

Case study: Catalytic Investor of the Year

This award recognises funders deploying capital in innovative ways to enable impact investing. Philanthropists, donors, high net-worth individuals, trusts and foundations are eligible.

SAB Foundation

Founding date	2010
Geography	Southern Africa
Sector	Strategic Management
SDGs	Direct: 8 [decent work and economic growth] Indirect: 5 [gender equality], & 10 [reduced inequalities]
Web	https://www.sabfoundation.co.za

Background

SAB Foundation's (SABF) primary objective is to fund and support entrepreneurs, with a particular emphasis on creating opportunities for women, youth, rural communities and persons with disabilities. Its main aims are to grow the economy, address key social challenges at scale, create jobs and to drive thought leadership through its continuous impact measurement.

To achieve this, SABF has developed three focus areas: social innovation, entrepreneurship and rural economies. Within the first two focus areas, SABF has created a continuum of support from the seed to start-up, to accelerate to growth. Most support has historically been targeted at the start-up phase (grants) and to accelerate growth (grants and interest-free loans). Growth phase finance was added towards the end of 2022 (concessionary interest-bearing loans).

All programmes consist of a combination of funding, skills training, mentoring, brand building and access to markets. In 2020, SABF introduced a psychological support element that provides assistance, care or resources to address psychological wellbeing. SABF takes about 85 new entrepreneurs into its two flagship programmes each year (Social Innovation & Disability Empowerment Awards and Tholoana Enterprise Programme). These programmes provide the pipeline for the recently added Financing for Impact (FFIP) Loan Fund.

Originality of design

SABF's intervention is original and innovative. It targets underserved groups in entrepreneurship, such as women, youth, rural communities and persons with disabilities. Its multistage support approach, including grants, interest-free loans and concessionary loans, acknowledges different entrepreneurial needs. The combination of funding, skills training, mentoring, brand building and psychological support offers a

comprehensive framework. The interconnected programmes and commitment to impact measurement demonstrate a well-rounded approach to entrepreneurship.

Meeting unfilled needs

SABF intends to fill a gap in the market through its social innovation and disability empowerment awards programme, and the Tholoana programme.

SABF is often the first investor into social innovation businesses. It has been investing in social impact businesses since 2011. Many of them, which go on to scale, say that they would not be around without the support, and many go on to attract venture capital and other funding.

Theory of change

If SABF provides tailored support to businesses and social enterprises, it can then catalyse social and economic transformation in South Africa. This support empowers enterprises to generate employment opportunities, increase their revenue streams and create positive social impacts, particularly among key beneficiary groups such as women, youth, people with disabilities and rural inhabitants. By closely collaborating with these enterprises, SABF enhances their leadership, product and service quality, as well as their access to essential resources such as funding and clients. Simultaneously, SABF works towards improving the broader policy environment in which these enterprises function. Moreover, SABF involvement often acts as a catalyst for the emergence of new innovations and businesses, further contributing to positive change.

SABF plays a critical role in the SMME ecosystem to support organisations in the very early stages. Many of the beneficiaries go on to raise funding in private markets and these businesses scale and generate significant impact as well as returns for investors. This particular role SABF plays in the impact investing ecosystem pertains to the seeding role of catalytic capital; that is, channelling funding to early-stage innovations that are unable to attract capital from conventional providers of capital (VS, PE and beyond). This helps develop the pipeline of investment opportunities for impact investors targeting more mature businesses. The patient and risk-tolerant nature of the funding that SABF has available through its endowment further underpins its ability to act as a provider of catalytic capital.

SABF focuses on very early-stage businesses. It has two programmes and has recently introduced a third.

- Social Innovation and Disability Empowerment Awards – finds and invests grant funding in early-stage social innovation and provides extensive mentoring to assist them grow.
- Social Innovation Fund and Accelerator – is a milestone-driven acceleration process that moves businesses closer to investibility. Investment amounts are higher and are a combination of grants and interest-free loans.
- The Financing for Impact Programme was launched in February this year with a combination of funds from SABF, National Treasury Jobs Fund and Lead Impact Capital to provide affordable interest-bearing loans to further assist businesses to grow. It is too soon to determine returns as only four deals have been reached with funding only recently disbursed.
- SABF has also done one equity investment using its endowment into a previous social innovation award recipient that is launching a new treatment for glaucoma. The business is not yet trading so there are no returns.

The provision of funding for small, medium and micro-sized enterprises contributes to the economic and social empowerment of historically disadvantaged persons, primarily (but not necessarily exclusively) by means of entrepreneurship development and with a priority focus of providing opportunities within small, medium and micro-sized enterprises for women and youth in the rural areas, as well as persons with disabilities.

Impact thesis

SAB Foundation's strategic provision of tailored support to businesses and social enterprises serves as a powerful catalyst for driving both social and economic transformation within South Africa. By targeting these enterprises, SABF actively empowers them to create meaningful employment opportunities and bolster their revenue streams. This support translates into tangible positive outcomes, especially benefiting marginalised groups such as women, youth, people with disabilities and those residing in rural areas.

SDG linkages

The foundation's main aims are to grow the economy, address key social challenges at scale and create jobs, which speaks directly to the ambitions of SDG 8: Decent work and economic growth. Additionally, it targets very specific population groups, including women, youth, rural communities and persons with disabilities, which indirectly contributes to SDG 5: Gender equality and SDG 10: Reduced inequalities.

In addition to the contributions made towards these SDGs, all the businesses supported by SABF are contributing to the UN Sustainable Development Goals in one way or another.

SABF helps these businesses grow so that they can address an issue at scale and make a meaningful impact. With SABF's recently launched pilot, the Financing for Impact Programme, progress will be tracked on a quarterly basis until loans are repaid, and for three subsequent years. This will assist SABF in determining which parts of the model are succeeding and which are failing, to ultimately develop a model that can be replicated for SMME unsecured lending.

Impact

SABF measures impact by tracking the progress of supported businesses and social enterprises over five consecutive years. Each entrepreneur is required to complete a baseline survey when joining the programme to ascertain the business status quo before the intervention, with subsequent surveys being conducted annually over the five years to track progress. Each entrepreneur is asked questions about their businesses including financial status, revenue growth, employment, job creation, alternative means through which entrepreneurs were able to access additional funding, social impact, achievements and challenges.

The list of social and environmental impacts they achieve is vast. Highlights include:

- 4,196 youth had their CVs professionally developed, resulting in 37 job placements
- 373 people with disabilities have been trained and employed
- 23 low-income disabled people accessed high-quality rehabilitative care
- 175,855kg of textile waste has been recycled
- 4,153kg of plastic waste has been prevented
- 865,290 litres of clean water were provided to low-income people
- 183,449 learners had access to new digital education content
- 22,496 high school learners gained access to high-quality maths and science content
- More than 2,000 hours of tutoring have been provided to university students
- 1,232 small-scale fishers gained access to new markets, increasing their incomes by more than 100%
- 57 micro-enterprises received affordable access to credit
- 1,725 clubfoot braces were distributed to children with lower limb disability

SABF monitors negative impacts/unintended consequences as part of its due diligence process and if it anticipates that the negative impact would be severe, it does not invest.

The foundation is a consistent early-stage investor in social innovation in South Africa and publishes its results. There are no benchmarks that SABF uses. Also, because SABF is sector agnostic, the sectors entrepreneurs focus on are so diverse that it is difficult to develop themes by which to measure impact. For example, within health SABF's initiatives are varied, with one linking doctors to diagnose and treat patients, one developing a new EpiPen used to treat severe allergic reactions and one working on a new treatment for glaucoma.

The key performance indicators (KPIs) SABF focuses on are business and turnover growth, job creation and social impact. Its role is to help the business scale so it can achieve the intended social/environmental impact. SABF tracks all businesses for five years and provides second and third rounds of funding to help them reach scale. In terms of their social impact, SABF has found that many of the businesses do not track their impact effectively, so this now forms part of SABF training.

Potential for replicability

SABF walks a very long journey with social impact businesses and it has the luxury of doing this because of its endowment. This may not be possible to replicate unless others are prepared to invest the kind of grant capital required in the early stages to get businesses to the point where impact investors are able to take over. SABF, through its recently launched loan fund, is hoping to build a model that can be replicated. It is not there yet, though, and hopes also to introduce other financial instruments. SABF is documenting all its lessons to share them with others.

SABF is sector agnostic. Its focus is on entrepreneurs and their ability to solve a problem at scale in a viable way. Its investments span numerous sectors including education, water, rural development, financial inclusion, housing, health, disability, township economy, transport and so on.

The foundation has been investing in social innovation since 2011. It has the networks and systems in place to scale. While available resources currently constrain its work, others have shown an interest in contributing and it has received funding from other corporations and from government. It tries to address market blockages but because there is very little high risk capital in South Africa, impact-orientated businesses often have a long runway to profitability and investibility. SABF travels that journey with them. These businesses are innovative and often disrupt inefficient social service delivery, providing more cost-effective ways of addressing systemic social challenges.

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