Accelerating Impact

Track 1 Workshop

16 May 2025

Nicole Martens

Agenda

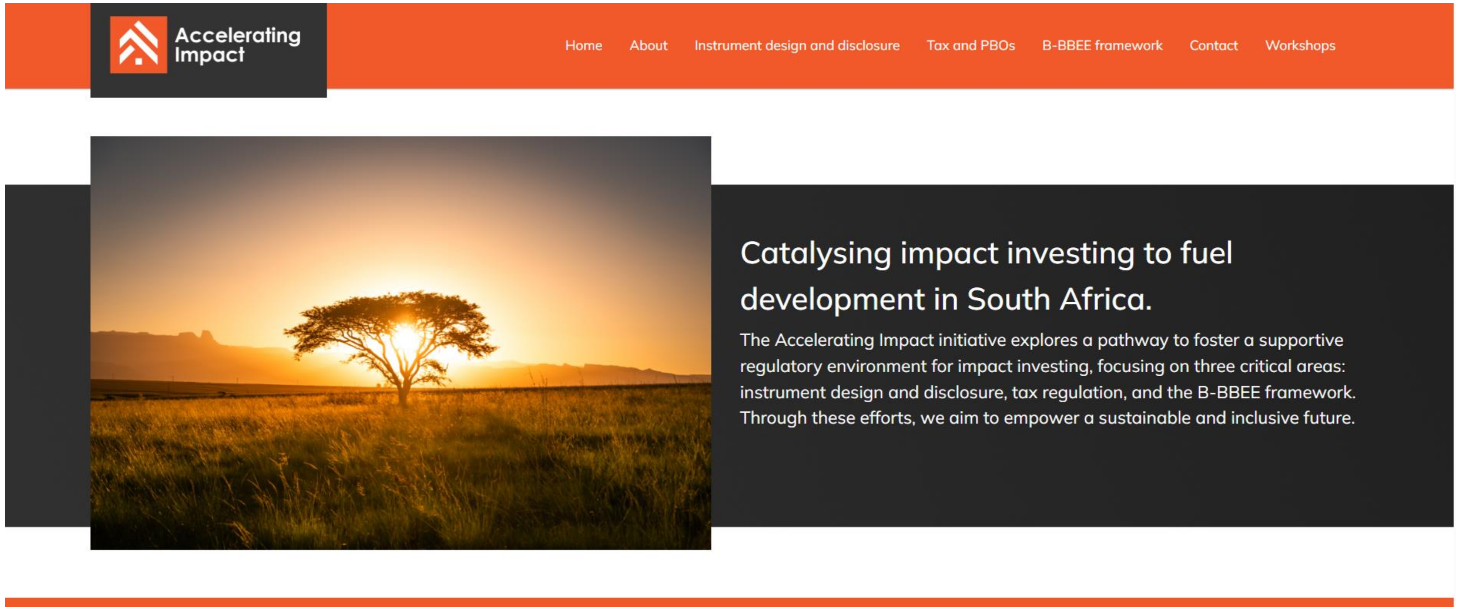
1. Welcomes and introductions
2. Recap on Accelerating Impact project objectives and phases
3. Aims of Track 1
4. Issues emerging from the research phase
5. Recommendations
6. Concluding discussion

Setting the scene

- Impact investing has the potential to deliver extensive social benefits for South African society.
- But to realise this potential, there will need to be a conducive regulatory environment.
- The project's programme of work will lead to a set of proposals across three key areas to stimulate and regulate impact investing in South Africa. These areas are:
    - instrument design and disclosure
    - tax regulation
    - the B-BBEE framework

How the project will deliver this

- 1. Draft three **policy papers:**
  - Research, analysis, stakeholder mapping
  - Policy objectives and recommendations
- 2. Circulate and **workshop** the papers.
  - to deepen and refine the recommendations
- 3. Develop the **final reports** for circulation
- 4. Commence **policyholder engagement**



Workstream outline: Track 1 – Instrument design and disclosure

PROBLEM STATEMENT:

- Financial investments play a crucial role in addressing real-world challenges
- Whether intentional or not, these investments shape outcomes that directly affect global and national sustainability goals
- Increasingly, investors recognise that long-term financial success depends on the health of environmental and social systems
- This understanding is driving a shift towards investments that aim to enhance sustainability outcomes
- As the market for more sustainable and impactful investment grows, so too does the proliferation – and marketing – of investment products designed to be sustainable and impactful
- In this context, in the absence of transparency, substantial information asymmetry exists and the potential for misalignment of investor values and objectives with investment product design is significant

Workstream outline: Track 1 – Instrument design and disclosure

OUR VIEW

- Substantial public good can arise from stimulating the impact investing market

OUR APPROACH

- To highlight the risk associated with an absence of clear definitions and disclosures with respect to impact-related instruments
- To reference various international examples of emerging labeling regimes
- To produce recommendations related to instrument design and disclosure that would encourage more impact investing

Discussion

- In the absence of clear frameworks for designing and labelling investment products according to their relationship with impact, it is impossible to know for sure whether products labelled as impact-focused are effectively delivering on investors' objectives, presenting a set of circumstances conducive to impact washing.
- The theory of change underpinning more rigorous disclosures posits that greater transparency will lead to better decision-making, accountability and performance while driving competition in the market and improving product quality (consumer protection and market performance)
- Precedent exists in other markets (principally EU and UK)
- South Africa has the 'building blocks' in place to implement similar frameworks (supportive of instrumental but not ultimate ends IFSI)

Emerging recommendations

Defining ‘impact investing’

- Adopt a clear, universal definition of impact investing as the first step in developing policy and regulatory frameworks that are designed to catalyse and accelerate impact investing in South Africa.
- Global Impact Investing Network (GIIN): "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return". This definition aligns closely to that of ultimate ends IFSI, as presented by the LFfI.
- In the case of South Africa, the definition of “impact” should be further refined to align to the Green Finance Taxonomy. While the taxonomy does not provide a detailed or standalone framework for social impact, its focus on the just transition is reflected through its emphasis on inclusive growth and socially responsible development, particularly in sectors that are crucial for South Africa’s energy transition.
- The taxonomy recognises that while the focus is on green activities like renewable energy, energy efficiency and sustainable agriculture, the transition must be fair and equitable, addressing social, economic, and labour concerns. It aligns with the principles outlined in South Africa’s Just Transition Framework, which includes ensuring that the benefits of the green economy are widely shared, creating decent jobs, protecting livelihoods and supporting communities affected by the transition away from carbon-intensive industries.

Emerging recommendations

- **Introducing an impact-focused fund labelling regime**
- Categorise investment products in relation to impact as per the definition of impact investing agreed – intention, composition, disclosure
- Voluntary initially, and then over time mandate alignment, starting with larger funds.
- Over time, require target-setting and continuous improvement, alongside assurance of reported impact data.
- Given that the framework would aim to combat impact washing, which is predominantly a conduct issue, the regulator best suited to the enforcement of these specific disclosure requirements is likely to be the FSCA.

Discussion

- In a country with such stark inequality, crippling poverty, growing levels of unemployment and ever-growing dependence on a revenue-constrained fiscus for grants, these recommendation seek to crowd in more private capital into impact investing structures for blended return

- Do these recommendations make sense in principle?
- Practically, what would it take to ensure these recommendations are implementable?
- What should the next steps be?

Thank you

- Please feel free to share any additional thoughts:
  - nmartens@krutham.com