



THE LANDSCAPE FOR SOCIAL INVESTMENTS IN SOUTHERN AFRICA

ENABLING ENVIRONMENT

TABLE OF CONTENTS

Acknowledgements	01
1. Enabling Environment for Social Investment in Southern Africa	03
1.1 Overview of the policy and regulatory environment for social investments in the region	03
1.2 Overview of the business support services in the social investment space	06
1.2.1 Business support ecosystem for social enterprises	06
1.2.2 Ecosystem support for non-profits and philanthropy	09
1.2.3 Impact measurement and management practices for social investments in the region	10

LIST OF TABLES

Table 1: Overview of existing 'Tax Incentives for Philanthropy/Charitable giving' across the focus countries	05
Table 2: Overview of ecosystem trends across the focus countries	09

LIST OF FIGURES

Figure 45: Ease of doing business ranking, 2020	03
Figure 46: Map of ecosystem players in Southern Africa	06
Figure 47: Sample of education centres promoting social investments and entrepreneurship	07
Figure 48: TA Funding Models in Southern Africa	08
Figure 49: Impact Measurement and Management Approaches by Investors	10

ACKNOWLEDGEMENTS

This report was commissioned by African Venture Philanthropy Alliance (AVPA) with support from the United States African Development Foundation (USADF), Social Capital Foundation, and Rockefeller Foundation.



The African Venture Philanthropy Alliance (AVPA) is a unique Pan-African network for social investors, headquartered in Nairobi and committed to building a vibrant and high impact community across Africa. AVPA is aligned with thriving networks in Europe (EVPA - HQ in Brussels with 250+ members) and Asia (AVPN - HQ in Singapore with 600+ members) to form a dynamic global force for social impact.

The following AVPA team members contributed to this report:

- Dr. Frank Aswani - Chief Executive Officer
- Rachel Keeler – Value Hub Director, Report Lead
- Nancy Kairo - Executive Director, East Africa
- Oluwatoyin Adegbite-Moore - Executive Director, West Africa



The U.S. African Development Foundation (USADF) is an independent U.S. government agency established by Congress to invest in African grassroots organizations, entrepreneurs and small and medium-sized enterprises. USADF's investments promote local economic development by increasing incomes, revenues and jobs, and creating pathways to prosperity for marginalized populations and underserved communities.

Utilizing a community-led development approach, USADF provides seed capital and local project management assistance improving lives and impacting livelihoods while addressing some of Africa's biggest challenges around food insecurity, insufficient energy access, and unemployment, particularly among women and youth.

Over the last five years, throughout Africa, with an emphasis on the Horn, Sahel and Great Lakes regions, USADF has invested more than \$115 million dollars directly into over 1,000 African owned and operated entities and impacted over four million lives.



Social Capital Foundation is a Dutch Foundation that partners with social impact first organisations who want to enhance sustainable economic opportunities for communities and small businesses.

SCF supports local talent potential, creativity and innovation with adequate tools, flexible funding and a knowledge network to maximize and scale impact.



The Rockefeller Foundation's mission—unchanged since 1913—is to promote the well-being of humanity throughout the world. Today the Foundation advances new frontiers of science, data, policy, and innovation to solve global challenges related to health, food, power, and economic mobility. As a science-driven philanthropy focused on building collaborative relationships with partners and grantees, The Rockefeller Foundation seeks to inspire and foster large-scale human impact that promotes the well-being of humanity by identifying and accelerating breakthrough solutions, ideas and conversations.

Authors

The following Intellecip team members contributed to the research:

- Karnika Yadav – Associate Partner
- Racheal Wangari – Manager
- Anuja Kaushal – Manager
- Nehemiah Owino – Senior Associate



AVPA would like to thank our board of directors for their continued support, in particular the following people who provided significant time and insights during the editorial process of this report: Julio Garrido-Mirapeix, Paul Carttar, and Monique Mathys.

This report was also made possible through the contributions of many individuals and institutions, both within and beyond the region. We are grateful to everyone interviewed who provided their time, expertise, and data throughout the course of this study.

01



01

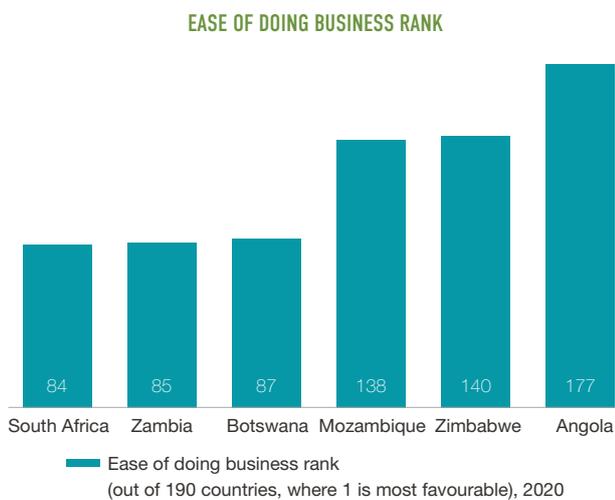
ENABLING ENVIRONMENT FOR SOCIAL INVESTMENT IN SOUTHERN AFRICA

1.1 OVERVIEW OF THE POLICY AND REGULATORY ENVIRONMENT FOR SOCIAL INVESTMENTS IN THE REGION

Overall, the Southern Africa region boasts of a stable business and investment regulatory environment making it an attractive destination for investments.

South Africa, Zambia, and Botswana are among the top 10 African countries in terms of ease of doing business ranking. These countries are particularly ranked high in regulations and guidelines of protecting minority investors, paying taxes, and resolving insolvency.

Figure 1: Ease of doing business ranking, 2020



Source: World Bank Ease of Doing Business Rank, 2020

Existing regulations in some of the countries, however, hamper the growth of social investments.

While the overall investment environment in the region has been deemed favorable, some investors, particularly in Zambia, highlighted challenges such as high and double taxation and the need to get approval from Central Bank before deploying international funding in the country. In Mozambique, investors are not allowed to invest as a consortium unless they form a financial institution; this is a significant barrier that discourages co-investments.

"Taxes are high in Zambia, while the formal taxpayers base is low which strangles capital".

SFM in Zambia

"The major roadblock in Mozambique is existing laws around investment – one can make a direct investment in business, however for a consortium, you need to become a financial institution"

ESO in Mozambique.

South Africa has made notable progress in developing regulatory frameworks to boost the supply of social capital -it can provide benchmarks for other countries.

Overall, the region lacks overarching frameworks for social investments, particularly in impact investing and venture philanthropy. South Africa has, however, put in place regulations to encourage Environmental, Social and Governance (ESG) based investments. These include; the Code for Responsible Investing in South Africa (CRISA) providing guidance on how to incorporate effective governance in executing investment analysis and activities, the Pension fund regulations that promote consideration of ESG factors in investment facilitation, as well as the Venture Capital Company (VCC) tax regime seeking to mobilize local capital from corporates and trusts.

Further, CSR activities in the country are formalised under CSR policy that requires companies particularly listed on the Johannesburg Stock Exchange (JSE) to implement a triple bottom approach. Besides, the BBBEE Act of 2003 requires companies to spend 1% of their net profit after tax on CSR activities. There are no mandatory CSR regulations in Zambia and Mozambique, and while CSR activities have been recorded particularly in the mining and oil sectors, these are at the discretion of the companies.

Across the focus countries, there is a lack of specific regulations on the registration and operation of social enterprises.

In South Africa, while a dedicated legal structure for social enterprises does not exist, the current structures allow for significant flexibility where SEs can either register as a non-profit or for-profit business. Non-profits in the country need to apply for non-profit organisation (NPO)¹⁰⁸ or public benefit organisation (PBO)¹⁰⁹ status to gain benefits such as tax exemptions. Hybrid structures are also allowed in South Africa. An organisation operates dual for-profit and non-profit models to reconcile conflicts between sources of funding associated with the two legal structures. For-profit SEs can also easily access funding

SPOTLIGHT: CSR POLICIES IN SOUTH AFRICA

South Africa has a well-established CSR policy, according to which all the listed companies on Johannesburg Stock Exchange (JSE) and all other big players, are required to implement a triple bottom line approach. This has driven large corporate contributions particularly in the education sector. Moreover, there are regulations around Broad-based Black Economic Empowerment (BBBEE) to manage imbalances caused by Apartheid. According to the BBBEE Act, companies need to spend 1% of net profit after tax, and at least 75% of the CSR activity to benefit historically disadvantaged South Africans referred to in the Act. As of 2017, the value created for charitable recipients through BEE deals including community trusts, existing charities and newly established foundations was almost US\$ 3 billion (51.6 billion Rand). Nearly US\$ 1.9 billion (32.6 billion Rand) is held by foundation established as a result of BEE deals that will support charitable activities on a perpetual basis; and US\$ 1.1 billion (19 billion Rand) has been generated in contributions to public benefit beneficiaries.

However, the BBBEE regulations presents a number of challenges and barriers for multinational corporations e.g. multinationals loose on B-BBEE scorecard points when there is no black ownership. Some companies have also been reported to use black people to front for BBBEE status.

under the B-BBEE provided they meet the set turnover threshold and have majority black ownership. Given the low levels of recognition and acceptance of the SE concept in the other focus countries, the legal frameworks for SEs are non-existent.

Tax incentives have been established to encourage local giving; however, bureaucratic and lengthy processes discourage organisations from applying for the same.

In South Africa, tax benefits are given to individuals and organisations donating to a registered PBO through tax deductions and exemptions (usually between 20-25% of total donation). Further, the country set up the Venture Capital Company (VCC) tax regime, which gives up-front tax deduction to companies and trusts to motivate domestic investments. The VCC aims to invest in SMEs in South Africa, addressing the large funding gap for SMEs in the country.

DIFFERENCES BETWEEN THE FOR-PROFIT AND NON-PROFIT LEGAL FORMS FOR SOCIAL ENTERPRISE

A for-profit structure gives SE flexibility in terms of funding sources and private ownership. It is, however, likely to face challenges in accessing charitable donations and grants, which are vital in the formative stages of the business. Further, they are not exempt from taxes. On the other hand, SEs with non-profit structures are tax-exempt and can easily attract donor funding, while revenue/profit has to be re-invested into the business. They are however, more restricted by ownership and governance regulations.

¹⁰⁸ NPO status enables the SE to obtain funding from the state and other charitable foundations.

¹⁰⁹ PBO status grants tax exempt status to the approved activities of the PBO



Table 2: Overview of existing 'Tax Incentives for Philanthropy/Charitable giving' across the focus countries

SOUTH AFRICA	ZAMBIA
Individuals and corporations may deduct up to 10% of their taxable income for donations to PBO	Any goods purchased for use in donor-funded projects are zero-rated for VAT
100% tax deduction on the amount invested in the Venture Capital Company (VCC)	PBO and educational institutions of a public character are exempt from tax 15% tax deduction on donations made by individuals and corporations to eligible organisations
MOZAMBIQUE	ANGOLA
VAT exemptions for non-profit organisations or public entity services and goods	Non-profit entities that are considered "Permissible Beneficiaries" (public or private non-profit entities of recognized public interest) are exempt from income tax
No provision for tax exemption or deduction for individual donations	40% of the respective value of the donation made to permissible beneficiaries is deductible from the tax base for corporate tax purposes
Corporate donations up to 5% of taxable income for the prior year may be excluded from income to certain approved social entities	Corporates are exempt from income expenses incurred in maintaining libraries, schools and medical care
BOTSWANA	ZIMBABWE
Income from any charitable, religious or educational institution or a trust established for public purposes under the category of "company" under the Income Tax Act, is taxable only if it is business income or disposal gains and has not been applied / utilized for public objectives	The tax laws in the country provide tax deductions for donations to charitable organisations. There are however, no exemptions particular to non-profits
Exemption to grants from government under the VAT Act	The country permits deductions for corporate donations to non-profit institutions.
	Deductions for donations up to US\$ 100,000 to schools, medical centers, and research institutions are allowed.
	No provision for tax exemption or deduction for individual donations

Source: Charities Aid Foundation – A Global Philanthropy Legal Environment Index

1.2 OVERVIEW OF THE BUSINESS SUPPORT SERVICES IN THE SOCIAL INVESTMENT SPACE

This section outlines the business support ecosystem for social enterprise and non-profits and discusses the impact measurement practices adopted by the various investors.

1.2.1 BUSINESS SUPPORT ECOSYSTEM FOR SOCIAL ENTERPRISES

Overall, the region has a relatively lower number of innovation hubs in comparison to the other well developed social enterprise ecosystems; these are also concentrated mainly in South Africa.

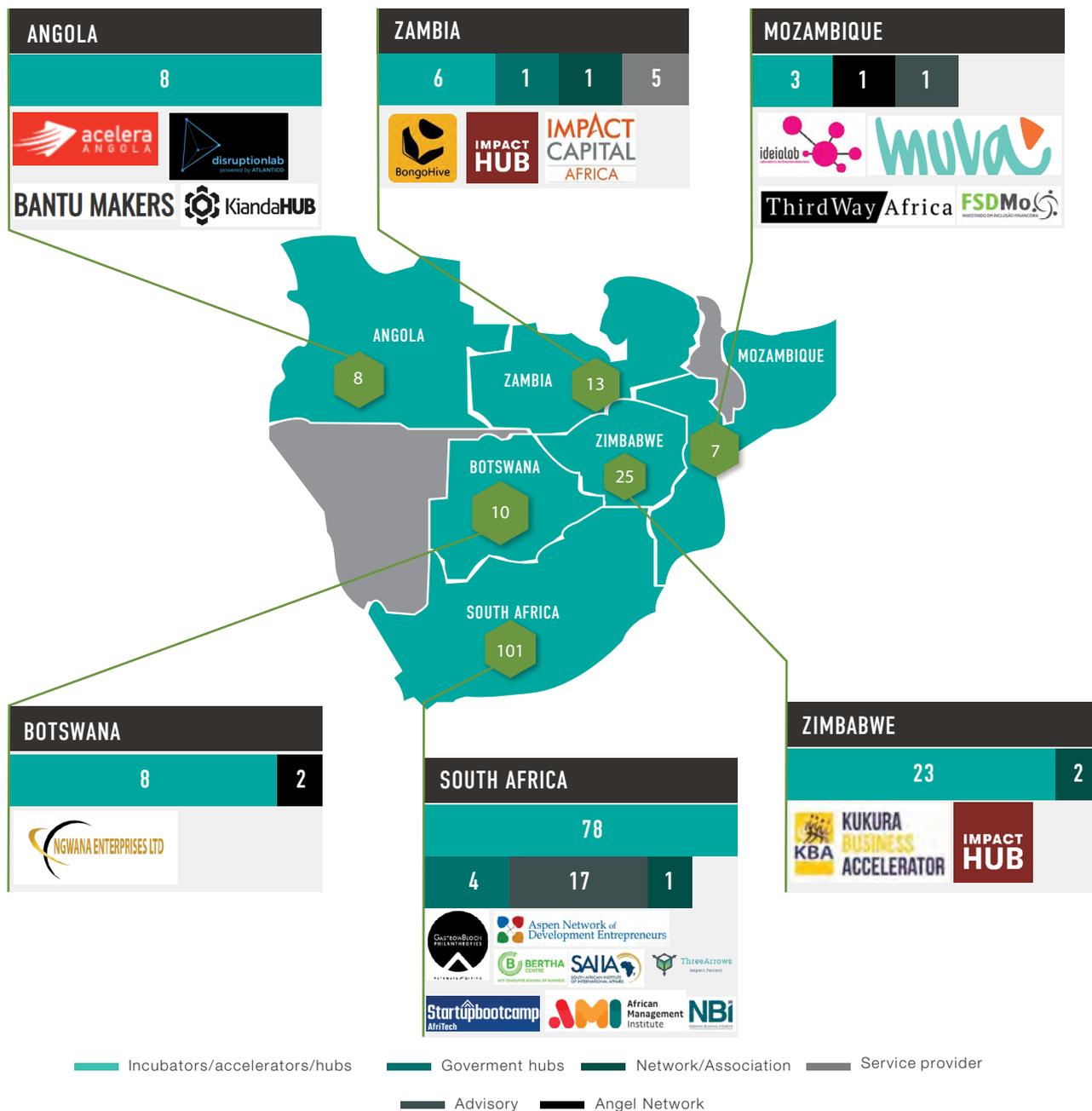
Compared to the East and West African focus countries, the Southern Africa region has a relatively lower number

of ecosystem support organisations. Zambia, the second-largest impact investing and social entrepreneurship market in the region, has only six innovation hubs. Of the more than 133 hubs operational in the region in 2019, more than 75% were based in South Africa¹¹⁰. However, even in South Africa, most of these ecosystem players have their presence and services limited to the urban locations such as Cape Town and Johannesburg, limiting the growth of enterprises in the peri-urban and rural locations.

“Innovation hubs are important as they help build the social entrepreneurship ecosystem; there is however, a scarcity of such innovation hubs in Zambia”

ESO in Zambia

Figure 2: Map of ecosystem players in Southern Africa



¹¹⁰ Building a conducive setting for innovators to thrive, Afrilabs, October 2019

Academic institutions are at the forefront of building the social investment and entrepreneurship sector in the region.

Several universities have established entrepreneurship development centers to provide support to social enterprises/startups at various stages of their development. Most of these centers are funded by corporate and international foundations that focus on improving livelihood opportunities through entrepreneurship development. Some of these institutions, such as the Bertha Centre, have been pioneers in promoting social investments and entrepreneurship in the region as well as on the continent.

"The center wanted to contextualize business courses, and conduct research on social innovation models, especially on the pressing challenges in the continent such as those related to health, unemployment. These are the issues that been grappling for a very long time."

Bertha Center for Social Innovation and Entrepreneurship

the need to support SMEs. The research and advisory service providers such as Three Arrows Impact Partner and NextGen support the funders to get investment ready pipeline. In this process, they also support enterprises in corporate governance, finance management, HR and technical support, among others.

"There is need for capital and business support of growth stage businesses as these are largely not catered for by the incubators and other ecosystem support organisations in the country."

ESO in Zambia

Sector-specific practitioner networks and training providers have increased in the last few years.

The region has witnessed a rise in the number of impact investing, social entrepreneurship, and social investing focused Technical Assistance (TA) providers and practitioner networks. These have been at the forefront of building industry knowledge, developing frameworks and influencing policy. Such include; Social Enterprise Academy South Africa (SEASA), UnLtd South Africa,

Figure 3: Sample of education centres promoting social investments and entrepreneurship



University of Cape Town's Bertha Center for Social Innovation and Entrepreneurship



University of Pretoria's Gordon Institute of Business Science's (GIBS) Entrepreneur Development Academy (EDA) providing a year-long Social Entrepreneurship Program



University of Johannesburg's Centre for Entrepreneurship – It is funded by the Raymond Ackerman Academy, Thebe Foundation and Shell Downstream South Africa. It has a Small Business Enrichment Program for more established SMEs



University of Witwatersrand (Wits) providing a Master's Program in entrepreneurship

Most support activities in the ecosystem in the region are geared towards early-stage enterprises leaving a large gap for growth and mature stage companies.

The majority of incubators and accelerators in the region support enterprises at the seed stage and early stage, leaving a void for medium stage enterprises. At the later stages of growth, enterprises require more customized support than what is provided to the early-stage businesses; however, customized support is costlier and challenging to deliver. Some ESOs have recognised

Greater Good South Africa, the Bertha Foundation, and the International Centre for Social Franchising among others. These organisations often have strong international links with global social enterprise organisations and networks. For example, SEASA is an affiliate of the Social Enterprise Academy Scotland, while Centre for Social Entrepreneurship and the Social Economy (CSESE) was launched with support from the ILO. Additionally, Ashoka and Endeavor are also global networking platforms aiming to support the sector. Endeavor, which has been operating in the region since 1997, for example, offers business mentorship support and connects enterprises to

international business schools such as Harvard, Stanford, and MIT. The Impact Investing task forces in South Africa and Zambia have also been instrumental in the growth of impact investing sector in the region.

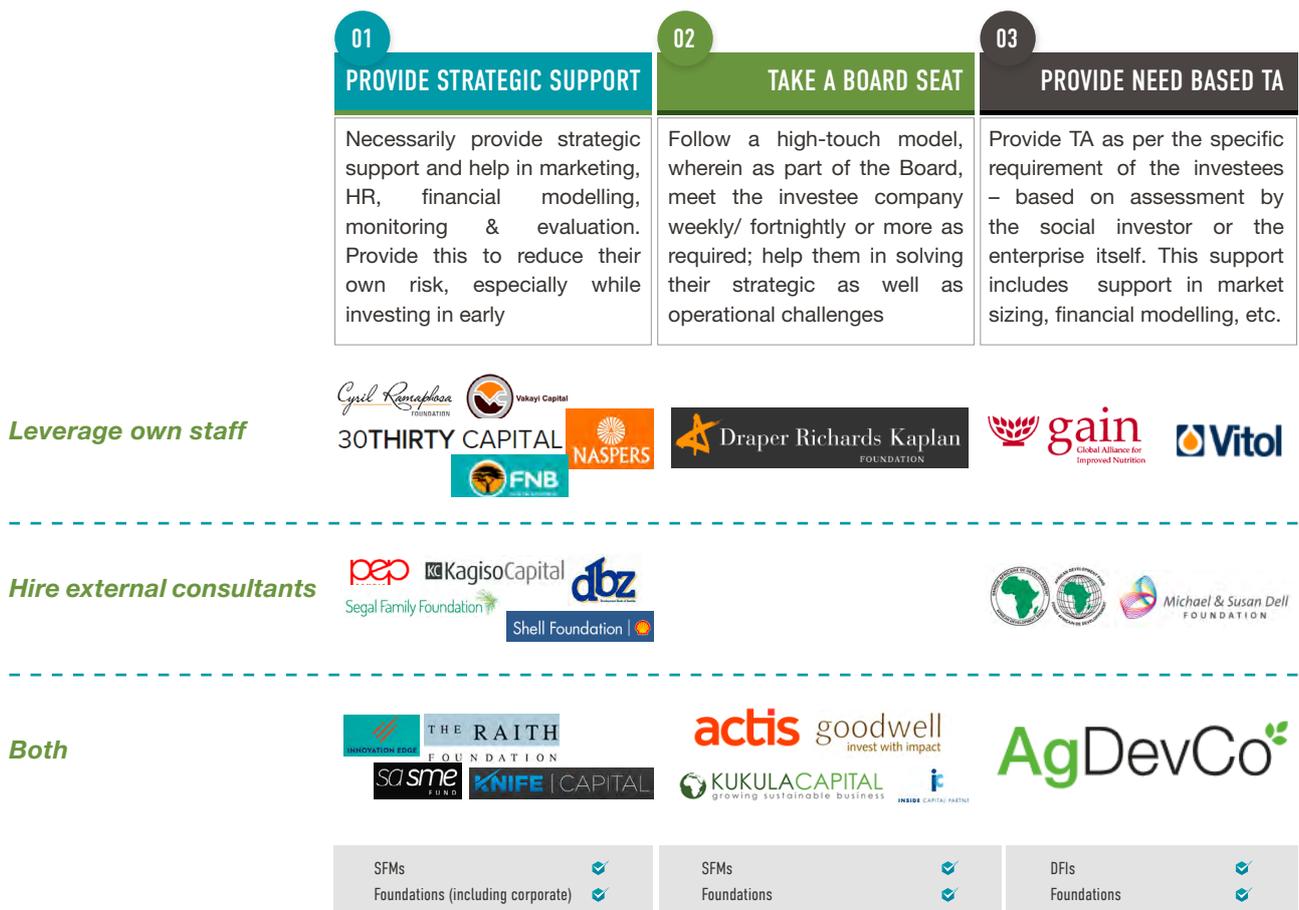
Donors are the main source of funding for ESOs, however, corporates are becoming an alternate source of funding.

While fees for TA providers are mostly paid directly by various investors (corporates, donors, international foundations), incubators and accelerators largely depend on donor/grant funding for implementing specific programs. Corporate funding has also been identified as a major source of funding for the ESOs. A major ESO in Mozambique, for example, outlined that 60% of its funding is from the private sector including banks, oil and gas companies that fund its business incubation and acceleration programs. Likewise, Impact Africa Zambia, and African Management Initiative South Africa also rely on corporates to fund some of their activities.

Three key TA models have emerged, with investors in the region increasingly bundling financial and non-financial support for their investees.

Most of the social investors interviewed as part of the research in the Southern Africa region provide technical support to their potential investee companies. Non-financial support is an integral part of most SFM and DFI deals. Non-financial support is provided through different models – some are high-touch in which the investors provide strategic support and also occupy a board seat. Others are low-touch where need-based TA support is provided to investee companies. Investors provide the support either by using their own team members or by hiring external TA providers; in either case, TA costs are mostly borne by the investors. Most of this support is in terms of general business management, such as understanding financial statements, making financing projections, and ensuring adequate governance mechanisms, among others.

Figure 4: TA Funding Models in Southern Africa



1.2.2 ECOSYSTEM SUPPORT FOR NON-PROFITS AND PHILANTHROPY

Ecosystem support for philanthropy and the non-profit sector is well established in South Africa, but completely nascent in other countries.

South Africa has established several forums, networks, and membership organisations working to boost the philanthropy sector. Such organisations help foster collaboration and networking opportunities for various philanthropists, advocate for favorable philanthropy policies and support in research and data gathering for the sector. While in South Africa, institutions such as IPASA, Resourcing Philanthropy and CAPSI exist, they are almost non-existent in the other focus countries, highlighting a key gap.

Further, the country has seen an establishment of philanthropy advisors who operate as intermediaries between the demand and supply of philanthropic capital. These advisors engage with institutional and individual philanthropists to advise and direct their deployment strategies and deploy the funds on behalf of the philanthropists. This is particularly important for the sector as more funds can be mobilized and pooled from various philanthropists and directed to a common social cause to achieve more impact. Some examples include; FNB Philanthropies based in South Africa which advises its clients (including individuals, corporates, family foundations) fulfil their social obligation by linking social investment directly with company strategy. Likewise, The ELMA Philanthropies, also based in South Africa develops

program strategies, identifies and explores investment opportunities, monitors and evaluates investment performance, and manages strategic partnerships for the ELMA Group of Foundations.

Structured and customized capacity-building support for non-profits is currently inadequate, especially for organisations transitioning into hybrid for-profit / non-profit operating models.

Non-profits in the region face challenges in accessing customized capacity-building support. With the increasing push for the sustainability of non-profits and the need to establish innovative and alternative revenue models, more specific ecosystem support is needed to support NGOs. Such ESOs are needed to advise on potential models, prototyping of business models, strategy development and implementation and investment readiness support.

Further, with the increasing adoption of hybrid models that operate at the nexus of for-profit and non-profit business models, more tailored Technical Assistance (TA) services are required. Currently, most of the TA providers are focused on providing business support for either of the business models; thus, TA providers also need to build their capacities in this area.

South Africa has witnessed establishment of philanthropy advisors/fund managers focused on strategically mobilizing and deploying philanthropy funds.

Table 2: Overview of ecosystem trends across the focus countries

ECOSYSTEM CATEGORY	SOUTH AFRICA	ZAMBIA	MOZAMBIQUE	DESCRIPTION
Incubators and early-stage support				Incubators are largely concentrated in two main cities in South Africa – Cape Town and Johannesburg. A few incubators are available in other countries.
Accelerators and TA providers				Limited support exists for growing ventures/SMEs with few affordable accelerators and TA providers operating across the countries.
Networks and platforms				There are several growing and well-established networking platforms aiming to promote impact investing and social entrepreneurship such as ANDE, National Advisory Body for Impact Investments, amongst others. These are, however, mainly based in South Africa.
Knowledge and research				The Southern Africa region has several well-established organisations supporting the social investment industry through research, data and tools for decision making. These are however, largely based in South Africa with limited research existing in the other countries.
Ecosystem support for philanthropy				South Africa has a mature ecosystem support for philanthropy with several organisations supporting the mobilization and deployment of philanthropic funds. The country also has established philanthropy platforms and networks such as IPASA that bring together stakeholders.



SPOTLIGHT: BERTHA CENTRE FOR SOCIAL INNOVATION AND ENTREPRENEURSHIP

The Bertha Centre for Social Innovation and Entrepreneurship (Bertha Centre) at the University of Cape Town Graduate School of Business (GSB) was established in 2011 as the first academic centre for social innovation and entrepreneurship in Africa. The academic centre is dedicated to research, teaching, dialogue and support of social innovations that positively change and challenge rules, policies, technologies, structures, beliefs and institutions.

The centre has been supporting the development and implementation of public-private partnerships (PPP) initiatives in education and health e.g. through development of innovative financing mechanisms, and undertaking inclusive innovation studies. The centre creates an environment for multidisciplinary teams to find new and future-focused practical solutions for market or social challenges in Africa, and local and civil-led solutions, among others.

1.2.3 IMPACT MEASUREMENT AND MANAGEMENT PRACTICES FOR SOCIAL INVESTMENTS IN THE REGION

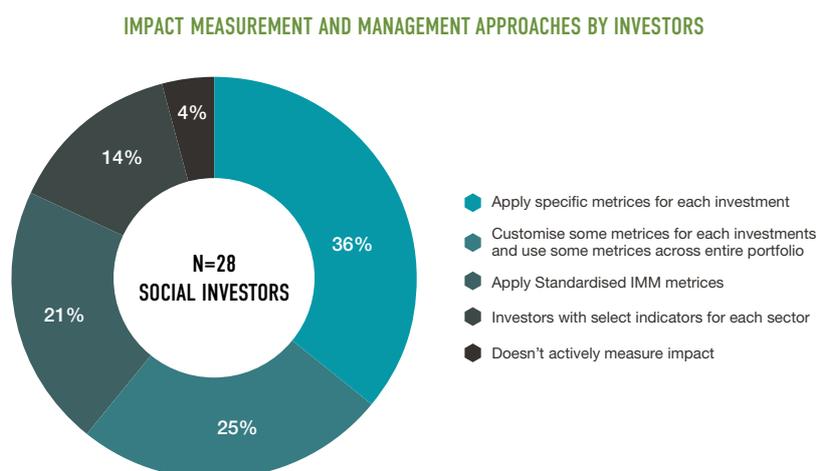
Different sets of social investors recognize the importance of impact; however, adopt different impact measurement approaches.

Various impact measurement and management standards, frameworks and tools have been adopted by different investors in the region. The most common are global tools and frameworks such as the IFC's guidelines and World Bank environmental safety guidelines, Impact Reporting and Investment Standards (IRIS), and the Sustainable Development Goals (SDGs) metrics. Most of the DFIs interviewed apply the global standard metrics and tools. The AfDB, for example follows the IFC guidelines and looks at various Environment, Social and Governance (ESG) parameters such as gender equality, empowerment, and job creation. The investee is required

to submit detailed Environmental Impact Assessment (EIA) report. On the other hand, most of the SFMs leverage global frameworks to customise impact metrics to each investee depending on the sector of operations. The SFMs usually adopt a high touch model, by being

in constant contact through weekly/ fortnightly meetings. Foundations and other grant makers in the region also rely on evidence-based framework for monitoring and evaluating program performance to understand the impact created by various programmes with most having internal developed monitoring and evaluation (M&E) tools. Further, while traditionally only information on outputs such as number of people impacted has mainly been collected some investors are also focused on collecting outcome data e.g. percentage increase in income of beneficiaries. For instance, South Africa based Kagiso Capital has introduced social return on investment methodology, to measure the impact.

Figure 5: Impact Measurement and Management Approaches by Investors



Source: Primary interviews and Intellectap analysis