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Exploring key barriers and opportunities in impact investing in an emerging market setting

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Purpose: Impact investing is one of the fastest-growing responsible investment strategies globally. Although more than two-thirds of global impact investments occur in emerging markets, limited research has been undertaken on the topic in an emerging market context. The authors investigated the main barriers and opportunities that impact investors face in the largest impact investment market in sub-Saharan Africa, namely, South Africa.

Methodology: Semi-structured face-to-face and telephonic interviews were conducted with 13 South African asset managers and service providers in the local impact investment market. Directed content analysis was used to identify recurrent and contrasting themes.

Results: According to the expert participants, the most important barriers centre on the shortage of investment-ready deals and the lack of detailed and clearly formulated social and environmental impact objectives. The interviewees were of the opinion that growth in the local impact investment market was primarily driven by the prospect of earning a financial return whilst generating positive social and environmental impact.

Practical implications: Once a clear understanding of the barriers and opportunities is established, it is more likely that effective, context-specific solutions can be developed. The South African impact investment market's growth prospects could remain stunted until lifecycle support is improved for small- and medium-sized social enterprises to generate more investment-ready deals.

Value: The barriers and opportunities highlighted in this paper are not all-encompassing but provide a useful framework for local impact investors and other role players in the market to navigate the complex emerging market business environment. This study, therefore, provides a valuable contribution to the limited body of knowledge of impact investing in South Africa and similar emerging markets.

Keywords: impact investing; impact measurement; investment-ready deals; responsible investing; emerging markets.

Introduction

Responsible investing (RI) is no longer a fringe investment strategy (Majoch, Hoepner & Hebb, 2017; Revelli, 2017). Investors who adopt this approach, incorporate environmental, social and governance (ESG) factors into their investment decisions to manage risk more effectively and to generate sustainable, long-term returns (Principles for Responsible Investment, 2018). The main strategies available to responsible investors include negative (exclusionary) screening, norms-based screening, best-in-class investment selection, sustainability-themed investment, ESG integration, shareholder engagement and impact investing (EuroSIF, 2016).

This study centred on impact investing, as it is one of the fastest-growing RI strategies globally (Clark, Emerson, & Thornley, 2012; Mudaliar, Pineiro, & Bass, 2016) and as it is under-researched, especially in emerging markets where approximately two-thirds of impact investment transactions occur (Burand, 2014).

Several role players are active in the impact investment market. According to Jackson (2013a), these can be divided into four main categories. These categories are asset owners (angel investors, venture capitalists, family offices, and retail and institutional investors who own the capital and demand financial returns alongside social and environmental impact), asset managers (those who invest the capital on behalf of asset owners), demand-side actors (those who receive and use the capital) and service providers. Various role players can be categorised as asset managers, notably fund managers, banks, venture capital funds, sovereign wealth funds and development finance institutions. Asset managers can use a range of financial mechanisms to disburse impact capital, including debt, equity, social milestones (outcomes-based contracts, impact tranching and outcomes-linked loans), convertibles, flexible repayment instruments, guarantees and grants. Demand-side actors could range from large, established businesses to small- and medium-sized social enterprises. This category also includes cooperatives and microfinance institutions. Service providers include intermediaries, standard-setting bodies, consultants, non-governmental organisations, higher education institutions and other capacity development providers.

The term ‘impact investing’ was only formalised in 2007 but has been referred to by previous scholars as ‘cause-based investing’, ‘targeted investing’ and ‘community investing’ (Hebb, 2013; Höchstädter & Scheck, 2015). The definition of impact investing has been at the centre of much academic and practitioner discourse (Drexler, Noble, Classon, & Mercep, 2014; Freireich & Fulton, 2009; Harji & Jackson, 2012; Jackson, 2013a; Milligan & Schöning, 2011; Sales, 2015). A few key elements to the definition have emerged. These elements include intentionality and measurability of the investment that is attributable to the intervention.

An impact investment should, furthermore, have a positive correlation between the intended social and environmental impact and the financial return of the investment. Lastly, an impact investment should lead to a net positive effect on society and the natural environment in addition to what would have occurred without the intervention (Arosio, 2011; Barby & Pedersen, 2014; Drexler et al., 2014; Sales, 2015; Saltuk, 2015). Drawing on these elements underlying a mutual understanding of impact investing, the term was defined in this study as an RI strategy where investors actively and intentionally seek to generate measurable, positive social and environmental impact and a market-related, risk-adjusted financial return.

In 2009, Freireich and Fulton (2009) estimated that the global impact investment market would touch US$500 billion before 2019. Other market analysts likewise predicted that the market could grow to between US$400b and US$1 trillion by 2020. Although there is no consensus on the exact size of the impact investment market globally, most parties agree that it still has great growth potential (Clark et al., 2012; Mudaliar, Moynihans, Bass, Roberts, & DeMarsh, 2016). This growth potential is evident in the increasing number of mainstream investors, such as JP Morgan, Deutsche Bank and Goldman Sachs, entering the market (Höchstädter & Scheck, 2015).

The majority of impact investment transactions occur in emerging markets and mostly take the form of debt financing (Burand, 2014). A recent estimate in the Global Impact Investment Network’s 2016 report on the ‘Impact investing landscape in Southern Africa’ shows that ‘disbursed impact capital’ amounts to US$29.1bn. The majority of this capital (approximately US$24.2bn) was supplied by development finance institutions through equity, guarantees and debt such as social impact bonds (Jackson, 2013b).

The ‘ripples’ created by impact investing in the United States along with the opportunities it created for investors who are increasingly receptive to the principles underlying RI (Combs, 2014) have been described by Bugg-Levine and Emerson (2011). Mendell and Barbosa (2013) also provided a valuable synthesis on the barriers that hindered the full development of this market in the United States. Limited academic research has, however, been conducted in an emerging market context. Exceptions include a desktop study by Diouf (2015), who investigated the barriers to impact investing in sustainable energy in West Africa; Ngoasong, Paton and Korda (2015) whose scoping study centred on Sierra Leone, Cameroon and Kenya; as well as Mogapi, Sutherland and Wilson-Prangley (2019), McCallum, Viviers and Robina Ramírez (2019) and Urban and George (2018) who investigated the phenomenon in South Africa.

In light of the limited empirical research in an emerging market context, the authors gauged the views of a sample of seasoned impact investors and other role players in South Africa to identify the barriers and opportunities that investors face in this market. South Africa presents a unique research setting for a number of reasons. Not only does the country have the largest impact investment market in sub-Saharan Africa (Mudaliar et al., 2016a; Sales, 2015), but impact investing has long been recognised as an important RI strategy (Viviers, 2014). The country’s attractiveness most likely results from its advanced financial and regulatory systems and ample opportunities to promote small- and medium-sized social enterprises.

Unless a better understanding of the hindrances and prospects of impact investing is gained, role players are unlikely to effectively champion solutions to social and environmental problems. Investigating the barriers and opportunities in an emerging market context, such as South Africa, is necessary as most of the literature is framed from a developed world perspective.

A literature overview is provided next, followed by a description of the methods used to collect and analyse qualitative data. The key empirical findings follow, and the article concludes with a number of recommendations for impact investors and academics to guide their investment philosophy and awareness and to help them navigate the complex emerging market business environment.

Barriers to impact investing

The barriers to impact investing that are mentioned most frequently in the extant literature are discussed in more detail in the sections to follow.

The relatively small size of the impact investment market

One of the overarching challenges impact investors face is that the global impact investment market is still at an early stage of development. Some authors even describe the market as being a ‘niche’ market (Bugg-Levine & Goldstein, 2009; Drexler, Noble, & Bryce, 2013; Ormiston, Charlton, Donald, & Seymour, 2015). The nascent stage of the market increases risk and could leave institutional investors circumspect about investment prospects because of their fiduciary duty to make prudent investment decisions in the best interest of their clients (Sales, 2015).

A shortage of investment-ready deals that offer satisfactory financial returns alongside social and environmental impact

One of the main barriers to growing the impact investment market is the limited number of investment-ready deals into which investors can place significant amounts of capital (Burand, 2014; Diouf, 2015; Freireich & Fulton, 2009; Ormiston et al., 2015). Previous researchers are of the opinion that there are still too few social enterprises or impact-oriented projects that are mature enough to warrant investment. This view is confirmed by Mudaliar et al. (2016) who revealed that although there has been much activity in the impact investment market in South Africa, investing raised capital can be a challenge.

Impact investors face the challenge of growing their portfolios because of the shortage of high-quality investment opportunities with well-established track records (Brandstetter & Lehner, 2015; Burand, 2014; Diouf, 2015; Saltuk, 2015). A common concern is that impact investing does not have a well-documented track record of success stories (Barby & Pederson, 2014; Sales, 2015). The lack of well-documented success stories has also resulted in a perception among investors that impact investing cannot provide market-related, risk-adjusted returns (Barby & Pederson, 2014; Huppé & Silva, 2013). Similarly, there is a large supply of competing capital in the form of mandated corporate social investment (CSI) and development capital (Mudaliar et al., 2016). Therefore, asset managers need to be resourceful when procuring capital for their portfolios.

A limited number of intermediaries

One of the most critical challenges to the growth of the impact investment market is the limited number of intermediaries (Diouf, 2015; Saltuk, Bouri, Mudaliar, & Pease, 2013). The lack of efficient intermediation results in high-transaction costs, more complex deal structures, more complicated due diligence investigations and difficulties in exits (Bugg-Levine & Goldstein, 2009; Diouf, 2015). Institutional investors will be able to engage more with the impact investment market once the spectrum of intermediaries has been strengthened (Harji & Jackson, 2012).

Illiquidity of impact investments and difficulties in exiting investments

A shared barrier for many impact investors is the difficulty of exiting their investments (Burand, 2014; Diouf, 2015; Harji & Jackson, 2012; Shamash & Ashley, 2015). This challenge was ranked as the third biggest problem hindering the growth of the impact investment market in the JP Morgan 2015 study (Saltuk, 2015). Given that the asset class used for many impact investments is private equity or private debt, the investments are found to be illiquid causing a major challenge with exits (African Development Bank Group, 2012; Sales, 2015). Fund managers have partially overcome this challenge by negotiating exit strategies prior to investing as part of the due diligence process (Huppé & Silva, 2013).

Challenges in measuring the effect of impact investments

The impact investment market does not have a universally agreed-upon set of metrics to measure social and environmental impact (Diouf, 2015; Johnson & Lee, 2013; Rangan, Appleby, & Moon, 2011; Reeder, 2014; Sales, 2015). There are metric systems available, such as the Impact Reporting and Investment Standards and the Global Impact Investing Rating System, but sometimes these metrics do not completely satisfy all the required measurements. The result is an inconsistent tracking of impact and disagreement as to what actually constitutes impact.

Sound measurement of social and environmental impact has always been a complex element of the impact investing process (Barman, 2015; Jackson, 2013b). One school of thought calls for the universal standardisation of a defined set of metrics (Harji & Jackson, 2012). Another school argues that impact objectives are specific to the investment and, therefore, a standardised metric cannot be used to measure impact. The lack of a standardised measurement system, however, makes it difficult to evaluate and compare impact across investments (Sales, 2015). The result is that impact investors report inconsistently and inadequately on the impact they have achieved.

Opportunities in the impact investment market

In spite of the plethora of barriers, there are also many opportunities for impact investors. Details on the most prominent of these are presented next.

Earning market-related, risk-adjusted returns

The opportunity to earn market-related, risk-adjusted returns is closely linked to the predicted growth in the impact investment market. This market growth has the potential to generate profits of between US$183b and US$667b (Clarkin & Cangioni, 2016). Impact investments generate competitive market-related, risk-adjusted returns, contrary to the perception that such investments necessitate concessionary returns (Matthews, Sternlicht, Bouri, Mudaliar, & Schiff, 2015).

Financial contributions towards existing impact investments in emerging markets have produced returns that averaged 7% (below-market-rate-seeking investors), 8% (market-rate-seeking investors) for private debt investments and between 10.6% (below-market-rate-seeking investors) and 16.9% (market-rate-seeking investors) for private equity investments (Mudaliar, Bass, Dithrich, & Nova, 2019). These returns are impressive when compared with the developed market impact returns of 4.4% – 8% and 6.9% – 16.9% for private debt and private equity investments, respectively (Mudaliar et al., 2019). Participants in the 2019 Annual Impact Investor Survey furthermore indicated meeting or exceeding both their impact and financial performance expectations for their investments to date (Mudaliar et al., 2019).

The return potential of impact investments has led many investors to direct their capital towards Africa with South Africa being the hub of this impact investment activity (Mudaliar et al., 2016). Consequently, there has been growing interest and acceptance of impact investing as an RI strategy.

The growing interest in and acceptance of impact investing as a responsible investing strategy

The interest and momentum in impact investing have been prompted by the call for an increase in ethical and socially inclusive capitalism in contemporary market economies (Dacin, Dacin, & Tracey, 2011). This increased awareness in impact investing stems from the broader movement and growth of ethical consumerism (Höchstädter & Scheck, 2015). The movement has been strengthened by activity between social and environmental and economic spheres through CSI and RI.

Likewise, asset owners and managers are becoming more receptive to the notion that they can affect social and environmental change through the financing they extend (Bugg-Levine & Goldstein, 2009). According to Saltuk (2015), the number one motivation for impact investors to allocate capital towards impact investments is that it is part of their commitment as responsible investors. Asset managers have also found that there is a rising demand from their clients, the asset owners, to invest in impact investments. This increasing demand could cause growth in the impact investment market and create more opportunities.

A rising amount of impact capital is flowing into Africa (Sales, 2015). Foreign direct investment has grown at a steady rate over the past decade. There is a lot of activity in the South African impact investment market, and much of the impact capital in sub-Saharan Africa is disbursed through this market (Mudaliar et al., 2016). A range of financial instruments can be used to encourage private sector investment by lowering financial risk, eliminating perceived risk and reducing investment transaction costs (Rodriguez, Van den Berg, & McMahon, 2012). These instruments include tax-exempt municipal bonds, concessional loans, credit guarantees, commercial loans, equity and social impact bonds. According to Jackson (2013b), social impact bonds are increasingly being used as innovative financial instruments to finance grand social challenges.

Changes in the regulatory environment

The public sector is increasingly supporting initiatives that facilitate the flow of capital towards social and environmental challenges whilst also trying to generate financial returns (Drexler et al., 2014). This support is shown in some countries through tax incentives or reducing regulatory barriers. Although this might not directly stimulate growth in the impact investment market, it will make it easier for the more reluctant investors to engage in the process. The recent amendments to *Regulation 28 of the Pension Fund Act* (No. 24 of 1956) and *Section 12J of the Income Tax Act* (No. 58 of 1962) regarding prudential limits and investment mandates and tax incentives could encourage engagement in the impact investment market and indirectly unlock opportunities for growth in this market.

Generating measurable social and environmental impact

The increasing receptiveness of impact investing as an RI strategy has generated many opportunities to create measurable social and environmental impact (Brandstetter & Lehner, 2015; Bugg-Levine & Goldstein, 2009; Freireich & Fulton, 2009; Jackson, 2013a; Ormiston et al., 2015). According to many of these authors, the defining element is the measurement of impact that differentiates it from other RIs. This element of impact investing should drive opportunities for the market in general as capital is redirected from other RI strategies into impact investing, creating market growth. Some of the current global challenges that institutional investors could address through impact investing include poverty and inequality, food shortages, lack of education, climate change and pollution.

Research design and methodology

Given the exploratory nature of this study, the adoption of a qualitative research approach to collect and analyse primary data was deemed appropriate.

Sample selection and description

In this study, participants were drawn from the asset management and service provider role player categories. At the time of conducting the primary research, no usable population or sample frame existed. A sample frame thus had to be compiled from sources such as Mudaliar et al. (2016), Rockey (2016) and Sales (2015). Judgemental and snowball sampling techniques were used to identify eligible participants. To be classified as an expert and qualify for inclusion, a participant had to be an executive decision-maker or person in a managerial role who had made or helped facilitate one or more impact investments over the period 2011–2016. The final sample consisted of 13 participants of whom eight were asset managers and five were service providers. The service providers were mainly impact investment consultants, academics and researchers.

The senior positions held by the participants, with an average age range of 30–39 years and an average range of 6–10 years of work experience as an asset manager, show that a mature group of individuals shared their insights with the authors. Of the 13 participants, two were chief executive officers, two were heads of departments, four were managers and the remaining five were consultants and analysts. In addition, six of the participants had master's or doctoral degrees.

Data collection

An interview guide, consisting of four sections, was developed to facilitate semi-structured face-to-face and telephonic interviews. Participants were first asked to provide biographical details such as their age, industry experience and highest qualification. In the second section of the interview guide, they were requested to describe their views of and experience with impact investing, with particular reference to the South African context. Thereafter, 12 open-ended questions centred on the barriers to impact investing such as the nascent market in the country, the track record of investments, illiquidity, difficulties of measurement and a number of other barriers identified in the extant literature. In the final section, interviewees were presented with eight questions developed from the opportunities in impact investing found in literature such as potential returns and impact, a growing acceptance and demand of this responsible investment strategy, the enabling regulatory environment and more.

Participants also had the opportunity to add barriers and opportunities based on their practical experience. Data collection continued until data saturation was achieved when participants were providing similar answers to most of the questions. Similarly, data saturation was seen to be achieved when interviewees provided no new insights or referrals using the snowball sampling technique.

Data analysis

To ensure credibility, the authors audio-recorded all the interviews and made notes. The recorded interviews were transcribed by a language expert soon after the interviews took place to ensure factual presentation. Expert role players across the impact investment spectrum were interviewed to provide credibility through a triangulation of thoughts and ideas. The collected data provided in-depth and rich information from the interviewees' perspectives rather than from the authors' point of reference. To prevent bias, the authors spent approximately 15 months reading extant literature to gain a comprehensive understanding of the topic. Shamash and Ashley (2015) asserted that the impact investment market in sub-Saharan Africa is still relatively nascent. Therefore, even a small sample of experts in this market would be enough to gather rich data.

To achieve dependability, steps were also taken to ensure that the focus remained on the opinions of the participants and not on those of the authors. Confirmability refers to the objectivity of a study. The impingement of the researchers' bias was inevitable given that they designed the interview guide. However, measures were implemented to ensure that the results centred on the experiences and opinions of the participants, and not on those of the researchers. These included a review of the initial framework by peers and by using triangulation of opinions from experts in the impact investment market.

The first step of the data analysis involved the conversion of the raw data into a more user-friendly format. The 13 Word documents provided by the professional transcriber were used to undertake the conventional content analysis. This method was selected, as it provides a systematic and objective way for researchers to describe and understand a particular phenomenon (Elo & Kyngäs, 2007). This type of content analysis is often used in conjunction with a descriptive research design (Hsieh & Shannon, 2005). Researchers adopting this data analysis method consciously avoid using preconceived categories. They instead allow the categories to emerge from the empirical findings.

The qualitative data analysis software ATLAS.ti was used, as it makes detailed data coding more organised, simple and reliable than manual coding. Once the initial categories were identified, inductive reasoning was applied to synthesise and extract meaning from the findings. Several smaller categories were combined into meaningful themes. The researchers read the transcriptions and the ATLAS.ti output several times to become well-versed with the observed perceptions, and common and divergent experiences of the participants (Elo & Kyngäs, 2007, p. 113). Following through with the conventional approach to content analysis, relevant theories or other research findings are addressed in the findings section.

Ethical consideration

Permission to conduct the study was obtained from the university's Research Ethics Committee (Humanities) in 2017.

Findings and discussion

Although participants confirmed the existence of several barriers and opportunities highlighted in the literature, a few new ones were also uncovered.

Barriers to impact investing in South Africa

The main themes related to hindrances to the local impact investment market included definition ambiguity and difficulties in measurement, negative perceptions of the investment approach and the lack of investment-ready deals.

Definition ambiguity and difficulties in measurement

Interviewees did not perceive the lack of a universal definition of impact investing as a major barrier. They all agreed that impact investments should be 'intentional', 'measurable' and that it should create a 'positive' impact alongside financial return. One asset manager claimed that a 'limited understanding of how to establish and balance clear and detailed impact objectives in relation to financial objectives' was far more important than a standard definition of this RI strategy.

However, some asset managers acknowledged that definition ambiguity could be regarded as a barrier, as it 'could cause uneasiness around the reliability of impact measurement'. The absence of a clear definition of the term 'impact' was also perceived by some to result in the pursuit of very broad impact objectives, 'only for the sake of having impact objectives'. According to one participant, the measurement and reporting of impact will likely remain inadequate as some impact investors do not fully understand the goals that they are trying to achieve. Another described the situation as follows:

> 'At the moment what you're defining as impact is really your own definition, so social and environmental measurement is a little bit like the Wild West; there is just no structure.' (Asset manager)

The participants emphasised that impact investments should generate 'measurable' social and environmental impact. As indicated earlier, different views exist in the literature regarding the extent to which the lack of a standardised set of impact metrics presents a barrier to growing the market (Barman, 2015; Jackson, 2013b). Whereas some scholars see it as a serious obstacle, others favour the use of bespoke social and environmental impact measurement metrics to grow the market, given the diverse nature of these investments.

Interviewees argued that 'enough [*standardised*] metrics are available' and claimed that these are often regarded as 'restrictive and limiting'. As such, most investors use their own metrics for specific projects. Participants highlighted a dearth of knowledge on how to report on social and environmental impact, as there is no reporting standard. Therefore, the current reporting was perceived to be inconsistent and not comparable across investment time horizons.

Negative perceptions of impact investing

The majority of the interviewees strongly agreed with the global perspective (see Barby & Pederson, 2014; Huppé & Silva, 2013) that there is a perception among South African investors that impact investments cannot yield market-related, risk-adjusted returns. However, the interviewees made it clear that this perception is unfounded. According to these participants, this erroneous perception, however, could be a major barrier to further investment. Contrary to Mudaliar et al. (2016), participants indicated that there is no competition between high-impact CSI budgets and impact investments for the same number of limited projects. The interviewees felt that the pools of capital do not compete. Participants made comparisons between the smaller CSI budgets that are primarily grant based and the much larger impact funds that need to generate return on capital. One asset manager explained that there is no competition as impact investors target much larger projects or businesses.

Mention was made in the literature that the due diligence process for an impact investment is more complex than a conventional investment, given the limited number of specialised intermediaries (Diouf, 2015; Saltuk et al., 2013). The asset manager participants did not perceive this to be a barrier, as they argued that most asset managers have their own well-trained due diligence teams. The service providers in the impact investment market, however, confirmed the extant literature. These experts remarked that there are large inefficiencies in this area of the market that makes due diligence more complex. They argued that there is 'a hesitation to share information and use shared knowledge for the greater good', which results in inefficiencies. Therefore, they noted that due diligence investigations take longer and are more complex than they should be. As a result, the barrier in an emerging market perspective could be interpreted as the complexity of due diligence investigation owing to the lack of shared knowledge rather than the lack of specialised intermediaries.

International literature revealed that illiquidity and the difficulty to exit impact investments are major barriers that hinder the growth of the impact investment market (Diouf, 2015; Sales, 2015; Shamash & Ashley, 2015). However, the general opinion among participants was that local impact investors have a good understanding of the nature of the assets that they are investing in. The participants mentioned that asset owners understand that these investments are less liquid and therefore often structure exits before committing capital. The interviewees indicated that institutional investors in South Africa currently are more likely to invest in later-stage businesses and projects and often through debt. Considering these approaches, South African investors are likely to have more liquidity and exits are more natural because of the structured repayment terms. Consequently, these barriers were removed from the initial list of identified barriers.

Lack of investment-ready deals

Similar to the global view expressed by Ormiston et al. (2015), interviewees agreed that the relatively small impact investment market in South Africa could limit opportunities in this market. However, they qualified this opinion by saying that it was a question of what type of transaction was available. The participants emphasised that the lack of investment-ready deals presented a much greater barrier. The shortage of investment-ready deals in the impact investment market in South Africa was considered to be the largest barrier to impact investing in South Africa.

Participants claimed that impact investors in South Africa are focussed on later-stage investments. The majority indicated that there are not enough later-stage opportunities that are financially viable for investors (especially institutional investors) to invest significant amounts of capital. The interviewed investors have seen an increase in deal flow but not in 'qualified' or investment-ready deal flow. Most of the transactions they have inspected could be categorised as venture capital and have been regarded as too risky for their mandates. Therefore, many impact investors are vying for the same later-stage or mature deals.

Interviewees claimed that the small impact investment market size could be a result of the lack of lifecycle support (i.e. supporting the entire growth of an entity from inception to maturity) of small- and medium-sized social enterprises. As such, there is a bottleneck in the number of viable deals from a fund perspective. The bottleneck occurs because the available deals are either too small or at a too early stage to invest in. The international outlook described in extant literature by Brandstetter and Lehner (2015) as well as Diouf (2015) was that there is also a shortage of impact investments with established track records across the risk-return spectrum. This was also confirmed to be true in the South African impact investment market. The shortage of investment-ready deals was again perceived as the main contributor to this. It was, therefore, deemed difficult to demonstrate good track records across the spectrum of the investment lifecycle in South Africa.

The majority of the participants agreed with the global perspective (Freireich & Fulton, 2009; Saltuk et al., 2013) that there are a limited number of specialised intermediaries in the local impact investment market, which cause a dearth of awareness of impact investing. Therefore, impact investments would not be made because of a lack of information. Furthermore, an uncoordinated impact investment market creates hesitation among role players to share information. The shortage of a coordinated investment 'ecosystem' across the impact investment market was highlighted by a few participants as a major barrier. Participant sentiment revealed that this barrier results in incoherent actions among the role players. A key implication of this finding is that an uncoordinated impact investment market has a shortage of multi-tiered financial and lifecycle support. In other words, a funding gap exists between the prototype or early-stage development and the mature institutional investment stage, resulting in a shortage of investment-ready deals.

As alluded to earlier, most of the barriers related to the nascent South African impact investment market are influenced by the shortage of investment-ready deals. Considering that most impact investors in South Africa only invest in more mature entities, it seems that these barriers are actually related to a more critical barrier, namely, a lack of lifecycle support. For example, participants mentioned that small- and medium-sized social enterprises in South Africa are often adversely affected by the lack of lifecycle support to assist in their development. Therefore, these enterprises are often too early in their development for impact investors to consider investing in them. The investment mandates of some impact investors may restrict their involvement in early-stage entities. This interpretation suggests that South African impact investors claim that there are not enough investment-ready deals, but they are only considering one stage of the investment spectrum. Consequently, the local impact investment market is likely to remain stunted until there is more support across the business lifecycle of small- and medium-sized social enterprises or until impact investors become less risk-averse.

South Africa's political and economic environment

One hindrance that did not feature prominently in the literature review, but that emerged in several interviews, was that of political interference. It was specifically mentioned in relation to public–private partnerships (PPPs) that are created to address social and environmental challenges in the country. Participants claimed that concerns about political interference and 'distrust between the government and private sector' prevent the establishment of PPPs and hence presents a major barrier to private sector investment in the country (in general and in impact investing in particular). The lack of trust is attributed, in part, to the complex division of revenues between municipalities and private sector entities. Although most of the interviewees agreed that political interference could leave impact investors hesitant, some believed that this risk is 'well understood' by private sector investors across the economic sphere and that various risk mitigation strategies are available.

An unexpected barrier that emerged during the interviews related to South Africa's status as an emerging market. One participant argued that global impact investors often have mandates to invest in low-income countries to create more recognisable social and environmental impact. These investors might thus be more inclined to invest in countries that are less developed than South Africa.

Opportunities in the impact investment market in South Africa

Fewer opportunities than barriers emerged during the interviews. The main themes centred on growth in the impact investment market and promising financial and impact returns in selected sectors.

Growth in the local impact investment market

Participants agreed with the assessments of Bugg-Levine and Goldstein (2009) and Saltuk (2015) on the international context that there has also been a growth in the interest in and acceptance of impact investing in South Africa in recent years. All eight asset managers indicated that the number of impact investments that they had made or managed over the past 5 years had increased. This increase was related to the size and scale of the projects and an expansion of their product suites. Other interviewees also generally agreed that some local asset owners are demanding more RIs, which could open up new impact investment capital streams. However, they pointed out that there is more interest in these investments than there is a demand for them. This lack of demand was attributed to the shortage of viable deals.

A reliable indication of the growing interest in impact investing is whether there is an increase in capital flow into the market. Participants indicated that there is an increasing amount of capital flow to these investments, albeit slow. Four of the participants also mentioned that although the capital is increasing, there are not necessarily enough investment-ready deals to manage more capital inflow. Participants also perceived that public sector efforts to create a favourable legislative environment, as described by Drexler et al. (2014), have prompted interest in and thinking about impact investments. Nonetheless, they said that there has not been an increase in demand and capital deployment owing to the changes in the South African regulatory environment. Therefore, the authors deemed that the legislative amendments should rather be considered as enablers and motivators.

Promising financial and impact returns in selected sectors

When participants' definition of impact investing was analysed, they all agreed that impact investors should generate financial returns. Details about the size of those financial returns, however, differed among the interviewees. According to most of the participants, there are some opportunities to earn market-related, risk-adjusted returns in selected sectors. However, they were not convinced that there are many of these opportunities in the South African impact investment market. Therefore, the majority had the outlook that the opportunity to earn market-related, risk-adjusted returns is not a key factor to attract more investors to the local impact investment market.

Similar to the international impact investment market (among others Brandstetter & Lehner, 2015; Burand, 2015), most of the interviewees agreed that there are promising impact investment opportunities to generate social and environmental impact in South Africa. One participant indicated that South Africa has immense social and environmental problems, but that the country also has a mature enough financial market to incorporate these investments: 'South Africa is regarded as the perfect place for impact investments'. The best areas of opportunity that were identified by the participants included renewable energy, agriculture, education, waste removal and affordable housing. The lack of investment-ready deals was, however, once again emphasised as the barrier that caused a mismatch between capital inflow and deployed impact capital. One expert claimed that the best opportunities for impact investors will be found where there is a convergence of sectors, for example, agriculture and energy.

The prospects of earning market-related, risk-adjusted returns in the impact investment market in South Africa were not deemed as an opportunity by the participants. Rather, they suggested that the combination of earning *some* financial return and the ability to create impact by addressing one or more grand challenges is a better option. The lack of viable deals with suitable financial returns was regarded as the main contributing factor to the mismatch between capital inflow and deployed impact capital. Therefore, although there are many grand challenges that need to be addressed in South Africa, there are not enough social enterprises that are mature enough to earn market-related, risk-adjusted returns to attract impact investors.

Reducing risks and costs

The participants referred to the growing number of financial instruments available to address social and environmental challenges. Similar to the views of Rodriguez et al. (2012), these instruments could decrease the risk, and thus increase the possibility of investments. However, the growth in the number of these financial instruments was not considered as a major factor that could lead to more opportunities in the market. An opportunity that did not feature in the literature, but emerged during the interviews centred on the high-transaction costs. One service provider suggested that transaction costs could be decreased by developing algorithm-based solutions to evaluate the creditworthiness of businesses and to deploy capital. According to this participant, these solutions will help to unlock capital from international investors. He also regarded the development of specialised metrics as an opportunity to influence the impact investment market.

Amendments, exclusions and summary of the barriers and opportunities faced by impact investors in South Africa

Three barriers identified in the literature review were not regarded as barriers by the experts who participated in this study. They are the limited number of specialised intermediaries, the difficulties in exiting and the illiquidity of impact investments (Diouf, 2015). Competition between capital sources was not regarded as a barrier either. Participants rather saw an opportunity in combining high-impact CSI budgets to support the lifecycle growth of small- and medium-sized social enterprises.

Some opportunities identified in previous academic studies and industry reports were not acknowledged in this study as opportunities in the local market. These centred on the growing demand by asset owners for more responsible investments and changes in the regulatory environment. Throughout this study, the developed and emerging market perspectives on the barriers and opportunities in the impact investing market were compared. Particular attention was given to South Africa as a case study. As outlined in the problem statement, unless there is a better understanding of the hindrances and prospects of impact investing in an emerging market perspective, local role players are unlikely to effectively champion solutions to social and environmental problems. A summary of the barriers and opportunities from an emerging market perspective is provided in Table 1.

Conclusion and recommendations

This study was conducted to contribute to the limited body of knowledge on impact investing in an emerging market context. Specific attention was given to the barriers and opportunities faced by impact investors in South Africa. The empirical evidence suggests that there are more perceived barriers than opportunities in this market. The most important barriers centre on the shortage of investment-ready deals and the lack of detailed and clearly formulated social and environmental impact objectives. As many investors have broad impact objectives, the measurement of the impact achieved is difficult and unreliable. It is suggested that impact investors articulate clear and detailed social and environmental impact objectives at an early stage of the investment process, preferably when their mission statement is defined.

The lack of a standardised format for social and environmental impact reporting is related to the preceding recommendation. It is difficult to envision standardised reporting without universally accepted metrics. Therefore, a generally agreed-upon reporting format should be developed, not in terms of social and environmental impact metrics, but in terms of consistent measurement categories and dimensions. It is recommended that the Global Impact Investment Network and similar networks provide more workshops on consistent impact reporting by means of clearly articulated impact objectives. Furthermore, these organisations could attempt to establish a standardised format for impact reporting that requires a consistent and detailed level of reporting.

Demand-side actors and service providers in the local impact investment market have an important contribution to make in the uncoordinated impact investment market. Conferences previously organised by the Southern African Impact Investment Network contributed positively to creating a more coordinated market. It is thus recommended that more of these opportunities are created for role players to network and to share information.

Given the significant role that impact investors could play in promoting socio-economic development, it is suggested that lobby groups exert more pressure on asset owners to participate in social development projects through impact investments.

In the light of the findings of this study, the local impact investment market could benefit from more angel investors and venture capitalists to provide improved lifecycle support for small- and medium-sized social enterprises. It is crucial for these investors to facilitate the growth of these enterprises to reach an investment-ready stage. Without an increase in angel investors and venture capitalists, the impact investment market will remain small and the competition to invest in the same later-stage entities will continue. In line with Wood, Thornley and Grace (2013) and Olawale and Garwe (2010), more engagement on this topic is recommended to financial institutions, research institutions and service providers, educators and policymakers to increase the lifecycle support to demand-side actors.

Although many educators in commerce faculties at tertiary institutions have already incorporated social and environmental considerations into their curricula, there is still room for improvement. More attention should be given to impact investing as an RI strategy. Greater exposure to this investment approach among commerce students is likely to foster a deeper understanding of its relevance and rationale. Educators in other faculties also have a responsibility to educate the next generation of public sector officials.

TABLE 1: Summary of barriers and opportunities faced by local impact investors.

Variable	Summary
Barriers	Definition ambiguity and difficulties in measurement: • Lack of clear and detailed social and environmental impact objectives • Lack of a standardised format to report social and environmental impact
	Negative perceptions of impact investing: • Diverse perceptions that impact investments cannot yield market-related returns
	Lack of investment-ready deals: • Small size of the impact investment market • Shortage of high-quality impact investments with established track records of large financial returns • Uncoordinated impact investment market • Lack of lifecycle support for social enterprises
	South Africa's political and economic environment: • Distrust between government and private sector preventing the establishment of public–private partnerships • South Africa's emerging market status hampering impact capital flow
Opportunities	Growth in the local impact investment market: • Growing interest in and acceptance of impact investing as a responsible investment strategy • Increasing capital flowing into South Africa
	Promising financial and impact returns in selected sectors: • Opportunities to earn financial returns and address grand challenges • Opportunities to combine high-impact corporate social investment budgets to support lifecycle growth in social enterprises • Opportunities to generate social and environmental impact
	Reducing risks and costs: • More financial instruments available to address social and environmental problems that could lower the risk • Developing algorithm-based solutions to evaluate the creditworthiness of businesses and to deploy capital

The empirical results confirmed that some of the opportunities and barriers to impact investing that were relevant in developed economies were not relevant in South Africa. Closer attention should be paid to increasing lifecycle support that is required to ensure that small- and medium-sized social enterprises progress to an investment-ready stage. Once these enterprises are investment-ready, the promise of financial returns and impact in the local market might come to fruition.

As one of the interviewees remarked, 'South Africa is a perfect place for impact investments'. The barriers and opportunities summarised in Table 1 are not all-encompassing but provide a useful framework for local impact investors and other role players in the market to navigate the complex emerging market business environment. This study, therefore, provides a valuable contribution to the limited body of knowledge of impact investing in South Africa and similar emerging markets.

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The authors have reported no potential conflict of interest.

Authors' contributions

S.M. wrote most of the article based on his M.Com. research. S.V. was his study leader. She conceptualised the article, read several versions of the manuscript and took responsibility for the technical requirements.

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