent added that *"funders in private equity have so much power over their investment funding, and their influence and impact inevitably drives traditional private equity players in a direction that is closer and closer to social investing. The other stakeholders are the regulatory authorities and so you see criteria coming into the investment mandate that 10/12/15 years ago we would have argued till we punched each other, that they had nothing to do with the commercial merits of business."*

5.2.6 Naming

It was observed with some surprise that some respondents who felt that the very notion (but not the practice) of SRI should be done away with, as it created greater confusion with investors who were not adequately informed on the objectives of SRI. One respondent, who is particularly active in the development of SRI in South Africa, shared strong views on the definition debate. The views expressed implied that, particularly in a South African context, socially directed initiatives were currently perceived as retributive, which perception was further fuelled by the emotions evoked by the term socially responsible investing. One of the arguments put forward was that "*if we say there's an investing that is socially responsible, we're saying there's investment activity which is not socially responsible; and once we do that we immediately set up oppositional paradigms... in fact, taking out the word responsible is helpful…I don't think many investment officers think, wow! Today I'm going to be really irresponsible".* Others felt that "*it should not even be called SRI. It's just good business*".

These views echo observations made by, amongst others, Brown and Thomas (2006), that definitions such *ethical* and *responsible* create a holier than thou undertone. These terms are clearly reflective of the religious origins of this kind of investment strategy, but at the same time, they have the unintended consequence of creating some level of disconnect for those both in and outside of the sector.

One of the suggestions put forward to resolve this challenge is that *"this thing called SRI must be defined in a way that is consistent with the economic interests of investors".* To respond to this call would bring the actors in this sector closer to answering the question raised by the NEF (2006:p. 4) which asks "how do we create maximum opportunity to raise equity capital and free social enterprises from the cycle of reliance on grant and statutory funding?" Taking up such a call to revisit the nomenclature of this kind of investment activity would also be more effective in reflecting the actual commercial mindedness of the nature of the activity driving the local sector.

The persistence, however, of the misperception amongst the respondents, that cohesion of thought and ideas did not exist should be cause for some apprehension. This phenomenon is a consequence of the dearth of locally generated data detailing the extent and nature of SRI activity in South Africa. This misperception is likely to have a negative impact on the development of SRI within South Africa, and more importantly, on the aggregation of the efforts to tackle the social and economic development challenges facing South Africa.

5.3. Research Question 2

Is SRI an attractive proposition for the South African investment market?

Michelson *et al* (2004), rightly contend that investors interested in socially responsible investment assets, are not interested in considering unprofitable investment options or paying a penalty for their ethical choices. Hence, in seeking to attract capital from investors, one must put forward a compelling proposition that provides a rate of return that is commensurate with the risk in the underlying investment. Bakshi (2007) posits that there remains a great deal of scepticism around the profitability of SRI. Several studies (Haigh and Hazelton, 2004; Juravle and Lewis, 2008) show that the performance of SRI investments as measured against conventional investment options have not demonstrated that investors would be any worse off by shifting their portfolio focus to more "ethically" underpinned investments.

Even though, the literature reviewed was mainly in respect of mutual fund investment activity in listed stocks, it was equally important, in assessing the SRI activity in South Africa, to consider the value proposition that such investment strategies would offer to the investor population. Accordingly, the purpose of the enquiry under this Research Question 2, was to establish whether, in the experience of the respondents, the South African investment community viewed SRI initiatives with a similar level of caution and scepticism.

The data was underpinned by the very important understanding presented by respondents that, the investment community could not be viewed as one homogenous group with varying investment criteria. As a result, in seeking to market SRI products, socially responsible fund managers needed to give consideration to the varying mandates under which different funds were managed. One respondent quipped that essentially "*you could package it [SRI] whichever way you wanted and sell it to investors*".

More than half of the respondents were optimistic about the value proposition that SRI offered to investors. These were mainly those respondents who had been active in this sector long enough to have worked certain kinks out of the system and had witnessed the potential of this sector to create great wealth together with the targeted social and developmental outcome. It was evident that a fair number of the respondents had received more positive reactions in this regard, and comments shared by respondents were along the following lines - *"Depending on how you structure it or what your core mandate is, it is an attractive proposition. From a commercial point of view, we have been able to attract some of South Africa's premium investors".* Similarly, *"From a* *commercial rationale point of view, it's definitely an investment case, but you have to appreciate that it requires a lot of heavy lifting in order to get the returns you want".*

"We've seen a very positive response from many of the governments in the regions where we operate – they are attracted to the social benefits of our model. But we've also partnered with some big corporates, such as Microsoft, HP and Accenture on a number of our projects. They get a return but not as high as in the market, but they like the model."

Some of this optimism was tempered with the recognition that the full potential of the SRI landscape remains largely unchartered in developing markets. Some of the following opinions were shared by respondents during the interview sessions to the effect that *"there is an investment case. It's an untapped market. But institutional investors can't get their heads around the other boxes that we have to tick. All they want to know is that we are going for maximum profit".* There was also a degree of concern that current market conditions may reverse some of the gains made in this sector as people's focus shifted back towards value creation and social development issues would inevitably take a back seat.

Three of the twelve respondents expressed cautious scepticism about whether SRI could be perceived as offering value to the average investor. One very pointed comment made was *"If you say is SRI an attractive proposition for investment, it isn't, but it should be, because it will help to underwrite the future economic success."* There were also those respondents who felt that the South

African investment market had not evolved enough to find the SRI proposition worth considering.

These views are largely driven by the existence of insufficient data around the developments in SRI in South Africa as well as the negativity attaching to the terminology – be it socially responsible or ethical investing. These naming challenges were seen as not adequately addressing the financial or economic performance aspirations of investors. An optimistic and seasoned respondent echoed views expressed earlier by another respondent, about creating alignment with the economic interests of investors by noting that the investment proposition *"it's not everybody's everyday cup of tea. So you have to get people interested by showing that it has made money for you before. It just takes a bit longer".*

A clear majority of the respondents, however, shared the belief that SRI should, if appropriately presented, offer a significant value proposition to the investment market. It was noted by respondents that *"as an investment proposition, it [SRI] has potential but one has to demonstrate proof of concept".*

5.4. Research Question 3

Are there generally accepted measurement tools to measure the impact of SRI in South Africa?

Certain institutions such as the New Economics Foundation (2008), SIF (2008) and the Commonwealth Development Corporation (2006) are developing measurement tools that enable investors and organisations to more accurately measure how much and were social value is being created. It is hoped that one or a combination of these will eventually attain the status of being generally accepted measures of social return on investment (SROI).

In seeking to understand the South African SRI landscape, the researcher set out to establish how those active in this area locally were addressing the challenges of measuring and reporting on the social value added by their investment activities.

A small number of the respondents indicated that they were not aware of the existence of a generally accepted measurement tool that had received the endorsement of the investment and accounting community within South Africa. A couple of the respondents indicated that although tools did exist to measure social impact, these were not considered to be very effective. One responded pointed out that *"there are tools. The problem with the tools is that they tend to be relatively blunt, in the sense that the nature of the phenomena itself is not very easy to observe and fully measure".* Echoing similar sentiments, another respondent added that *"clearly issues such as the developmental impact of the investment, is something that has to be looked at. Now there are various ways of doing that, but they haven't been refined, because as I said, it's a fairly new concept in this part of the world.'*

Although it was acknowledged that the costs of developing measurement tools tended to be prohibitive, it appears that in South Africa, a significant amount of time, effort and money is being channelled in this direction. The robustness and credibility of these measurement tools will become evident with time. Dunfee (2003) suggests that one of the key challenges facing those who operate within socially responsible investment sector is establishing a credible mechanism with which to judge a firm's performance. Dunfee (2003) continues to say that in the absence of an independently established general accounting principles for social reports, it has fallen on the social practitioners themselves to develop criteria to evaluate performance.

A handful of respondents mentioned that within their individual organisations, social impact measurement tools had been developed which has been successfully used to report back to investors in a way that created credibility around their business strategies. These results demonstrated that the observations put forward by Dunfee (2003) were proven to hold equally true within the South African context. To take matters a step further, some of measurement tools being developed potentially demonstrated certain nuanced advances on those measurement tools being applied and tested in the west. By way of illustration, respondents shared some of the following insights - *"We developed an index which we called WIRED and our thing is about Wellness, Integration, Reduction of poverty, Environmental stewardship, and Development of skills, which we said was health and safety and labour practice, everything around work conditions. We said that where you've got a practice that doesn't exist in a territory, let's use international best practice."*

"We've invested time and money to develop an index that measures social impact...it includes measures of job growth, attention to special group needs, training, attention to HIV as well as what the companies are doing in the community".

Discussions with the respondents seem to indicate that a fair number of these have relied on international best practise but have been taken that necessary step further to make them appropriate for the local conditions. The effectiveness of these tools can only be tested within a given context, which is itself limited to the universe of investments a particular investment house is mandated to transact in. So where an investment mandate is narrowly defined, as most tend to be, such in-house measurement tools cannot be tested on investments falling outside such mandate, unless the investment house has matured to the stage where more than one fund is being managed at any one time.

A further impediment to the measurement challenge was raised by approximately half of the respondents. This is a challenge that one of the respondents termed the "attribution problem". This respondent proffered that *"...if you are looking to measuring inputs, process, outputs, impacts and long-term outcomes...you can measure inputs quite easily; you can measure the process to quite an extent and you can measure outputs within a relatively short space of time. When it starts moving to impacts and outcomes, things get a little more difficult. Timeframes get a little bit longer. Phenomena become a lot more difficult to trace to a specific output. The attribution problem – it's very difficult to attribute the outcome or your impact to a particular input."*

This attribution problem and the development of a meaningful measurement tool is further exacerbated by the distinct lack of readily available data –*"the lack of data, the lack of structure within that sector that you're investing in makes it difficult to get the respondents to give you the data that would make it a meaningful analytical exercise".*

A hope expressed by the respondents, was that many of the above cited challenges will be able to be worked out of the system as the sector matures and gains credibility. However, those in the sector need to be vigilant about addressing the other challenges highlighted in this report which are critical to building the much needed momentum to spur on growth of the sector and underpin its credibility in the investment community.

A refreshing finding presented by the outcome of the data was the number of respondents who emphasised the importance of *high impact* as being pivotal in the measure of SROI and soft dividends. These views echoed those put forward by Dunn (2006) whose new efficient frontier framework was looking for ways include the benefits that an investor can receive from investing in the social good as part of the risk and benefits calculation. It was this aspect that underpinned the commonly held view that screening techniques were ill effective in achieving this desired outcome. The concept of high impact seems to embrace all aspects of the ESG measure used in the UK and USA and develops these further. Perhaps, because South Africa has been behind the international SRI development curve, it has been able to more easily adopt international standards at their most evolved stage. If one takes into account the in-house developed measurement tool cited by one respondent, which he called WIRED, it embraces far more than the environmental, social and governance measures commonly used internationally. This measure also takes into specific account measurement targets around poverty reduction, skills development and skills transfer as well as workplace health and safety, labour practice, and general employee wellness. Other measurement tools cited by another respondent took into account programmes focused on special groups – be they women, people living with disabilities or under-represented groupings, as well as initiatives such as HIV programmes.

Three of the respondents felt that social impact could not be measured in empirical terms and, one respondent opined that *"measurement is nothing more than a storyline which helps you understand the high social impact. You build a road where there was no road before. Commerce occurs on that road. People have improved access to employment opportunities. It's the storyline".* Another echoed this sentiment by adding that "*you'd have to put together a set of criteria that would be meaningful to the response that you're looking for*". This would lend support to the view that the measurement of performance beyond the financial ambit can only be related to the outcomes one set out to achieve at the onset, and then relate these to the value added beyond that initial target.

5.5. Research Question 4

Has the private equity model been explored as an SRI model in South Africa?

With regard to the relevance of the private equity model as a possible tool to aid the growth of SRI, Cressy *et al* (2007) suggest that in recent time, the private equity industry has been lauded as one of the more efficient forms of organisation to facilitate the generation of high economic efficiencies through the use of a superior governance framework. Cressy *et al* (2007), also commend private equity firms for having the ability to add value to their portfolio companies by providing support through advice and contacts rather than just managing the cost structure of the these companies. In support of SRI growth and sustainability, Brown (2006) endorses the development of equity funding structures that will enable ethical investors to invest in social enterprises. According to Brown (2006), equity finance releases social enterprises from the obligations of debt which, in early stage enterprises, can only be repaid by further borrowings. Research conducted by the NEF (2006) estimated that the growth of social enterprises in the UK was such that large numbers were maturing their businesses in such a way as to enable them to attract equity financing from the markets.

Taking into account the socio-economic development challenges facing South Africa, coupled with the recurrent failure of early stage entrepreneurial and social enterprises due to a lack of access to long term finance with a higher risk tolerance, Research Question 4 seeks to establish whether there was a way of adapting a investment model with a proven success record, as PE is, towards addressing some of the key challenges that impact upon the sustainability of SRI initiatives. These challenges, include amongst others, limited access to skills, patient money and governance frameworks.

In seeking to answer Research Question 4 and to establish whether any correlation with the literature could be observed, the initial enquiry with respondents set out to ascertain what, in their minds, they considered to be the key drivers underpinning the success of the private equity model. Responses revealed a fair degree of alignment with views expressed in the literature reviewed.

Respondents shared some of the following commentary - "*The private equity model...engages the entrepreneur, giving advice, looking for opportunities and enhancing the business. It's like fattening that cow so they can sell it...but the turnaround time is longer with a social entrepreneur.*"

Another respondent added that "The success of the private equity model is that it's not just a question of providing money to a project. It's actually about bringing expertise to bear real value in whatever business it is...your role is to come in and provide the necessary assistance, be it in term of financial structuring, in terms of marketing, in terms of governance, in terms of strategy going forward and bringing all of those concepts to bear, to create value."

In considering whether the generally accepted attributes of private equity could be adapted and applied towards socially focussed initiatives, one respondent set the scene by reinforcing what has been a recurring challenge in the overall investigation of this space – *"I think there is not much thinking in the South African Social responsibility area about social private equity. There is no model that we're thinking about yet. It's very new."*

Against this reality, the overall response from the study participants demonstrated surprisingly keen levels of support for such a concept with some respondents already testing the social private equity model out. One respondent asserted, *"I would argue that the private equity fund model is the best way to fund SRI. The private equity vehicle is an appropriate structure because it matches investment horizon, one in terms of capital, and two in terms of managing expectations of the investor."* Others expressed views similar to those uttered by the respondent who offered that *"I think private equity as a driver of socially responsible investing could be very successful because of its simplicity, and the sort of relentless focus on a few measureable outcomes, the clarity of progress and focus on action."*

One of the respondents whose organisation was already applying a social private equity model explained "*We say we are a for-profit driven development fund, but we are using technology to drive the enablers... because the only way to get sustainability is by delivering returns... and so we see in the added value in this area that's not going to be quantified in any financial return, but what it does, it ensures that what you have at the end of the day is a sustainable, continuing business. We are a private equity fund with that in mind.*" Another respondent concurred, and further commented that the social private equity was her organisation's investment model of choice - *"When investors ask, I always say think of a private equity fund, that's exactly what we are, but our mandate is different. Our approach will probably be the same, we are still going to be stringent...but the outcomes we are seeking are much more than private equity."*

An ardent supporter of the social private equity, who had some well developed and widely informed ideas on the subject, shared some of his enthusiasm on the potential and relevance of social private equity, saying "*...social private equity is a new asset class that came in with people that have made money, like Gates...it's part of a spectrum you see, where we begin to say, it's because people have made money and have been very successful in private equity, and so can we apply the same common set of principles to acquire a deeper social dividend and make sure that this is sustainable in the long term. Because it's quite clear, as poverty increases in the world, and poverty is increasing...if we just say okay, economic growth will lift people out of poverty – it's not sufficient*".

5.6 Challenges with SPE

Advocating support for social private equity model, it was noted, did not come without certain obstacles. Any new investment model must demonstrate “proof of concept” as was mentioned earlier by one of the respondents.

5.6.1 Establishing trust

Approximately half of the respondents noted that for an equity model to be successful it is necessary to establish an element of trust, not only with respect to the investors, but with the targeted entrepreneurs as well - *“there’s an element of trust that needs to be met in as far as bringing the entrepreneurs on board with an equity model”.* This issue was raised as a challenge particularly because those who advocate the model see its application in the SME sector and small entrepreneurs became that because they wanted control and self determination. As an equity funding structure, the social private equity model requires entrepreneurs to relinquish some control.

“Specifically in South Africa, private equity has been very successful, because South Africa has moved from a monopolistic type economic structure to...one where the value creation is focussed on simple financial outcomes, and aligning those to those who are responsible for overseeing the creation of that value, which is the manager. And that’s why from a personal perspective, the economy is a compelling underpin to delivering social value, because if instead of financial value creation, you are seeking to optimise social value creation using exactly the same basis.”

5.6.2 Patient money

A majority of the respondents made repeated reference to the term or concept of *patient money.* Respondents expanded on the issue saying the challenge is "*to find money which can behave in a private equity in terms of the activities it undertakes, but take a longer term return back period...then you could make those changes...the problems is that we don't have money taking a long enough view on Africa.*"

The use of the private equity model as a framework for approaching challenges and opportunities in the SRI arena seems to be well considered within the South African market and implementation of this investment strategy appears to be gaining momentum.

5.7 Additional findings

5.7.1 The role of BBEE

Bakshi (2007) observes that markets have a distinct leaning towards rewarding better social and environmental outcome only if there are significant profits to be made in the process. This view point has translated itself into the South African context in the way in which the respondents saw the role of BEE in the development of SRI. More than half of the respondents made some mention of developments, opportunities and challenges around the BEE legislative framework.

In support of the observation made by Bakshi (2007), one of the respondents has the following to share on the role of BEE - "*provided they can score the*

BEE points, why on earth would they want to see this as a structured and attractive investment line".

Other respondents were ambivalent about the impact of BEE in driving growth in the sector. These respondents felt that as currently implemented, BEE was not resulting in any demonstrable social impact. However, not everyone perceived BEE in a negative light. So where one respondent saw BEE as reinforcing negative behaviour patterns or creating unintended consequence, others saw this regulatory framework as an opportunity to structure innovative investment products that would both achieve the underlying social benefit that was being targeted whilst offering potential investors to earn those BEE points. These respondents felt that the regulatory framework around BEE presented an opportunity to improve the way in which high social impact was being delivered and that SRI and social private equity in particular, were the ideal vehicles to take that process forward. Some of the following views were shared – *"instead of relying only on the form of BEE that is seen in the media all the time, you could give a company a particular set of credits for that, working on the supply chain. We already have provision for that in the Codes, to do a little bit more.."*

Another respondent shared that their organisation is "*looking into the viability of developing a new asset class that enables corporate and institutional investors to gain BEE credits, whilst enabling us to fund social development initiatives. The product will be designed to give these investors some form of return...the model is still being refined..."*

Others saw the regulatory landscape as a key driver of shift in the mindset of conventional investment wisdom. In this regard, the following views were shared - "*There is this belief that how those [BEE] codes are structured could reform how we look at sustainability and sustainable impact...so if the world is moving in that way in terms of measuring how business performs, as an investor you can't not be on top of that, you want to make sure that the business you're involved in has at least considered those factors*".

5.7.2 The capacity challenge

Certain respondents presented an interesting perspective to the debates surrounding the issue of an investment value proposition. They identified the challenge of access to funding as more being, more accurately, challenges around the lack of appropriately skilled capacity. One of the respondents in expressing his concern on the extent of the challenge, asserted "*... my contention to you is that already, even within the mainstream investment model, there is this gap, let alone getting into this new sub-set, which is yet unchartered.*"

Although, certain commentators such as Dunfee (2003) consider issues around the need for the auditing profession to develop novel skills in order for the industry to develop social auditing standards, the capacity challenge as experienced by the respondents was not an issue that was very prominent in the literature. The reason for this could perhaps be in part due to the maturity of the economies and availability of skills within developed markets. Consequently, the researcher found this to be a pivotal issue to this debate, such that it was deemed appropriate to share more fully some of the views expressed by respondents around this phenomenon.

One respondent presented the challenge as follows - "*It boils down to this...that it's not so much the funders who will determine whether we're going to do this, because you need intermediaries who will then go and say these are the kinds of deals that we want to do, these are the kind of deals that can respond to the criteria, and therefore we want to raise money from you for that purpose...You need the intermediaries who are fund managers, or the managers of the money who will then identify the deals and do them for you.*"

Further comments made in this regard were that *"it's not that the funds are not there. It's the capacity that has the expertise to direct the funds in a particular fashion. Capacity that can speak the language the funders understand, and create the results that meet the expectations of both parties, including the mangers of the business who seek to create a sustainable enterprise."*

Another respondent described the phenomenon in terms of a matching disconnection. That is to say, certain skills existed on either side of the chasm of social responsible investment. This meant that there were those that were skilled in managing socially relevant projects or enterprises but had no access to appropriate funding. On the other side, one found those that had the funds but were unable to identify and access those socially relevant projects that offered the potential for a good investment return and sustainable growth and development. The respondent elaborated on his views to say that "*like all things, it's a mix of institutions and people. Sometimes institutions are not there and you have the people. The people don't have the structure and the framework to enable them to do things systematically and efficiently. And then you have the other side where you have the framework and the institutions but* *the people are wrong and it doesn't work. For different reasons you get the same effect."* These respondents therefore identified the challenge of finding the points of connection between investment professionals who are focussed on creating sustainable commercial enterprises with investment professionals who are able to do the same thing with a socio-economic development focus.

Interestingly, in this regard, it emerged from another respondent, whose organisation in dealing with this capacity challenge, identified their strengths as being the structuring of investment products as well as providing governance and other key managerial skills, set out to identify those entities that were equally skilled in the implementation and management of social development initiatives and enterprises. By so doing, they were able to establish strategic alliances for the duration of the investment fund they were managing. Consequently, this respondent's organisation found this arrangement facilitated their conversations with institutional and corporate investors, as they were able to demonstrate access skills on the ground, as well as the financial and governance capabilities necessary to achieve the returns in the investment mandate.

The above strategy is an effective interim measure to address this challenge. In the long term, it would be in the best interests of the industry to seek out opportunities for collaboration with academic institutions, investment professional bodies, civic society, as well as social and small-medium entrepreneurs.

Therefore, critical within this debate, and perhaps something with is a direct function of where South Africa finds itself as a developing economy, is this issue around capacity building. There are limited skills that have the ability to interact credibly with the financial investment market and have the patience and skills to align with managers of social enterprises so as to extract value out of a social enterprise. This challenge is on that all players in this sector should contribute to addressing, to ensure improved credibility of the sector.

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS

The research is intended to advance the exploration and debate around the use of market based tools, such as equity finance in this instance, as an investment vehicle to partially drive sustainable social and economic development in South Africa. To this end, the recommendations set out in this chapter are aimed at policy makers, social entrepreneurs, development finance institutions as well as emergent investment managers, all of whom are looking for innovative and novel ways to make money whilst doing good.

6.1. Conclusions on research questions

6.1.1 Unwittingly, South Africa has a more cohesive understanding of SRI than its European counterparts

Notwithstanding that many of the study participants began by saying they did not believe South Africa had a common understanding of the SRI concept and that they believed it meant different things to different people, for the most part, each of the respondents appeared to have a fairly succinct and well considered view of what they understood to be SRI within the South African economy. The views expressed by each of the respondents showed many points of similarity. To the study participants SRI is an investment strategy characterised by seeking a commercial return, which is not necessarily market related. The strategy must set out to achieve demonstrable and high social impact. The element of risk is more heightened, and generally out of balance with the financial reward received. The balance in the risk-return equation is restored by betterment of the community and contribution towards sustainability.

Without a doubt, there exists a wide range of activities that could quite rightly fall the net of what is classified as SRI, however, with so many points of similarity in the thinking, an opportunity to take the initiatives of the sector forward at a higher velocity, is lost. The negative connotations associated with the terms *social*, *responsible*, and *ethical* should be overcome with a fair amount of inter-industry engagement. The need for improved research and inter-sector information sharing is to reverse the views articulated by the respondent who said, *"nothing so far tells us that anybody really knows what is happening there. What we know is what we've seen other people doing elsewhere in the world, but not in South Africa."*

6.1.2 Selling the value proposition of SRI to investors not operating in this space remains a challenge

It appears therefore from analysing the above responses that, as with the US and UK markets, some degree of scepticism from investors is still being experienced by those playing an active role in trying to take SRI into the mainstream. Much of this negativity is driven by a lack of understanding around the commercial nature of the SRI investment model being engaged in by the majority of the study participants. The respondents displayed a significant amount of optimism that this situation can be addressed as more information about SRI activities, value and social impact are made available. The onus on getting this information to the market however, lies squarely in the hands of those most impacted by the prevailing scepticism. Once again, the industry can begin to make inroad toward addressing such issues by improved inter-sector engagement with a view to better marketing the successes achieved – both financially and socially.

The lack of adequately skilled people who had a combination of strong investment and finance background, as well as an appreciation for the value-extraction strategies required in the SME and social development arena, is a challenge that the entire industry should address. Strategies around overcoming this could include the model that identifies reputable and well respected social project implementers so as to establish strategic alliances with such agencies. Concurrently, skills need to developed through the formal structures of industry bodies and academic institutions. Collaborative efforts that lead to a shaping of particular curricular could also yield great benefits. This would require a fair degree of engagement with policy making bodies and institutions.

6.1.3 No generally accepted impact and performance measurement tools exist, but a great deal of effort is being made to address that

The findings of the data in relation to the question on the availability of measurement tools for social impact, was patently reflective of the embryonic state of development that SRI is at in South Africa. This was evidenced by the large number of respondents who reported that they were developing their own tools. On the one hand, given the broad spectrum and dynamic nature of the interventions that could appropriately be applied in this industry which could yield both a commercial and social return, raises the question of whether it is even possible to develop one such generally accepted measurement tool. On the other hand, any attempt to develop such a tool is likely to greatly improve the perception of SRI, in its many guises, as offering an opportunity for both financial gain and social impact.

On the positive side of this debate is that the individual efforts of the respondents appear, on the face of it, to be in line with international best practice with specific modifications specific for the unique conditions and challenges prevailing in South Africa. This kind of innovative effort bodes well for the industry going forward, whilst also presenting opportunities for collaboration, either with related industry bodies, academic institutions, project implementation agencies or other parties who are active in this area.

6.1.4 The potential for a social private equity model is immense and is as yet untapped

Taking into account the infancy of this sector and the social private equity model within it, it was a positive sign that a number of the respondents were in fact operating their business using variations of the social private equity model.

By drawing on the successes of traditional private equity methodologies and principles and directing them towards social enterprises or entrepreneurial ventures that had social spin-offs.

That being said, respondents on the whole, appeared positive to the idea, with one going so far as to say that it was the only model that could ensure sustainability of small enterprises and socially directed initiatives in this space. The views of the respondents on this issue could most aptly be summed up by the respondent who said *"the traditional private equity model, the applications...is certainly the way to go."*

6.2 Recommendations

All of the conclusions set out above speak to an urgent need for improved and increased industry engagement on ways to develop the sector as well as ways to market and increase the profile of the efforts and successes already achieved. In light of that, the following recommendations are put forward:

6.2.1. Documentation of sector activities

Beyond the opportunities for further research which will be discussed further on in this chapter, this research has highlighted a need for increased documentation of sector activities. Such documentation can serve to develop a form of sector analysis that can track international trends and compare and contrast these to activities taking place in the local markets.

The value of such research will begin to make inroads towards demystifying SRI, drawing attention to the commercial nature and value creation efforts of SRI activities, thereby creating much needed credibility with the investment community. Furthermore, such research will go a long way towards influencing and directing policy makers in the creation of an enabling environment to facilitate the growth of activity in this sector. Given the social, economic and development challenges facing South Africa, it is in the direct interest of the government to encourage the growth of private sector initiatives to sustainable development, job creation and poverty alleviation. However, government needs to be better informed that this sector can bring to bear on that objective.

6.2.2. Development of common platform for dialogue and information sharing

There is clearly a need and an opportunity to increase the level of dialogue that is taking place within the SRI space. Without compromising proprietary business strategies, there is a need to document and generate a level of credible research and commentary on developments within this area of investment activity. This will serve primarily to create a better understanding amongst institutional and private investors of the exact nature of SRI activity in South Africa. Such initiatives may also serve to increase competition amongst industry players which in turn should increase the competitiveness of the sector as a whole.

6.2.3 Capacity building initiatives

A further benefit of initiating discussion and information sharing will lead towards more focussed efforts to build the much needed capacity to both give comfort to the investment community and drive portfolio initiatives in such a manner so as to yield the best possible returns for all stakeholders, thereby creating the necessary sustainability. As was pointed out repeated by the respondents, South Africa well developed and sophisticated financial services industry and systems, present an opportunity to drive sector development both locally and on the rest of the continent, thought collaborative efforts with and amongst industry bodies, industry leaders and academic institutions.

6.3. Opportunities for future research

In the process of examining the existence of performance measurement tools within the sector, it was noted that a number of investment houses were developing their own in-house measurement tools. It was not in the scope of this report to conduct an in-depth examination into these tools. This presents an opportunity to conduct further studies into the exact nature of these measurement tools, comparing and contrasting them for points of similarity and diversion. Testing the *new efficient frontier* framework suggested by Dunn (2006) may be another angle with which potential research can be approached.

Such exercises could be more effectively executed by an academic institution as adequate controls could be put in place to preserve the integrity of proprietary information, and yet be meaningful enough to deliver tangible value to the development of this sector.

Again, on the aspect of measurement of social value added, this research presents an opportunity to interrogate some of the challenges contributing to, what one of the respondents referred to as the attribution challenge in terms of establishing tracing particular inputs to their perceived outcomes, when one is observing phenomena in a dynamic space.

A final recommendation for future research might to broaden the scope and depth of this research. The study respondents were all based in Johannesburg, which is located in the most prosperous province in South Africa. Accordingly, the experiences that informed the views expressed and documented in this study cannot be generalised to the experiences of the country as a whole. Consequently, an opportunity presents itself for one to map the landscape and nature of SRI activity in areas of the country where the social need is far more pronounced. It may be that greater and more varied models emerge from those jurisdictions. With the limited availability of national data on such activity, any further mapping of the SRI landscape would be of great benefit to both industry players and policy makers alike.

6.4. Conclusion

Socially responsible investing, although in the early development stages in South Africa relative to international trends, is vibrant and growing. Many of the challenges being experienced by those active in the local SRI arena are similar to those that have been identified in more mature markets like the US and UK. Despite being a developing economy, the data shows that South Africa is not very far behind the US and UK on the innovation and development curve. In fact, the full extent of the South African SRI industry cannot be credibly assessed due to the lack of information about activities, interventions and social impact outcomes from industry investment activities. As a consequence of the socio-economic development challenges facing South Africa, a more engaging, long-term intervention such as a social private equity model, is an ideally suited vehicle to drive the kinds of initiatives needed to capture more people from the sidelines and into the net of the formal economy and thereby bring about more effective sustainable development.

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APPENDIX 1: GLOSSARY OF ABBREVIATIONS

BEE	Black Economic Empowerment
EIRIS	Ethical Investment Research
PE	Private Equity
SIF	Social Investment Forum
SIFF	Social Investment Forum Foundation
SPE	Social Private Equity
SRI	Socially responsible investing/investment
UK	United Kingdom
US	United States
ESG	Environmental Social and Governance

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APPENDIX 2: INTERVIEW RESULTS

Respondent	Question 1 score	Does SA have a cohesive	what then is your definition of SRI	Question 2 score	Is SRI a valuable proposition for investors in	Question 3 score	are there generally accepted measurement tools to measure SRI	Question 4 score	has the PE model been explored as an SRI model
A	3	"different people will describe the phenomena differently" "people in this space generally know what they are dealing with"	at the most basic level, its about someone who, given a choice between two investments that produce the same return, they would	3	other than the DFI space, its still a young phenomenon and very small in scale. Other than those who have an appetite for angel investing, its hard	4	there are tools but the tools tend to be very blunt. Attribution problem	2	PE in SA is very profit minded, but if we could have the kind of private equity that begins to deal with economic marginalisation
B	1	"there isn't enough body of thought around it". " it has always bothered my mind why it s, when we hav such a sphisticatedd financial		2	there is an investment case. Its an untapped market. But institutional investors can't get their heads around the other boxes that we have to tick. All they want to	1	I have only seen what the IFC and SIF are doing.	1	when investors ask, I say, think of a PE fund, that's what we are, but our mandate is different
C	2	"the defintion can be varied; it can be misleading"	I see SRI from a commercial view, being that which involves the type of investment activity the benefits of which are social programs and are very good, clear and distinct.	1	we have been able to attract premium investors. They understand that it's a longer payback period	2	we agree deliverables upfront with our investors which we need to report on preriodically. I don't know of any measurement tools out there. Our financial performance is audited in the usual fashion		
D	1	the definition exercise is open to abuse and it become patronising when you see the kinds of things that people	it should not even be called SRI - its just good business. ...otherwise its not sustainable. It can't be separated from	2		2	we've put together something that I'm very proud of called WIRED - that looks at all the ESG factors and then takes it a little further	1	we're a for profit development fund. But we also look for opportunties not quantifiable in any financial return - but
E	2	the definitional landscape is evolving				2	we've put in a lot of time an money to develop a measurement tool		
F	2	I think everyone has a different understanding	for our organisation, SRI means wealth creation that has as it's spin off, poverty alleviation	2	we have been able to partner with very big coroporates - Microsoft, HP, Accenture as well governments in various	2	we measure the growth and sustainability of our entrepreneurs - including number of jobs created		
G	2	we could play with words all we like.	we're talking private sector, high risk investment, we're talking private equity if you would. You're investing in business with high growth potential but that will	2	its not just the providers of funds that you need to convince, you also need to convince the people whose business you are going to back that your initiative is not aimed at taking their busines away and that it	4	there are varidus ways of doing that but they need to be refined	4	yes we can certainly bring the lessons learned from private equity to bear on that sector. The only thing is, obviously you are dealing with a higher risk segment of the investment cycle going.
H	3	I'm not 100% sure how I can answer you		4	I'm not sure people fully understand that you can make money from it	5	not that I'm aware of	4	the traditional PE model is certainly the way to go
I	1	"socially responsible investing is probably the broadest thing I've ever heard of"...you could package it whichever way you wanted and sell it to investors	for me its about high impact.meaning you are addressing some of the key developmental needs of society. Its about taking risk, but seeking to have a high social impact. Choosing	2	you can package it whichever way you want and sell it to investors	3	measurement is a storyline which helps you understand the high social impact. You build a road where there was none before. Businesses develop. People have access to health, education and employment. It's a story!	1	I would argue that the private equity fund model is the best way to fund SRI.
J	1	if we say there's an investing that is socially responsible, we're saying there's an investment which is not socially responsible and once we do that we immediately set up	in fact you should do away with the word responsible altogether...most investment professionals don't wake up and say Wow I'm going to be really	2	it is not realy that interesting for investors unless they can score BEE points	5	we're working on developing just such a tool with the accounting profession		
K	2			2	its about blending strategies and financial instruments to create social			1	there is not much thinking in the SA social responsibility area about
L	2			2	as an investment proposition, it has potential but one has to show proof of concept	2	we conducted an extensive exercise to identify credible project implementers. They will not only help to ensure delivery but will	4	it makes sense to use such a model. But the model that we are looking at is a type of corporate bond

1 **strongly disagree**
2 **disagree**
3 **neutral**
4 **agree**
5 **strongly agree**

APPENDIX 3: DISCUSSION GUIDE

SOCIALLY RESPONSIBLE INVESTING: A SEARCH FOR SOCIAL PRIVATE EQUITY IN SOUTH AFRICA

1. **Introduction and procedural briefing**
2. **Discussion**

Research Question 1: Does South Africa have a cohesive definition of SRI?

- Is there commonly held definition for SRI in South Africa?
- What kind of investment strategies would you classify socially responsible investing?

Research Question 2: Is SRI an attractive proposition for South African investors

- Have investors found the SRI proposition to be one that holds investment value?
- In what form and why?

Research Question 3: are there any generally accepted measurement tools

- How is the performance of SRI investments measured and reported on?
- Have there been any comparisons done with the performance of conventional investments?

Research Question 4: has the potential of PE as an SRI delivery vehicle not been fully explored in South Africa

- What factors underpin the success of the PE model in South Africa?
- Is the PE model one that can be adapted for the SRI space? Why

Any other thoughts on SRI or SPE?