THE LANDSCAPE FOR SOCIAL INVESTMENTS IN SOUTHERN AFRICA

EXECUTIVE SUMMARY

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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.

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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.

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EXECUTIVE SUMMARY

1. SOCIAL INVESTMENT AND THE SDG FINANCING GAP IN SOUTHERN AFRICA

Southern Africa countries have witnessed moderate progress in meeting the Sustainable Development Goals (SDGs) with significant economic and development challenges hindering attainment of most of the SDGs.

Figure 1: Country SDG Ranking and Best and Worst Performing SDGs, 2019

SDGs	SOUTH AFRICA	ZAMBIA	MOZAMBIQUE	ANGOLA	BOTSWANA	ZIMBABWE
GLOBAL RANK/162 COUNTRIES	113	139	136	149	120	121
AFRICA RANK /52 COUNTRIES	10	22	30	38	8	19
01 NO POVERTY	Major challenges, Stagnating	Major challenges, Stagnating	Major challenges, Stagnating	Major challenges, Decreasing	Major challenges, Moderately improving	Data not available, No information
02 ZERO HUNGER	Major challenges, Moderately improving	Major challenges, Stagnating	Major challenges, Stagnating	Major challenges, Moderately improving	Major challenges, Stagnating	Major challenges, Stagnating
03 GOOD HEALTH AND WELL BEING	Major challenges, Moderately improving	Major challenges, Moderately improving	Major challenges, Moderately improving	Major challenges, Stagnating	Major challenges, Moderately improving	Major challenges, Moderately improving
10 REDUCED INEQUALITIES	Major challenges, No information	Major challenges, No information	Major challenges, No information	Major challenges, No information	Major challenges, No information	Major challenges, No information
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	Major challenges, Stagnating	Major challenges, Stagnating	Major challenges, Stagnating	Major challenges, No information	Major challenges, Stagnating	Major challenges, Stagnating
13 CLIMATE ACTION	Significant challenges, Stagnating	Challenges remain, On track to achieving SDG	Significant challenges, On track to achieving SDG	Major challenges, On track to achieving SDG	Significant challenges, Decreasing	Challenges remain, On track to achieving SDG
17 PARTNERSHIP FOR THE GOALS	SDG achieved, On track to achieving SDG	Significant challenges, No information	Challenges remain, No information	Significant challenges, No information	SDG achieved, No information	Challenges remain, No information

Worst Performing SDGs: 01, 02, 03, 10, 16. Best Performing SDGs: 13, 17.

MAJOR CHALLENGES · SIGNIFICANT CHALLENGES · CHALLENGES REMAIN · SDG ACHIEVED · DATA NOT AVAILABLE · DECREASING · STAGNATING · MODERATELY IMPROVING · ON TRACK TO ACHIEVING SDG · NO INFORMATION

Source: SDG Index and Dashboard

SIMILAR TO OTHER SUB SAHARAN AFRICA (SSA) REGIONS, INADEQUATE FUNDING FOR SOCIAL CAUSES REMAINS A SIGNIFICANT CHALLENGE FOR THE ACHIEVEMENT OF THE SDGS.

US$ 500B – 1.2 Tr

ESTIMATED AVERAGE ANNUAL SDG FINANCING GAP FOR AFRICA

TRADITIONAL SOURCES OF CAPITAL SUCH AS OFFICIAL DEVELOPMENT ASSISTANCE (ODA) AND FOREIGN DIRECT INVESTMENTS (FDI) HAVE EXPERIENCED SUBSTANTIAL DECLINE IN THE RECENT YEARS.

20% DECLINE IN ODA BETWEEN 2013 AND 2018

US$ 4.8B NET ODA TO SOUTHERN AFRICA IN 2018

45% DECLINE IN FDI BETWEEN 2013 AND 2018

US$ 9.6B FDI TO SOUTHERN* AFRICA IN 2018

FURTHER, ALTHOUGH THE PROPORTION OF TAX REVENUE TO GDP IS HIGHER IN SOUTHERN AFRICA COMPARED TO OTHER SSA REGIONS, IT STILL FALLS BELOW THE OECD COUNTRIES AVERAGE, PUSHING MOST OF THE GOVERNMENTS TO LEVERAGE EXTERNAL BORROWING MAKING THE ECONOMIES HIGHLY VULNERABLE.

34% OECD COUNTRIES AVERAGE

19% SSA AVERAGE

18.4% SOUTHERN AFRICA AVERAGE, 2018

Tax revenue % of GDP in the region is much higher than in other SSA regions but remains lower than OECD countries average

Southern Africa refers to the 6 focus countries
**Excludes Angola which has been reporting negative FDI net inflows in recent years*

This funding gap necessitates collaboration amongst local, international, public, and private social capital providers to deploy existing capital resources in new ways. Across Africa, practitioners are increasingly leveraging diverse forms of social investment to fund social sectors and solve development challenges.

Social Investment is financial and non-financial capital deployed according to rigorous investment principles to generate positive social and environmental impact, with varying financial return expectations. Social investment methodologies have proven to be a powerful strategy to create sustainable and scalable social and environmental impact by enabling diverse social investors to collaborate for a more significant impact on the achievement of the SDGs. Social investment 'capital' takes various forms: financial (grants, debt, equity, blended finance), intellectual and human capital.

This report, maps the landscape of social investments in Southern Africa with a deep dive focus on South Africa, Zambia, and Mozambique, and a high level assessment of Angola, Botswana, and Zimbabwe. It analyses strategies used by various international and local social investment capital providers.

The study leveraged concurrent triangulation, which is a mixed-method approach involving collection and analysis of qualitative and quantitative information from secondary and primary sources. The data and information leveraged was collected through four key sources, a) literature review/desktop research from existing publications on the industry, b) interviews with 51 industry stakeholders, c) transaction/deal mapping from online databases such as Crunchbase, Baobab Insights and Candid/Foundation as well as websites of the different social investors and, d) 22 online surveys received from social investors in the region.

2. EVOLUTION OF THE SOCIAL INVESTMENT INDUSTRY IN SOUTHERN AFRICA

The social investment space in the focus countries has evolved over the past 10 years, with many milestones achieved. The government and the private sector have been at the forefront of launching initiatives to promote the growth of the industry. The region has also witnessed collaboration amongst key investors in the form of social impact bonds launched to solve various social issues.

1998: ESTABLISHMENT OF TSHIKULULU SOCIAL INVESTMENTS
An investment fund manager and advisor, that works alongside investors and other development partners

2009: ESTABLISHMENT OF MICHAEL AND SUSAN DELL FONDATION IN SOUTH AFRICA
With key focus on education /scholarship programs, skill development and jobs and livelihood programs

2010

2011: FIRST INVESTMENT BY AGDEVCO IN SOUTHERN AFRICA
Provided US$ 3 million to ECA, a grain aggregation and processing business in central Mozambique.

2011: ESTABLISHMENT OF BERTHA CENTRE FOR SOCIAL INNOVATION AND ENTREPRENEURSHIP
as the first academic center in Africa dedicated to research, teaching, dialogue and support of social innovations

2012: ESTABLISHMENT OF ANDE SOUTH AFRICA CHAPTER
to convene regular roundtable dialogues and meetings on relevant topics to develop the local entrepreneurship ecosystem

2013: PILOT OF MOZAMBIQUE MALARIA PERFORMANCE BOND
a development impact bond that aims to address the funding gap for malaria interventions

2013: MOTSEPE FAMILY FOUNDATION WAS THE FIRST
on the African continent to join the Giving Pledge started by Bill & Melinda Gates, and Warren Buffet

2015

2015: ESTABLISHMENT OF MOZAMBIQUE BUSINESS ANGELS ASSOCIATION
with the aim to advocate and facilitate social investments in the country

2015: ESTABLISHMENT OF INDEPENDENT PHILANTHROPY ASSOCIATION OF SOUTH AFRICA (IPASA)
to represent and promote the interests of its members

2016: ESTABLISHMENT OF SOUTH AFRICAN BUSINESS ANGEL NETWORK
to promote South African early stage investor community

2017: ESTABLISHMENT OF IMPACT CAPITAL AFRICA, ZAMBIA
to connect impact investors and growth-focused African businesses

2018: LAUNCH OF FIRST SOCIAL IMPACT BOND IN SOUTH AFRICA
Launched by the Gauteng Provincial Government and private sector stakeholders the SIB seeks to improve the employment levels

2018: LAUNCH OF AVPA
Focused on building the social investments industry by fostering collaboration

2019: ESTABLISHMENT OF ZAMBIA NATIONAL ADVISORY BOARD (Z-NAB)
to fast-track growth and effectiveness of impact investing ecosystem in Zambia

2018 ESTABLISHMENT OF IMPACT INVESTING SOUTH AFRICA TASK FORCE
a coalition of public and private sector high-level decision makers, aimed at building the ecosystem to accelerate deployment of capital for increased social, economic and environmental returns

2020

Figure 2: Key Milestones in Social Investment Sector in Southern Africa

GOVERNMENT LED INITIATIVE

PRIVATE SECTOR LED INITIATIVE

3. EMERGING TRENDS IN SOUTHERN AFRICA SOCIAL INVESTMENT INDUSTRY

Growth in the social investment industry in the region has mainly been in South Africa which has exhibited an increased level of maturity in the ecosystem. In particular, South Africa has one of the most advanced individual philanthropy and corporate giving ecosystems in the continent.

Table 1: Summary of Key Social Investments Trends across focus Countries

TREND	SOUTH AFRICA	ZAMBIA	MOZAMBIQUE	DESCRIPTION
Establishment of philanthropy advisors				South Africa has one of the most advanced philanthropy support ecosystems, with multiple ESOs supporting the mobilisation and deployment of philanthropy funds. Very few ESOs were however, identified in Zambia and Mozambique.
Increased institutionalisation of corporate giving				South Africa has seen an increase in investment activities by corporates driven by the enabling policy environment. A large number of corporate foundations and corporate investment funds are currently operational in the country. In addition to deployment of grants and donations, corporate social investors have also been participating in innovative finance structures. Corporate Social Responsibility (CSR) activities in the other countries remain largely adhoc, mainly in the mining and oil and gas industry.
Increased formalisation of individual philanthropy				The largest proportion of family offices and trusts have been established in South Africa with more HNWIs engaged in philanthropy. However, giving through the formal structures is still low compared to total philanthropic giving.
Rise of organised angel investments by HNWIs				Angel investors accounted for 24.7% of total Venture Capital (VC) deals in Southern Africa in 2018 reflecting increased participation of HNWIs in angel investments. The largest proportion of angel investor networks mapped were in South Africa with the largest proportion of deals recorded in the country.
Presence of innovative blended finance transactions/ initiatives				The region recorded the lowest number (38%) of blended finance transactions launched in Sub Saharan Africa to date. With the highest number recorded in East Africa followed by West Africa. The region, particularly South Africa has however, been at the forefront in launching innovative impact bonds in social sectors such as education, energy and youth employment.
Women participation in philanthropy				The increased push for women empowerment in the region has also resulted in more women participating in philanthropy particularly in South Africa. Limited information was available in the other countries.
Use of technology (Peer to peer lending/ crowdfunding) platforms				South Africa and Zambia have witnessed increased activities by crowdfunding platforms enabling individuals and organisations like NGOs to fundraise for social causes.

High maturity levels indicated by intensity and sophistication of the activities and number of players

High activities with increasing number of players

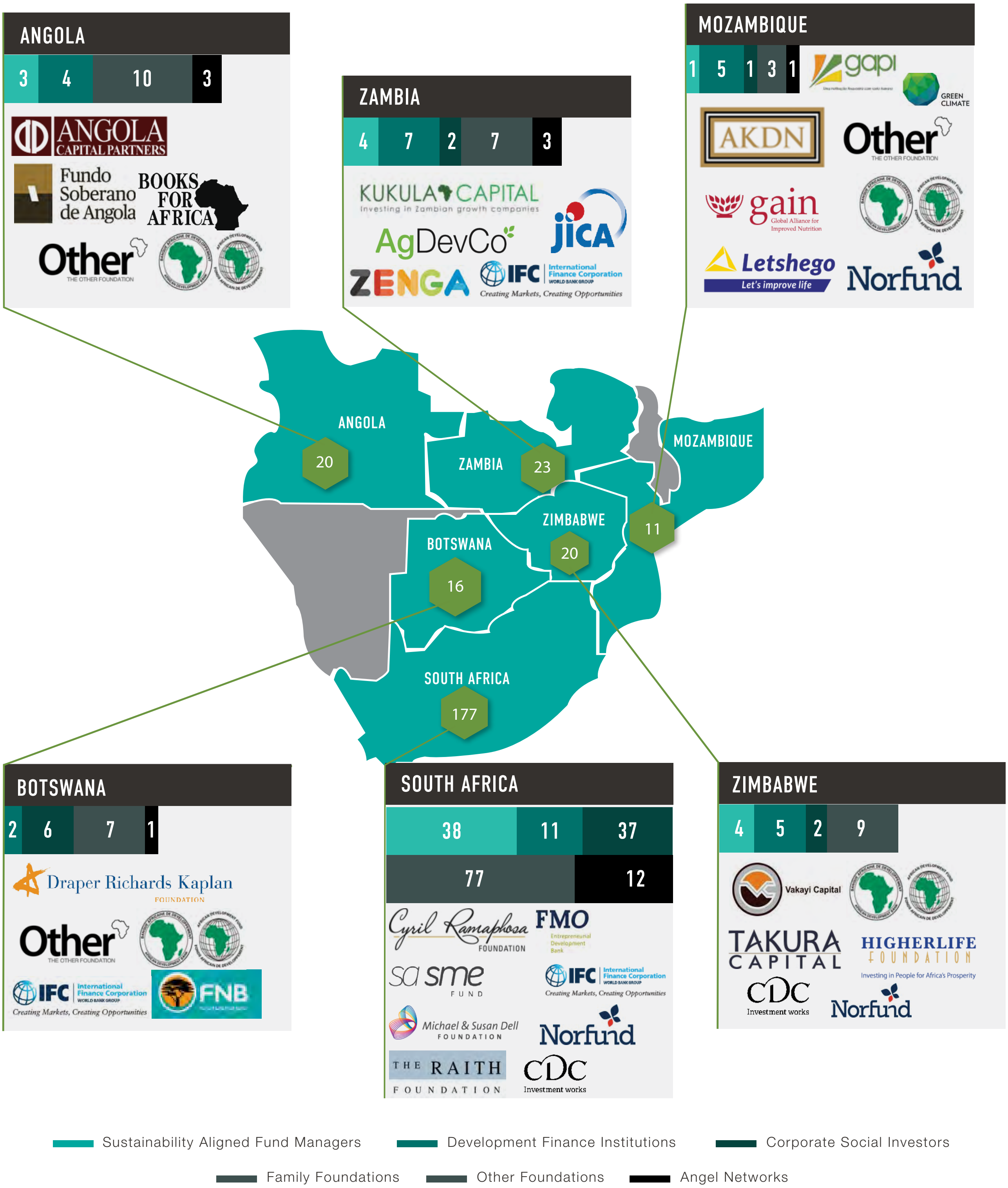
Moderate activities and number of players witnessed

Minimal to no activities witnessed

4. THE SUPPLY SIDE OF SOCIAL INVESTMENTS IN SOUTHERN AFRICA

Southern Africa has a diverse mix of international and regionally based investors deploying social capital in the region. This research mapped close to 250[1] active social investors operating across the focus countries, majorly based in South Africa (71%). The region has a higher number of active regional based family foundations and Corporate Social Investors (CSIs) compared to the West and East Africa regions accounting for 34% of the active social investors identified. On the other hand, the region has a relatively lower number of Sustainability aligned Private Fund Managers (SFMs) than the two regions.

Figure 3: Overview of Key Social Investors in the Region



Source: Intellecap database
NB: Some investors operate across multiple countries and thus counted in each country

[1] List not exhaustive

DEVELOPMENT FINANCE INSTITUTIONS (DFIs):

- DFI investment in the region is highly skewed towards financial services, agriculture, and energy sector given the high capital requirements for businesses and projects in the sectors with the 3 sectors accounting for 84% of the capital deployed.
- The largest proportion (44%) of DFI funding in the region was deployed indirectly through fund managers with over 78% of the total capital deployed in form of debt.

Figure 4: Summary of DFI activities 2015-2019

19 DFIS INVESTED US$ 15.84BN IN 132 DEALS BETWEEN 2015-2019

TRANSACTION SIZE
The average deal size was US$ 28.2Mn.

SECTOR
Financial services, energy and agriculture are the top 3 sector accounting for 84% of total capital.

INSTRUMENTS
44% of the DFI capital deployed through indirect investments with 78% of the capital deployed as debt.

COUNTRY FOCUS
The DFIs have deployed capital in all the focus countries; 52% of which was deployed in South Africa.

TECHNICAL ASSISTANCE
TA is an integral part of the DFI deals with most DFIs setting aside TA funds. TA is provided to investees mostly through external consultants.

IMPACT MEASUREMENT
DFIs use global standard metrics and tools such as IRIS, GIIRS, SDGs and IFC Guidelines to measure and manage impact.

SUSTAINABILITY ALIGNED FUND MANAGERS (SFMs)[2] :

- The SFMs deployed capital focusing largely on financial services, energy and agriculture sector. The financial services sector dominates both in the number of deals and capital deployed within the period, accounting for 58% of the total capital deployed.
- South Africa was the most preferred destination for SFM investments accounting for 86% of the deployed capital.
- A critical financing gap exists for enterprises at growth stages reflecting the challenges faced by 'missing middle' enterprises in the region with the lowest number of deals recorded for enterprises requiring between US$ 0.5-1Mn.

Figure 5: Summary of SFM activities 2015-2019

US$ 1.17BN DEPLOYED BY SFMs IN 183 DEALS BETWEEN 2015-2019

TRANSACTION SIZE
The average deal size was US$ 6.4Mn; with 52% of the capital deployed in deals less than US$ 1Mn.

SECTOR
Financial services, Energy, and Agriculture are the top 3 sectors accounting for 83% of total capital

COUNTRY FOCUS
86% of the SFM capital was deployed in South Africa; No transactions recorded in Angola and Botswana

TECHNICAL ASSISTANCE
Most of the SFMs engaged provide TA services to investees; majorly through TA providers

IMPACT MEASUREMENT
Most SFMs leverage global frameworks to customise impact metrices to each investee depending on the sector of operations.

[2] SFMs refer to private fund managers (including venture capital funds, private equity funds, debt funds, blended finance funds, incubators and accelerators) that deploy capital in SDG focused sectors.

CORPORATE SOCIAL INVESTORS (CSIs)[3]:

- South Africa has one of the most active corporate giving sector in the region with international and regional based corporates spending an annual average of US$ 540Mn on corporate social investments programs in the last five years with growth experienced year on year.
- Education has been the most preferred sector by corporates in South Africa accounting for 50% of all corporate giving in the country in 2019.
- Corporate giving in South Africa has largely been driven by corporates in the retail and wholesale, mining and financial services sector accounting for 22%, 19% and 16% of the total CSI spend respectively in 2019.
- CSI initiatives in Zambia and Mozambique are largely dominated by corporates in the mining and extractive sectors who support health, education, and community empowerment initiatives.

Figure 6: Summary of CSIs' activities in South Africa, 2019

US$ 592MN DEPLOYED BY CSIs IN 2019

SECTORS
Education accounted for 50% of corporate giving. Followed by social and community development (15%) and agriculture (9%)

MANAGEMENT OF FUNDS
56% of corporates manage CSI funds through stand alone CSI departments and 25% through a registered corporate foundation/trust

CHANNEL OF DEPLOYMENT
57% of the total corporate giving in the country is however, through registered corporate foundation/trust and only 31% through CSI department

RECIPIENTS
54% of the funds deployed through non-profit organizations (NPOs)

NB: This data is only for CSIs in South Africa

FAMILY FOUNDATIONS:

Southern African family foundations[4]

- Family foundations active in Southern Africa largely adopt the grant making and donations based approach for their capital deployment. Southern Africa based family foundations are however, adopting innovative financing structures e.g. participating in impact bonds.
- Healthcare is the main focus area for regional foundation accounting for 61% of the total funding.
- Most of the family foundations' funding has been deployed through the government indicating a close working relationship.

Figure 7: Summary of Southern African family foundation activities (2013-2020)

US$ 319.5MN DEPLOYED BY THE SOUTHERN AFRICA FAMILY FOUNDATIONS IN 30 TRANSACTIONS

TRANSACTION SIZE
The average transaction size was US$ 10.6 Mn; with higher transaction size observed in donations towards health sector.

SECTORS
Healthcare is the primary sector accounting for 61% of the capital deployed; economic empowerment and education are among the other target sectors each accounting for 33% and 6% of the deployed capital

INSTRUMENTS
63 % of capital deployed to support government initiatives. Further, financial institution and academia/research institutions account for 31% and 4% of the capital deployed respectively.

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[3] Refers to corporate foundations, corporate funds, corporate sustainability programs, and corporate accelerator/incubator programs

[4] Family foundations headquartered in Southern Africa

North American and European family foundations[4]

- North American family foundations have supported various initiatives in the region, with most of the funding focusing on healthcare and education (accounting for 74% of the funding between 2015 and 2019.

- The top three foundations – BMGF, Andrew W. Mellon, and Conrad N. Hilton Foundation – accounted for over 76% of the North American family foundations grant value between 2015-2019.

- Only a few European based foundations were identified in the region. These include; King Baudouin Foundation (KBF Foundation) that runs an annual prize known as 'King Baudouin Prize for Development in Africa' and LGT Venture Philanthropy that has supported the Harambee Youth Employment Accelerator in South Africa.

Other international family foundations

- While we believe there are some Asian and Latin American family foundations active in the region, these could not be comprehensively covered during this research due to limited data available on their activities. This presents a key area for future research.

Figure 8: Summary of North American Family Foundations' activities (2015-2019)

US$ 545.4MN DEPLOYED BY THE NORTH AMERICAN FOUNDATIONS IN 830 GRANTS

TRANSACTION SIZE	***SECTORS***	***INSTRUMENTS***
The average deal size was US$ 0.9Mn.	51% of the grant capital was deployed toward health initiatives.	Largely grants deployed to the NGOs and programmatic interventions. Some foundations also engage in venture philanthropy.

ANGEL INVESTORS:

- The Southern Africa region has witnessed an increase in angel investing activities driven by the rise of wealthy individuals in the region. Angel investments in the region increased from US$ 2.6Mn in 2015 to US$ 12.9Mn in 2018.
- A number of angel investment networks have been established in the last 4-5 years to promote the growth of angel investing in the sector.

- Angel investors prefer to invest in innovative business models such as block-chain, and other technology-based enterprises such as fintech, e-commerce and software.

BILATERAL AND MULTILATERAL DONORS:

- Donors play a critical role in funding various sectors in the Southern Africa region with health, education and skill development being the priority sectors for donors in Southern Africa focus countries.

- United States Agency for International Development (USAID) accounted for the largest proportion (41%) of donor funding in the region in 2018.

- The region has witnessed a decline in Official Development Assistance (ODA) funding in recent years, which could be attributed to changing capital deployment strategies by the donors.

FAITH-BASED GIVING:

- Faith-based philanthropy in Southern Africa is rooted largely in the religion principles and teaching, and driven by large-scale individual and institutionalized giving.

- Faith Based Organisations (FBOs) in the region, thus, play a critical role in addressing critical developmental challenges such as skill development, health, and poverty in the focus countries.

- In South Africa, for instance, the Motsepe Foundation and the 33 Religious and FBOs have been working together for several years and established a "job creation fund" to create sustainable jobs and provide skills and training to youth.

[5] Family foundations headquartered in North America and Europe

Table 2: Characteristics of Social Investors Active in the Region

Social Investor Category	Capital Scale (US$)*	Type of Capital deployed	Patient Capital?	Innova-tive Finance?	Risk Tolerance	Geographic Reach	Dominant Sectors	Potential for Social Impact
Development Finance Institutions (DFIs)	Billions	Equity Debt Guarantees	Limited	Yes	Low	**Moderately Concentrated** (South Africa, Zambia, few large deals in Mozambique)	Financial Services, Energy, Agriculture and Food	Large capital base can be used to catalyse more innovative finance structures in more sectors Longer term financing to cover short term financing by SFMs, corporate social investors
Sustainability Aligned Fund Managers (SFMs)	Hundreds of Millions	Equity Debt	Limited	Limited	Low	**Moderately Concentrat-ed** (South Africa)	Financial Services, Health, Agriculture and Food	Through engaging with grant makers using innovative finance structures
Family Foundations (North America and Europe HQ)	Hundreds of Millions	Grants Debt Equity	Yes	Yes	Medium - High	Across all countries	Education, Health	Large capital base, flexible, can drive innovative finance e.g. payment of outcomes for social impact bonds
Family Founda-tions (Southern Africa HQ)	Hundreds of Millions	Grant Debt	Yes	No	Medium - High	**Highly concentrated** (South Africa)	Education, Health	Limited capital but opportunity to lead local venture philanthropy practice
Corporate Social Investors	Hundreds of Millions	Grants (Primarily) Equity, Debt	Yes	Limited	Medium - High	**Highly concentrated** (South Africa)	Education, Health, Community Development	Potential to mainstream impact through corporate sustainability
Faith-Based Giving	Hundreds of Millions - Billions	Grants	Yes	No	Medium - High	Across all countries	Education, Health	Large capital base and geographic reach, enormous catalytic capital potential
Angel Investors	Tens of Millions	Equity Debt	No	No	High	**Highly concentrated** (South Africa)	Fintech, Software & ICT, Consumer Goods	Supporting early stage commercial social enterprises
Government Schemes	Hundreds of Millions	Debt Guarantees	Limited	Yes	Medium	**Moderately Concentrated** (South Africa, Zambia, Mozambique)	Agriculture and Food, Economic Empowerment/Entrepreneurship/SMEs	Large capital base, can be leveraged for innovative finance like SIBs
Donors	Billions	Grant Debt	Yes	Yes	Medium - High	Across all countries	Agriculture and Food, Health	Large capital base can be used to catalyse more innovative finance structures in more sectors e.g. in form of DIB

Billions · Hundreds of Millions - Billions · Hundreds of Millions · Tens of Millions

LIMITED Limited · Yes · No · High · Medium - High · Medium · Low - Medium · Low

Financial Services · Energy · Agriculture and Food · Health · Education · Economic Empowerment/Entrepreneurship/SMEs

Consumer Goods · Community Development · Software & ICT · Fintech

**Capital Scale = range of capital deployed annually in the region as a group*

5. THE DEMAND SIDE OF SOCIAL INVESTMENTS IN SOUTHERN AFRICA

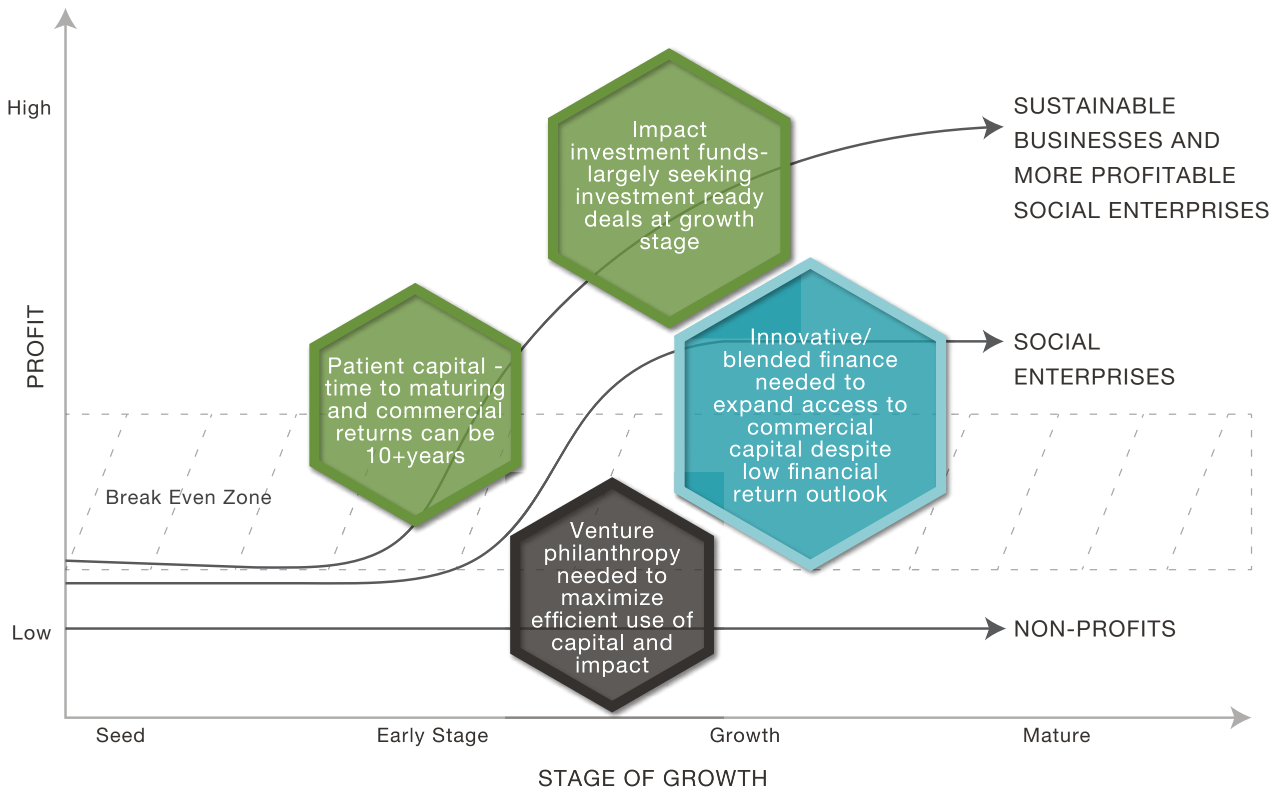
The lack of innovative capital in the region continues to constrain the growth of the entrepreneurship ecosystem.

- The region has witnessed lower entrepreneurship rates partly due to financing challenges facing most entrepreneurs. As a result, the larger proportion of the population particularly in South Africa is engaged in the formal employment sector. This has however, resulted in higher unemployment rates especially among the youths as the demand for formal jobs outweigh the supply.
- Most businesses in Zambia and Mozambique are in the early-stages with very few venture-stage or mature businesses with the traditional financial service providers (banks, MFIs) being the main capital providers. These however, impose high collateral requirements and interest rates that hinder the businesses from accessing the capital, thereby limiting the growth of such enterprises.
- Inadequate supply of capital for the early-stage businesses is a critical challenge, with only a handful of SFM deals recorded at the pre-seed level in the region.
- Addressing these gaps requires catalytic funding and innovative instruments to de-risk and attract private investments. More patient growth capital is needed for scalable early-stage businesses that do not qualify for pure-play equity.

Declining funding for the non-profit sector from international sources is necessitating the development of more sustainable and innovative financing mechanisms for NGOs.

- Non-profits/non-governmental organisations (NGOs) across the region rely almost exclusively on funding from international sources. This funding has however, been dwindling due to political changes in Western countries and shifting strategies away from grant-making towards impact investment.
- Further, most international funders focus largely on supporting programmatic interventions with significant funding gaps identified for capacity building and general administration support to the NGOs.
- There is thus a need to leverage more sustainable approaches, such as venture philanthropy, for deploying both local and international capital to non-profits. Such approaches can create significant social impact by providing long-term funding and technical assistance support.

Figure 10: Type of Financing Requirements for Various Types of Organisations at Various Stages of Growth



5.1 TRENDS, DEVELOPMENTS AND CHALLENGES IN THE SOCIAL ENTERPRISE AND START-UP LANDSCAPE

South Africa has maintained its position as the top start-up ecosystem in Africa, with several innovative businesses focused on solving development challenges, particularly in the financial inclusion space.

Although only a small proportion of the population is engaged in entrepreneurship, compared to other countries, South Africa is among the best-placed countries for the start-up ecosystem in Africa, ranked 52 in the Start-up Ecosystem Ranking[6] 2020 and boasts of a well-developed ecosystem comprising of investors, accelerators, incubators, and other support agencies.

Women-led enterprises, especially in the technology domain, are increasing; however, they continue to face more challenges when compared to their male counterparts.

Botswana and Angola ranked top 10 in the global ranking of women entrepreneurs in 2019 with 36.0% and 30.3% of businesses owned by women in the two countries, respectively[7]. However, women-led and owned enterprises are strapped for funds in comparison to male businesses with male-owned enterprises receiving six times more capital than female-owned enterprises in Africa[8].

The small market size and low purchasing power in some focus countries create challenges for growth and scale-up of social enterprises (SEs) and sustainable businesses.

Except for South Africa and Angola, the other focus countries have a relatively smaller size of the economy, with low purchasing power and high poverty levels. Enterprises that engage in providing non-essential services or products cannot survive in such socio-economic conditions as the purchasing power for such services and products is very limited. This indicates a need for hybrid financing and operating models in these countries for achieving the SDGs.

A significant proportion of the enterprises have sprung up out of necessity and lack innovation resulting in high failure rate.

With the burgeoning issue of unemployment that the region is facing, youths have been establishing social enterprises/start-ups to earn an income and support their livelihoods. Business models of such enterprises. However, have minimal innovation and result in many similar types of businesses competing with each other resulting in high failure rate. 85-90%[9] of enterprises in South Africa for example, fail within the first five years of their establishment.

A large amount of aid money in key social sectors makes it difficult for profit-making SEs/Start-ups to scale business models that can compete with subsidized products and services in those sectors.

Due to the high poverty levels and frequent natural disasters facing some countries such as Mozambique, donors continue to play a vital role in providing aid in the form of grants for solving development challenges, particularly in the health, agriculture, energy, and education sectors. Thus, for-profit social enterprises/ start-ups find it very difficult to compete with the NGOs in financially sustainable manner.

Social enterprises in the region face multiple challenges that hinder their scale-up with most failing within the first few years of establishment.

Some of the critical demand, supply and ecosystem challenges facing enterprises are highlighted below;

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[6] Startup Ecosystem Ranking Report, 2020, Startup Blink

[7] The MasterCard Index of Women Entrepreneurs, 2019

[8] World Bank: Profits from parity – unlocking the potential of women's businesses in Africa

[9] OECD: Financing SMEs and Entrepreneurs 2020

Figure 11: Challenges faced by Social Enterprises and startups in Southern Africa

SUPPLY SIDE CHALLENGES	DEMAND SIDE CHALLENGES
Inadequate access to funding sources: Domestic credit provided to the private sector as a proportion of GDP remains low across the focus countries except in South Africa. This means that small businesses are often locked out of the formal financial system, given the inherent challenges associated with lending to such businesses.	***Poor understanding of sophisticated financial terms:*** Understanding of financial terms and instruments such as mezzanine debt, equity and blended finance remains low among most enterprises. ***Human resource capacity challenges:*** Most social enterprises and start-ups face financial constraints which limit them from hiring the right talent or up-skilling their current talent.

ECOSYSTEM LEVEL CHALLENGES
Macro-economic challenges plaguing the growth of SEs and start-ups: Poor macro-economic performance due to challenges such as natural disasters, over-dependency on the oil and mining industry, and currency depreciation, have significantly affected the performance of businesses in the region.
Lack of recognition of the concept of social enterprises: None of the focus countries has policies and structures explicitly outlining the registration requirements of social enterprises.
Limited access to information, networks and support infrastructure: Ecosystem support for social enterprises is concentrated in major cities. Rural based enterprises thus face challenges accessing the information on funding opportunities, networking with potential investors, and capacity-building support.
Inadequate and costly infrastructure: While South Africa has more advanced infrastructure compared to other countries in the region, the cost of accessing electricity and telecommunication services still remains quite high.

5.2 TRENDS, DEVELOPMENT AND CHALLENGES IN THE NON-PROFIT LANDSCAPE

The non-profit sector across the focus countries plays an integral role in solving societal and development challenges evident through an increase in the number of NGOs over the recent years.

The NGOs continue to play a crucial role in driving the development agenda of the country and have been highlighted as key government implementation partners in South Africa. In Zambia and Mozambique,where the number of social enterprises is low, NGOs remain a critical stakeholder for solving societal and development challenges. Most of the non-profits in the region operate in the social services sector, such as education, health and employment sector.

The overall Civil Society Organisations (CSO) sustainability index across most of the countries has shown minor improvements; the financial viability score has, however, been deteriorating for most of the countries.

The CSO sustainability index measures the performance of CSOs in seven key dimensions including; legal environment, organisation capacity, financial viability, advocacy, service provision, sectoral infrastructure and public image.CSOs financial viability indicator score across most focus countries in the region has been poor - this can be attributed to the decline in foreign donor funding and insufficient local philanthropy and fundraising models to fill the gap. High dependency on donors prevents CSOs from quickly responding to emerging needs as donor funding usually has limited flexibility.

Unlike in other countries, the government is a key partner for NGOs in South Africa, not only providing the largest proportion of funding but also providing capacity-building support.

The Government funding has been exhibiting an increasing trend over the past years and stood at 74% of total Non-Profit Organisations (NPOs) funding in 2018, a substantial increase from 39% in 2012[10].

The non-profit sector in the focus countries faces multiple challenges in various areas, including; funding, institutional technical and human capacity, and legal and regulatory challenges. These have been outlined below.

[10] NPO Accountability in a disconnected and divided South Africa, 2018

Figure 12: Challenges Faced by Non-profits in Southern Africa

SUPPLY SIDE CHALLENGES	DEMAND SIDE CHALLENGES
Decreasing funding sources: NGOs/CSOs in most of the focus countries rely on international sources for grant funding. Given the declining funding non-profits are facing challenges in implementing their activities. The decline in the financial viability score for CSOs and NGOs in most of the focus countries indicates their increased vulnerability.	***Limited income diversification:*** While certain regulations across the countries allow NGOs/CSOs to participate in income-generating activities, they lack skills to do so and thus shy away from the same.
Restricted funding: Funding has majorly been to programmatic interventions with low funding to address capacity building needs of the NGOs.	***Inadequate technical and human resource capacity:*** High staff turnover is a major challenge for NGOs/CSOs across all the focus countries as most lack adequate financial resources to attract and retain qualified staff.
	Lack of impact measurement mechanisms: While most local NGOs/CSOs continue to have a positive impact on their communities, most rarely develop mechanisms to measure and manage the impact generated.

ECOSYSTEM LEVEL CHALLENGES
Bureaucracies and delays in the registration and tax exemption processes: CSOs/NGOs across the focus countries cite challenges and bureaucracies in the legal processes, particularly in the application for registration and tax exemptions.

6. ENABLING ENVIRONMENT FOR SOCIAL INVESTMENTS IN SOUTHERN AFRICA

The Southern Africa region boasts of a stable business and investment regulatory environment making it an attractive destination for investments. However, most of the countries lack specific frameworks and regulations to promote growth of the social investments industry. Further the existing ecosystem support organisations are inadequate to meet the needs of enterprises across the growth cycle. Unique to the region nonetheless, are philanthropy advisors playing a key role in mobilizing and deploying philanthropic capital.

Table 3: Overview of Enabling Environment for Social Investments across the Focus Countries

ECOSYSTEM CATEGORY	SOUTH AFRICA	ZAMBIA	MOZAMBIQUE	DESCRIPTION
POLICY AND REGULATORY ENVIRONMENT				
Policies and regulations				Overarching frameworks and regulations to support social investments do not exist across the focus countries. South Africa has however, made notable progress in developing frameworks to promote corporate social investment and venture capital.
ECOSYSTEM SUPPORT TRENDS FOR SOCIAL ENTERPRISES AND START-UPS				
Incubators and early-stage support				Incubators are largely concentrated in South Africa with most operating from two main cities in South Africa – Cape Town and Johannesburg. This limits the growth of enterprises in the peri-urban and rural locations. A few incubators were identified in Zambia and Mozambique. Most of the identified incubators are also sector agnostic.
Accelerators and TA providers				Most ecosystem support activities in the region are geared towards early-stage enterprises leaving a large gap for growth and mature stage companies with few affordable accelerators and TA providers that target this segment 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. Education institutes in South Africa have also established centres to promote training on social investment and entrepreneurship.
ECOSYSTEM SUPPORT TRENDS FOR NON-PROFITS				
Ecosystem support for philanthropy				South Africa has a relatively 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 that bring together stakeholders.
Strategic advisors for the non-profit sector				Structured and customized capacity-building support for non-profits is currently inadequate, especially for organisations transitioning into hybrid for-profit / non-profit operating models and seeking to establish innovative and alternative revenue models.

High maturity levels indicated by intensity and sophistication of the activities and number of players

High activities with increasing number of players

Moderate activities and number of players witnessed

Minimal to no activities witnessed

7. RECOMMENDATIONS AND OPPORTUNITIES FOR INDUSTRY STAKEHOLDERS

The key recommendations to develop the social investment industry are grouped into three categories; recommendations to catalyse diverse and innovative pool of social capital, recommendations to empower organisations delivering social change, and recommendations to develop enabling environment and infrastructure.

Table 4: Summary of key recommendations

	Recommendations For SI Stakeholders	Priority Level
Recommendations to catalyse a diverse and innovative pool of social capital	Enhancing the role of government in social investments	High
	Mobilizing and enhancing the use of concessional/catalytic capital	High
	Promoting education and awareness creation on social investment practices	High
	Increasing awareness on Gender Lens Investing (GLI)	Medium
	Building SIB/DIB champions and developing SIBs/DIBs beyond South Africa	Medium
Recommendations to empower organisations delivering social change (demand-side players)	Promoting alternative funding models for NGOs	High
	Developing TA toolkit for NGOs	Medium
	Promoting human capital development for SEs and NGOs	Medium
	Offering tailored TA to support post-investment monitoring and value creation	High
Recommendations to develop enabling environment and infrastructure	Data building and development of knowledge tools	High
	Improving the legal and regulatory frameworks	Medium
	Enhancing ecosystem support to enterprises outside the main cities	Medium
	Promoting sustainable funding to ESOs	Medium
	Developing issue-based platforms	Medium

7.1 RECOMMENDATIONS TO CATALYZE DIVERSE AND INNOVATIVE POOL OF SOCIAL CAPITAL

- **Mobilizing and enhancing the use of concessional/catalytic capital to address financing barriers for SMEs and social enterprises:** Credit by traditional financial providers remains low and most of the financial institutions are largely risk-averse charging high-interest rates. Concessional/Catalytic capital can be leveraged to enhance financial institutions funding to impact-focused businesses. Donors and international foundations are well-positioned to catalyse impact capital e.g. by providing credit or first loss default guarantees to cover the downside risk for commercial lenders.

- **Promoting education and awareness about other social investment practices beyond impact investing:** Awareness of the methodologies and practice of venture philanthropy, particularly amongst the philanthropy community and corporates, remains significantly low. Hence, more engagement needed to engage and educate these players and guide them in aligning their strategies and create shared value collaboration amongst the investors.

- **Enhancing the role of government in social investment space:** The role of government in providing funding and building the ecosystem infrastructure is crucial for the growth of the social investment space in the region. While the South Africa government has increasingly been playing a role in promoting blended finance structures, participation of governments in the other focus countries remain low. It will thus be important to showcase opportunities on how these governments can participate in the sector and build their capacities for active participation.

- **Building Social Impact Bond/Development Impact Bond (SIB/DIB) champions and developing SIBs/DIBs beyond South Africa:** Government involvement has played a crucial role and been advocated as a key consideration for developing successful impact bonds. Key learning from the SIBs in South Africa can be leveraged to contextualize and launch similar initiatives in the focus countries that have witnessed a low level of similar activities.

- **Increasing awareness about Gender Lens Investing (GLI):** Creating adequate awareness regarding the criticality of gender lens investing and generating data-based evidences can be a game-changer for all stakeholders involved. At present, there is a limited understanding of GLI amongst the broader investor community, while a few of them have been making an unintentional positive impact by investing in segments such as microfinance institutions (MFIs) that target women. There is a need to celebrate every GLI success story and encourage women-focused intermediaries to support women entrepreneurs in building investable and sustainable businesses.

7.2 RECOMMENDATIONS TO EMPOWER ORGANISATIONS DELIVERING SOCIAL CHANGE (DEMAND-SIDE PLAYERS)

- **Promoting alternative funding models by non-profits:** International sources account for the largest proportion of funding to NGOs in the region. With the declining donor funding to NGOs/CSOs, new and innovative models need to be leveraged to raise and attract more funding to support their activities.
- **Establishment of a technical assistance toolkit and on-site training for NGOs:** Inadequate skills in areas such as strategy, financial management, program management is a major challenge facing the NGOs. Most of the NGO funders have focused on program funding with a minimal amount allocated to TA. Thus, there is a need to develop and share a readily accessible toolkit providing information and training on various operational areas can address issues and gaps that are specific to NGOs in the region.
- **Promoting human capital development for SEs:** Financial constraints prohibit most early early-stage enterprises from establishing human resources structures and processes, including hiring the right talent or up-skilling existing talents. Hence, social investors could develop interventions such as subsidizing HR costs of enterprises or support ESOs that specifically run leadership and management programs.
- **Offering tailored TA to support post-investment monitoring and value creation:** While there are a number of ESOs in the region supporting early-stage enterprises, there is meagre support for later stage enterprises, which limits their ability to scale. Social investors can therefore, collaborate to develop models and tailored TA support provided to high potential enterprises from their early to growth stages.

7.3 RECOMMENDATIONS TO DEVELOP ENABLING ENVIRONMENT AND INFRASTRUCTURE

- **Data building and development of knowledge tools:** The availability of data and information remains varied in the region and across investor categories, with few ecosystem players particularly in Zambia and Mozambique focusing on collecting this information. This further limits collaboration efforts with challenges experienced in building pipeline and identifying co-investment opportunities for different social investors. Thus, it will be crucial to build on the baseline data provided in this report and establish a central data repository/dashboard to make it easy to identify opportunities.

- **Improving the legal and regulatory frameworks:** South Africa has been at the forefront of developing polices and regulations to boost the social investment space and provides a benchmark for other countries. Some of the proposed policies that need to be established in the region include; overarching frameworks for social investments, Start-up Actoutlining legal conditions for registering start-ups and incentives to promote the growth of the industry, and CSI policies and laws.

- **Enhancing ecosystem support to enterprises outside the main cities:** Currently, ecosystem support organisations (ESOs) are concentrated in major cities across the focus countries locking out rural-based enterprises from accessing capacity building, mentorship and funding opportunities. An online platform would help cater for a broader range of enterprises as physical presence is not required. Such a platform can also be leveraged to build the capacities of the very early stage (idea) businesses and thus provide a pipeline for incubators seed investors.

- **Enhancing sustainable support for ESOs:** ESOs in the region indicated face several challenges that hinder them from expanding their operations beyond the main cities driven by limited and unsustainable funding sources. Local foundations, donors as well as international foundations could allocate part of their funding to sustainably support the ESOs, for instance, through partial repayment grants that aim to drive sustainability for the ESOs. ESOs could also be used to deploy seed/grants to enterprises on behalf of philanthropists.

- **Developing issue-based platforms:** Several cross-cutting themes affect social investors as well as social enterprises and NGOs e.g. gender biases both at supply and demand of social capital, hindering the flow of capital to women businesses. Ecosystem facilitators could, therefore collaborate with the right set of social investors and other stakeholders to develop such issue-based platforms.