Defining impact investing to better enable social mobility in South Africa

By Jenny Cope

22 Apr 2020

South Africa's economy could benefit enormously from correcting inequality through improved social mobility. Though this may sound like a no-brainer, selecting investment projects that will have a positive impact on social mobility is made difficult by unclear definitions of impact investment.

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Social mobility is defined by the World Economic Forum (WEF) as "the ability of a child to experience a better life than their parents". According to the *WEF Global Social Mobility Report 2020*, "The economic and social returns from investing in the right mix of social mobility factors are substantial. If countries included in this report were to increase their social mobility index score by 10 points, this would result in an additional GDP growth of 4.41% by 2030 in addition to vast social cohesion benefits."

For governments and investors, then, projects that positively impact social mobility factors such as working conditions or population health (to name only two of the 10 factors rated in the WEF report) should be prioritised to maximise and ensure the sustainability of return on investment. However, there's more to it than financial returns.

South Africa currently ranks 77th out of 82 participating countries in the WEF 2020 Global Social Mobility Index Ranking, which demonstrates the wide gap between the wealthy and the poor. In real terms, this indicates that it is likely to take nine generations for the poorest South Africans to reach median income, compared to just two generations in top-ranking Denmark.

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Impact investments as social mobility enablers

Considering rising unemployment rates and extremely low GDP growth predictions - and prevailing challenges faced in the country that extend beyond but are not unaffected by the current Covid-19 pandemic and the containment measures that have been instituted - this creates a sense of urgency to effect change. Impact investing is one way to approach this need, and sustainably. Broadly, a project can be called an impact investment if it creates an environmental or social benefit, as well as a financial return.

The challenge, however, is that the criteria for what qualifies as an impact investment is not well defined beyond those simple terms in many parts of the world, and South Africa is no exception. Take, for example, an investment made in equipment to improve the air quality of emissions from an existing factory. This investment could certainly show a positive environmental benefit and should show a financial return. It may, therefore, be classified as an impact investment.

But it can just as easily be viewed as an operational requirement in order to comply with South Africa's Air Quality Act, making it a licence to operate investment. And the financial return may well be due to reduced operating cost and avoiding a hefty fine for non-compliance.

Projects that are effectively about applying run-of-the-mill technology to making a brown project greener, rather than providing innovative and future-focused thinking to make a genuine social or environmental impact, are by no means inherently bad - but it is critical to remember that the financial pot to be invested is finite, and impact investors are entitled to know exactly how their funds are being used. This is where the complexity lies, and there is much controversy as to whether ‘greening’ projects should be presented to investors under the banner of impact investment opportunities. There must be funding available to both improvement and innovation projects, as both are beneficial to the environment and society, with clear distinctions made to inform potential investors.

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Clarifying the grey areas

Initiatives such as disclosure reports could help to define the terms of impact investment versus licence to operate or green investment, and voluntary disclosure reporting is in place in South Africa. However, because these are not mandatory, they also are not standardised, making it difficult for investors to compare apples with apples.

Legislating financial and environmental impact reporting would make it easier to define whether or not an investment is an impact investment, simply because impact would be measured in a standard way and reported annually. So, greening an existing facility might fairly qualify for support funds as a green initiative. But investing the same value in funding a revolutionary environmentally impactful project would qualify as an impact investment.

Those countries that lead on better defining the grey areas around what constitutes impact investment will find many of their innovative projects that foster social mobility are financially supported - as environmentally and socially conscious investors choose to invest in that clarity. South Africa has an opportunity to be part of this, by providing investors with surety of how their money is changing the world.

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