Private Capital for Sustainable Development: Concepts, Issues and Options for Engagement in Impact Investing and Innovative Finance

ANNEXES to MAIN REPORT

February 2016

E.T. JACKSON & ASSOCIATES LTD. in association with SOCIAL IMPACT MARKETS

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Annex A: Terms of Reference

22 April 2015

Danida Evaluation Department File: 2015 - 17334

Terms of Reference for a study on

Innovative financing vehicles and impact investing

In recent years, a range of innovative financing models for development have emerged. By involving new private sector partners in development finance and by offering alternatives to grant funding, these financing models represent new tools in the development toolkit and propose new roles for bilateral donors. These new instruments may involve developing new products of relevance to developing and emerging economies and often aim to increase collaboration between private and public financiers, whereby public spending is allocated 'smarter'. Despite an increasing interest from traditional donors in innovative financing models, they still only represent a small fraction of total ODA and little documentation exists on the experience.

Social impact investing, or just impact investing, is one instrument often referred to as an innovative financing model. From its origins in socially responsible investing, community finance, microfinance, and international development, impact investing has emerged as a distinct practice. Impact investment is defined as: *Investments that intentionally target specific social or environmental objectives along with a financial return, and measure the achievement of both.*

However, in practice this definition is not always clear. The level of financial return aimed for varies between impact funds from risk-adjusted market rate to below-market rate returns. The range of activities under this definition is large. Impact investments is an approach involving investments in established asset classes, such as private equity, debt and guarantees, and some funds combine investments with technical assistance. Impact investment is targeting a broad range of themes, including access to finance, access to basic services, employment, green technology, environmental markets and sustainable consumer products. Some donor-established challenge funds have some of the same characteristics as impact investment and the practical distinction between these and the type of funds aiming at a financial return is not always clear.

1

Impact investing is not limited to international development, but involves investment funds across geographies. According to the registration of more than 300 impact funds on ImpactBase, around 100 funds work exclusively in Europe and North America.

The field of impact investment has generated considerable interest in the last years. In June 2013, the UK presidency of the G8 launched a task force on social impact investment, the World Economic Forum has produced a report on impact investing in December 2013 and the OECD is also contributing to building the evidence base. Among many foundations, impact investment is considered a relevant tool and among others, the Rockefeller Foundation is contributing to building what they consider a new industry. Efforts have gone into establishing standardised data for assessing development impact and financial performance. Traditional donors have also been engaged in this work, for instance DFIDs Impact Investment Programme that aims at promoting impact investments in Africa and South Asia includes support for establishment of common impact indicators through the Global Impact Investing Network, GIIN.

Development Finance Institutions (DFIs) play an important role in impact investing for development and manage a large part of the impact investment funds. They can play a catalytic role and attract private sector investment to underserved markets. The distinction between impact investments and mainstream investments in DFIs is, however, not always clear and explicit.

A number of bilateral donor agencies, for example the Netherlands, Sweden, Norway, Denmark, France and UK, have established innovative financing vehicles, often in partnership with their national DFIs. They provide loans, guarantees or equity. Some of these activities are referred to as impact investments, but other terminology is also used. Common characteristics of these funds include that they aim at environmental or social objectives, but also assess the financial viability of the supported projects.

From the side of traditional donor agencies, there may be concerns in relation the transparency and additionality of impact investing and other innovative financing models. There are also questions around the issue of public funds being spent for subsidizing or taking part of the risks from private investments. Impact measurement, which would seem to be a prerequisite for impact investing, is notoriously difficult in private sector development, and private sector actors may need new tools to address this need.

This study aims at combining the experience made within the emerging impact investing industry with the experience from other more established innovative financing vehicles in relation to a number of issues which are important for the future advancement of impact investing for development.

In a number of industrialized countries, public enterprise capital funds that aim at supporting private companies (sometimes delimited to SMEs, start-ups, export enterprises, etc.) through investments, loans or guarantees have existed for decades[1]. Several of these funds have been subjected to external evaluations. Although different from investment funds for development, they may have valuable experience, especially in relation to impact measurement, and this experience as documented in evaluation reports and studies could be included as part of this study.

Purpose

The overall purpose of this study is to provide a better basis for future Danida engagement in impact investing by analysing how development objectives can be achieved through impact investment funds, and what role donors can play to leverage private funding for impact investment for development. The study is primarily intended for use by Danida and comparable bilateral donors, but could also be used by other investors and fund managers.

The study should be focused on potential use in Danida partner countries within the area of green growth/climate investments and SME development, including financial services. The study may, however, include experience from other geographies and sectors as long as it is pertinent and can be applied in a setting relevant for Danida.

Outputs and timing

The outputs of the consultancy are:

1. An inception report providing an overview of the field and a methodology for analysing the research questions.
2. A study report of maximum 40 pages. The final version of the report will be published by Danida Evaluation Department. The study report should follow Danida Evaluation Department's lay-out guidelines.
3. A presentation at a public meeting in Copenhagen (not yet scheduled).

Danida Evaluation department and a group of reviewers consisting of internal as well as external experts will provide comments on the inception report and the draft study report. The

[1] For example Vækstfonden in Denmark, Gründerfonds in Germany, Industrifonden in Sweden, Capital for Enterprise Ltd. in the UK and the Innovation Fund SME+ in the Netherlands.

study team will be expected to reply to the comments submitted, but the final responsibility for the study report will rest with the Consultant.

It is envisaged that the first draft study report should be submitted before end of September 2015. Tenderers are allowed to propose a different time schedule, but major deviations suggesting a later date for finalisation may influence the score of the technical proposal.

Research Questions

The study should focus on the following research questions:

1. How can impact investment be usefully defined? What types of impact investment funds are donor currently supporting and how can these be categorised (considering, for example, their institutional set-up, sources and types of funding as well as target partners)?

2. Based on a typology of a range of impact investment funds and other relevant funds, what is the set-up of the funds and how are they constructed?

3. What are the main risks for various investor types and which design mechanisms are established to mitigate the risk of the different types of partners in investment funds?

4. How is the issue of ensuring additionality (of donor funding) addressed by donors, DFIs and fund managers?

5. What is the experience with results measurement of impact investing? How are social and environmental objectives defined and measured?

6. What is the experience from investment funds in Sub-Saharan Africa in relation to identifying and preparing possible companies/SMEs for investments and ensuring a solid pipeline of bankable projects for impact investors?

7. What mechanisms could be envisaged for coordination and information between impact investment funds?

The above tentative formulation of the most relevant research questions will be revisited, and possibly modified, during the inception phase.

4

Methodology

The study findings should primarily be based on the empirical evidence collected. A further delimitation of impact investment funds and innovative financing vehicles to be included in the study under the broad definition is expected during the inception phase. Based on a typology of the investment funds, a sampling of funds to include in the study will be undertaken. One sample of funds will be studied on the basis of available documents, possibly supplemented with a survey. Another, smaller group of perhaps 8-10 funds will be studied in-depth. For this latter group, the study will seek information from fund managers, financers and relevant stakeholders, primarily through interviews. Preference should be given to funds that include funding from both development agencies and private investors.

Due to possible confidentiality issues, it may be envisaged to prepare the study report in a way that does not reveal the information source of specific data included in the report.

Inputs

The study should be undertaken by a team of three consultants with the following envisaged work distribution.

Team Leader: Approximately 30 days
Expert: Approximately 25 days
Research Assistant: Approximately 25 days.

Deviations from Tenderers in terms of the number of team members will not be accepted.

The technical proposal must indicate task and work distribution among team members. Major deviations from the above indicated work distribution among team members should be well justified in the technical proposal.

A travel budget for the team to undertake three visits to Copenhagen and four other trips to North America / Europe should be anticipated in the financial proposal. Cost of workshops in Copenhagen and publication cost will be covered by Danida Evaluation Department.

The following areas of expertise are expected to be covered by the team and will be used in the assessment of proposals:

General experience:

- Relevant higher academic degree (M.A., M.Sc. or Ph.D);
- Profiles with major emphasis on private sector development;
- Relevant research and analysis experience.

Adequacy for the Assignment:

- Experience from analytical work in relation to impact investment funds in developing countries;
- Experience from analytical work in relation to private sector development, preferably SME development in developing countries;
- Experience from financial analysis of development-related investment funds;
- Experience from results measurement and/or evaluation work in impact investing or general private sector development;
- Experience from analysis of climate investment funds;
- For team leader and expert: At least 15 years' general experience and 10 years' relevant experience.

Country experience and language:

- Relevant working experience from Sub-Saharan Africa and/or Asia;
- Speaking and writing skills in English;
- Ability to understand French an advantage.

Consultants and team members may be excluded from participation, if their participation may question the independence and impartiality of the study. Tenderers are obliged to carefully consider issues of eligibility for individual consultants and inform the client of any potential issues in this regard.

Requirements of home office support

The study team's home office shall provide the following, to be covered by the consultant's fee:

- General home office administration and professional back-up.
- Quality assurance of the consultancy services in accordance with a quality assurance scheme as described in the technical proposal.

The tenderer should appoint a home office representative, who is not part of the study team, but who will undertake quality assurance and indicate this person's name and position in the technical proposal (a CV for this person does not have to be included).

Annex B: Persons interviewed

Denmark

Søren Peter Andaerson, Managing Director, Common Consultants, Copenhagen

Morten Christiansen, Senior Vice President, Investment Management, Investment Fund for Developing Countries (IFU), Copenhagen

Niels Egerup, Chief Advisor, Financial Solutions, Department of Green Growth, Danida, Copenhagen

Morten Elkjær, Head, Department of Green Growth, Danida, Copenhagen

Marie Gad, Senior Advisor, Danish Industries, Copenhagen

Tina Kollerup Hansen, Senior Advisor, Danish Business Finance, Danida, Copenhagen

Torben Huss, Executive Vice President, Investment Fund for Developing Countries (IFU), Copenhagen

Jakob Rogild Jakobsen, Chief Advisor, Department of Green Growth, Danida, Copenhagen

Per Kirkemann, Partner and Consultant, Nordic Consulting Group, Copenhagen

Marina Buch Kristensen, Managing Director, Nordic Consulting Group, Copenhagen

Jonas Health Lonborn, In Charge, African Guarantee Fund, Copenhagen

Henrik Mahncke, Project Leader, Realdania, Copenhagen

Laura Nielsen, Special Advisor, Business Partnerships and CSR, Danida, Copenhagen

John Olesen, Chief Technical Advisor, Investment and the Private Sector, Danida, Copenhagen

Lars Christian Oxe, Senior Advisor, Evaluation Department, Danida, Copenhagen

Martin Rømer, Senior Technical Advisor, Private Sector and Finance, Danida, Copenhagen

Jens-Christian Stougaard, Director, PensionDanmark, Copenhagen

Europe

Mansoor Ahmad, Investment and Finance Team, DFID, London

Vineet Bewtra, Director, Investments, Omidyar Network, London

Carmen Colla, Principal Sector Economist, KfW, Frankfurt

Pal Dale, Founder and Managing Director, Voxtra, Oslo

James Doree, Director, Lion's Head Global Partners, London

Ines Ebrecht, Principal, Education and Economic Development, Project Manager, Sanad Fund, KfW, Frankfurt

Daniel Günther, Federal Ministry for Economic Cooperation and Development (BMZ), Bonn

Melina Heinrich-Fernandes, Senior Private Sector Development Specialist, Donor Committee for Enterprise Development

Bim Hundal, Partner, Lions Head Global Partners, London

Gurmeet Kaur, Head, Impact Investments, CDC, London

Nabila Khan, Executive, Impact Acceleration Facility, DFID, London

Ross Masood, Private Sector Development Advisor, DFID, London

Peter Nicholas, Director (International), Social Finance, London

Christina Poser, Financial Sector Project, GIZ, Frankfurt

Gerald Reuther, Director, Economics and Policy, PricewaterhouseCoopers, Frankfurt

Jan Rixen, Director, European Development Finance Institutions (EDFI) Association, Brussels

Haje Schuette, Head, Development Division, OECD, Paris

Björn Strüwers, Founder and CEO, Roots of Impact, Frankfurt

Jim Tanburn, Coordinator, Donor Committee for Enterprise Development, Oxford

Frederick van den Bosch, Director, FMO, The Hague

Gail Wallander, Head, Investment and Finance, Private Sector Development, DFID, London

Horst Zapf, Project Manager, Green for Growth Fund, KfW, Frankfurt

Alix Zwane, CEO, Global Innovation Fund, London

North America

Yolanda Banks, Senior Advisor, Corporate Social Responsibility, Export Development Canada, Ottawa

Tom Bui, Director, Prosperity and Development, Global Affairs Canada; Member, Advisory Committee, Convergence

Brinda Ganguly, Senior Associate Director, Rockefeller Foundation, New York

Steve Godeke, Principal, Godeke Consulting; Board Member, Jesse Smith Noyes Foundation, New York

Heather Grady, Lead, SDG Platform; Vice President, Rockefeller Philanthropy Advisors, San Francisco

Étienne Grall, Lead, New Canadian DFI Initiative, Export Development Canada, Ottawa

Karim Harji, Co-Founder and Partner, Purpose Capital, Toronto

Joan Larrea, Managing Director, Business Development and Partnerships, Overseas Private Investment Corporation, Washington, DC; Chief Executive Officer, Convergence Platform (as of February 2016)

Chris Page, Senior Vice President, Rockefeller Philanthropy Advisors, New York

Kendra Sakaguchi, Senior Climate Change and Energy Advisor, British High Commission, Ottawa

Walter Sweet, Vice President, Rockefeller Philanthropy Advisors, New York

Mitchell Strauss, Special Advisor, Socially Responsible Investment Finance, Overseas Private Investment Corporation, Washington, DC.

Annex C: Methodology

This working paper was prepared for this study in September 2015 to clarify the methodology for detailed research and fund analysis.

Objective

The objective of this study is to improve the understanding of the Danish Government/Danida with respect to the role development agencies can play to leverage private finance for impact investment that, in turn, contributes to achieving sustainable development goals in emerging countries. The study will both collect data on the set up, structure, risk mitigation mechanism and innovative features of a range of financing vehicles and will also identify critical issues and lessons learned.

Approach

Focus: The focus of the research will be on blended finance funds and supporting measures where development agencies and financial institutions (DFIs) finance and invest alongside private investors, foundations and corporations in financial services, SME finance, green energy, energy efficiency and eco-entrepreneurship as well as impact entrepreneurship.

Activities: This set of activities includes a review of literature, the preparation of fact-sheets for a number of selected funds and key questions to guide the interviews with selected donors, investors, fund managers and other stakeholders.

Private sector: The private sector is understood to include not only return-maximizing institutional investors such as pension and insurance funds and financial institutions, but also (corporate) foundations, high-net-worth-individuals and the corporate sector, each of which may have different reasons for engaging in impact investing (impact, value chain management etc.). The research will also look at non-Development Finance Institution (DFI) led private impact investment firms and fund managers (e.g. Root Capital, Leapfrog Investments, Aavishkaar) that have successfully achieved impact and financial returns while mobilising DFI investments and donor support. Private sector capital is understood to include both financial capital as well as social (networking) and human capital.

Definition: **Definitions of core concepts in this study such as impact investing, innovative finance, blended finance vary and are subject to an on-going debate.** Many DFIs do not differentiate between impact investing and the rest of their development finance activities (The exceptions to this are OPIC, CDC, IDB and Asia Development Bond (ADB) for Inclusive Business). Few development agencies have designed programmes beyond general private sector development, inclusive business or SME support or financial sector development focusing on financial inclusions and sustainable finance. This study will therefore use a pragmatic approach focusing on investment vehicle that intentional generate a measurable social and environmental impact and financial returns where possible, while also drawing on lessons learned from traditional (M)SMEs, renewable energy and energy efficiency investment vehicles and financing instruments where appropriate. In blended finance, this study sought to focus on the mobilisation of private sector capital while still considering blended finance vehicles that engaged mostly DFI capital.

Additionality: Additionality is a key aspect when reviewing lessons learned from partnerships in blended finance vehicles. While there is some guidance on the concept of additionality in private sector development partnerships, only limited guidance exists on additionality of donor partnerships with (private) investors in blended finance vehicles.

- ***Financial additionality:*** Would the private sector engaged without public sector involvement (catalytic effect)? What has been the unique contribution of the public sector that mobilized private sector engagement and contributes to the viability of the project (note: can be financial and non-financial contribution such as signalling, global (sector) knowledge and skills, networking)?
- ***Development additionality:*** Is there alignment with the public interest and development aims of the public agency backing it; partners in developing countries, other development agencies? Have there been improvements in impact and sustainability of the investment vehicle as a result of public institution's involvement? Have there been wider system level changes beyond the specific project such as innovation of new financing mechanism, de-risking of new markets and/or business models, sharing of lessons learned, replication, policy changes and eco-system building?

Critical issues: The research on critical issues and lessons learned will be around the following areas.

- ***Impact and financial performance:*** Ensuring targeting, poverty orientation and indirect impact (facilitating policy dialogue, building eco-systems, replicating, innovating; sharing lessons learned), mobilising additional (private) investment and reviewing evidence about financial performance.
- ***Fund Design and institutional considerations:*** choice of instruments, governance and transparency: local embedding including targeting of local investors and embedding in local structures; donor mandates, developing capacity as well as facilitating cooperation and co-investment.

A section on lessons learned will summarize the findings from the review of literature and interviews. Fact sheets will provide an overview of the funds and mechanisms reviewed for this study. (A fact sheet template is provided at the end of this paper.)

Selection of investment vehicles

Initially, the ToR requested an in-depth review of selected funds. After discussion, as agreed, to pursue a more opportunistic theme-based approach and selection process. An initial literature review on instruments and investment funds and vehicles was used as a starting point to identify themes and specific topic of interest. Interview partners were then asked to point to other instructive features. The following criteria were used to identify investment vehicles and other support measures as a starting point:

- *geography:* emerging country focus;
- *impact theme:* include sufficient examples of vehicles that focus on green (as opposed to social) impact;
- *impact intentionality:* broad definition of development impact sufficient;
- *sector focus:* green and energy sectors, inclusive business/SMEs and financial services;
- *donor engagement:* focus on vehicles initiated by donors;
- *relevance:* bears interesting lessons learned (including failures) in terms of mobilising additional capital, demonstration effect, risk mitigation and other critical issues;
- *accessibility:* relevant data are easily accessible and fund management's willingness to participate in the study.

Framework

A framework for analysis was prepared to help review documented experience and to prepare questions for semi-structured interviews with fund managers, donor project managers,

foundation officers, and other leaders and practitioners in impact investing and innovative finance.

Objectives and additionality

- *Development agency objectives*: What is the underlying theory of change and objectives of the development agency in specific project(s)? What's the (expected) additionality of in the specific case? Has it been achieved?
- *Private sector objectives*: What does or did the private investor expect from engaging in this particular investment vehicle: Institutional investors? Foundations? Corporations? For example, financial return maximisation; financial viability; development impact; exploration of new markets.
- *Strategic embeddedness*: Is mobilisation of private sector capital part of an overall strategy in the organisation? Are needed resources and capacity available?
- *Additionality*: What can development agencies bring to the table in blended finance impact investment projects that others cannot? Is there sufficient guidance on additionality dimension (financial, impact, development)? What mechanism are in place to prevent distortions, windfall profits etc. (e.g. blended finance guidelines etc.)?
- *Evaluations*: Are evaluations on blended financing vehicles available? What have been significant achievements and lessons learned in relation to development objectives and additionality of the development agency?

Catalytic effect

- *Target investors*: Who are private sector investors (preferred, actual) in existing vehicles? First time EM or impact investors or previous experience? How have they been approached? Is there something like an 'ideal' private impact investor for a blended finance structure in impact investing in emerging countries in terms of their specific risk/return/impact profile?
- *What is the percentage of local investors (total capital invested)?* What has been experience with involving EM based investors in a DFI led investment vehicle – or being increasingly approached?
- *Other type of private investors*: What has been the experience of co-investing with private foundations or corporations (as opposed to institutional investors)?
- *Leverage*: How is leverage determined? What is the optimum leverage ratio between mobilising private investments, risk of windfall profits (would have done it anyway) and wish to maintain influence?
- *Success factors*: What convinced investors to come on board (e.g. signalling effect, risk mitigation strategies)? Or was leverage lower than expected? Why?
- *Cost of blended finance*: Do calculations regarding the foregone return due to use of catalytic blended finance instruments or value for money calculations exist?
- *Risk*: How is the risk that financial considerations outweighing development principles addressed?

Design and operations

- *Choice of vehicles:* Different vehicles to mobilize private investment in emerging countries: thematic bonds (e.g. green or inclusive business bonds; fund of fund/matching challenge funds; PPP structured funds; local financial institutions as intermediaries; guarantee programmes; corporate sector (combined with trade support); = > what are important considerations for against each of these options? What kind of feasibility, market and landscaping studies were carried out to make decision on specific vehicle and instrument?

In hindsight was the chosen intervention the best way to mobilise private sector and achieve development impacts?

- *Choice of instruments*: What investment instruments were chosen and why (debt, hybrid etc.)? What are the additionality/impact elements in these instruments if any (e.g. longer than average fund lifetime, alternative exit structures (e.g. holding corporations), alternative collateral requirements, delayed principal repayments, or other flexible instruments?
- *Choice of distribution channels*: How were fund distribution channels chosen (funds, lending institutions) or direct investments? What are potential risks and benefits?
- *Determination of concessional elements*: How was the type determined: e.g. first loss vs second loss; guarantees vs waterfall structure? And the size of blended finance instruments, for example, target leverage ratio, size of C shares or size of technical assistance fund? What is the role of negotiation with the private sector in determining type and size of concessional element?
- *Cost of project preparation and fund set up*: Are there cost estimates available for the preparation and set up of the investment vehicle, the technical assistance facility? Comparable to similar vehicles?
- *More of project preparation:* Are projects prepared by affiliated offices, embassies, or third parties (profit, for-profit, foreign or local)? What is the optimum capacity of this project preparation facility?
- *Fund management and other service providers*: In case of own fund management structure, why has this been preferred option rather to look for external fund management? And vice versa? What drives the decision? Is there a sufficient choice of fund managers and other professional service providers (rating agencies, impact analyst, technical assistance fund manager) available?
- *Governance*: What is the division of responsibilities between financiers, fund manager and other stakeholders? In which decisions have the private investors a say (e.g. investment decisions, exits, etc.)? Does the development agency influence the fund management in any way? Is decision making transparent to internal and external stakeholders? If transparency is not feasible what is the justification? Do conflicts of interest policies for board members include social and environmental impact considerations?
- *Risks*: What have been the major risks in specific vehicles and what has been done to mitigate these? What are most important risks in any blended financing impact investing vehicle?

(Fund) impact and result measurement

- *Investment strategy*: What is the underlying theory of change, mission and investment strategy of investment vehicle?
- *Focus*: To what extent does the impact intentionality of the investee play a role (e.g. focus on impact driven entrepreneurs? High impact sectors? Targeted services to or involvement of population at risk/Base of the Pyramid (BoP) in value chain? Targeting: Evaluations of DFI engagement in blended finance show most engagement in middle income developing countries, in high return sectors (renewable energy, financial services) and urban areas targeting relatively mature companies with only indirect poverty impact. Are there missed opportunities for early stage, innovation, BoP focused blended finance investment strategies in low income countries and other markets that have so far been ignored? What would need to be in place for blended finance to work in such context?
- *Impact segments*: What impact will investments have on investees; their consumers; employees and suppliers of investees? Investor level impact; development agency impact/additionality; intermediary level impact? Is development, systemic impact such as

spill over effects of innovation, eco-system building, demonstration effect, awareness raising accounted for? Studies on household level/community level effect?

- *Impact orientation*: What have been the lessons learned from bringing in impact dimension in negotiation with private sector? Has the public sector been able to influence the fund direction towards greater impact before or after fund launch? To what extent will fund improve Environmental, Social, and Governance (ESG) of investees? Are ESG aspects taken into account when working with outside advisors and partners? Is there an anticorruption policy in place?
- *M&E system*: What are metrics used (e.g. IRIS; own system), and how do they relate to investment strategy? How is data collected (e.g. PULSE technology)? How does the fund balance measurement of social and environmental metrics between the portfolio-investment level and fund-level performance? Does fund use third party rating system at company or portfolio level (GIIRS, Airis, LEED)?
- *Impact management*: If external fund manager, what is the social and environmental and emerging country background, motivations? Was this aspect part of the selection criteria? Does or should the compensation structure reflect impact objectives?
- *Deal sourcing*: Are there examples of investment opportunities in intermediaries or companies that were missed because of impact criteria? At what point in the screening process are impact considerations included? What policies are in place to manage potential trade-offs between financial returns and social and environmental impact?
- *Exits*: Does the fund consider exit effects on impact during the initial valuation or transaction stages? Does the fund have a policy, including specific screening criteria, to evaluate potential acquirers of portfolio companies (e.g. capacity and intention of the acquirer to maintain or expand the company's social and environmental practices after the time of sale)?
- *Reporting:* What are the mechanism for reporting (between investees, intermediaries and fund, fund to its investors, etc.)? How to balance between need for confidentiality and stakeholder interest in transparent reporting and sharing of information.
- *Co-investment strategies*: How does the fund evaluate co-investment opportunities in terms of its impact objective? Example for co-investment that did not happen due to impact considerations?
- *Transparency and accountability*: 'Transparency and accountability levels are appalling'.[1] Agree, disagree? What are mechanisms to strengthen transparency?

Capacity building and learning

- *Technical assistance facilities*: Is a TA facility or similar support available and linked to investment vehicle? If so what does it cover (investees, staff, stakeholder? Are there lessons learned from the design, financing and management of such a facility? Are there potential risks by cross subsidizing investments; crowding out private providers of technical assistance services, etc.?
- Does the intervention provide for an active policy dialogue or assistance project in partner countries? If so, what has been the experience, concrete results from that facility?
- Are there any spin off effects that can be linked to the public sector intervention or the IV itself that have influenced reforms in partner countries?
- *Other capacity building needs*: Is there a demand from investors; partner organisations, or staff of development agencies for capacity building on structured finance, impact investing etc.?

[1] Eurodad, A dangerous blend? The EU's agenda to 'blend' public development finance with private finance. 2015.

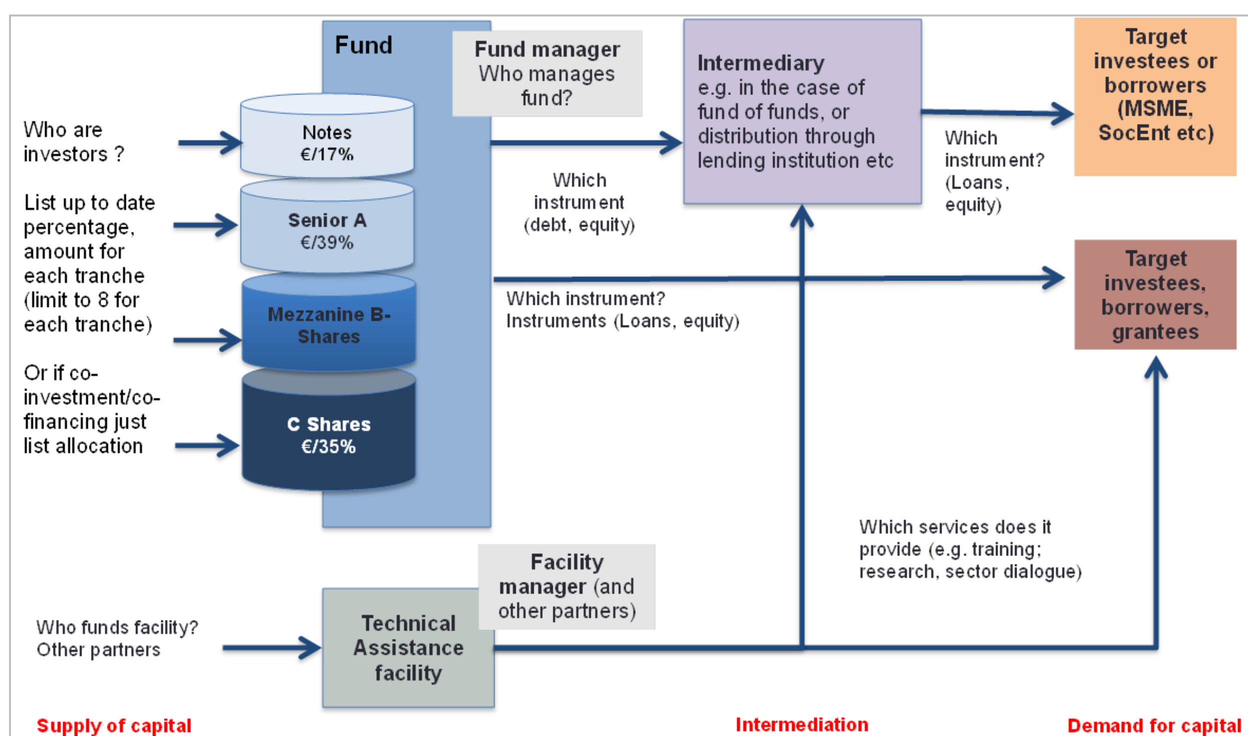
- *Sharing*: Is the fund manager and the development agency active in sharing lessons learned, e.g. publications, thought leadership, publicly available evaluations, contribution to donor forums?
- *De-risking*: Are there indications that in the future, similar investments may be made with less or even without public sector contribution? How is such information identified, assessed and fed back into programme design of future blended finance vehicles

Fact sheets

The fact sheets are meant to provide an overview of funds by presenting general fund information, a description on return distribution and risk mitigation, impact and additionality assessment, innovation and supporting measures, and an overview of the capital structure and the fund design, as well as sources for further information.

Figure 1 provides the template used to prepare the capital structure for each fund.

Figure 1: Template for fact sheets



Source: The Authors.

Annex D: Fact sheets of funds and vehicles

Fact Sheet
Aavishkaar

1. Fund information

Fund manager	Aavishkaar
Lead investor/initiator	Aavishkaar
Domicile	Mumbai, India
Year	2001
Assets under management	USD 201 million
Geographic focus	Underserved geographies in India and four frontier countries (Bangladesh, Pakistan, Sri Lanka and Indonesia)
Targeted intermediaries	N/A
Impact thesis	Aavishkaar aims to improve the lives of people at the BoP by investing in early and growth stage businesses operating in high-risk and underserved geographies. The fund also focuses on helping these businesses build a track record to attract mainstream capital. The purpose is to help low-income individuals gain access to better jobs and affordable essential products and services such as education, healthcare, water, sanitation and financial services. They also aim to reduce negative environmental impacts through investing in technological innovation and renewable energy projects.
Investment strategy	Aavishkaar invests risk capital in early stage companies in underserved and rural markets
Impact measurement	PRISM, uses IRIS metrics and is GIIRS Rated
Target return	20% IRR on investments and 13% IRR net of fees
Financial instruments	Equity and short term debt investments
Investment size	From USD 10,000 to just over USD 1 million
Investment period	*Information not publicly available*
Fund management fees	3.5%
Supporting measures	In-depth business support services
Leverage ratio	*Information not publicly available*

2. Description

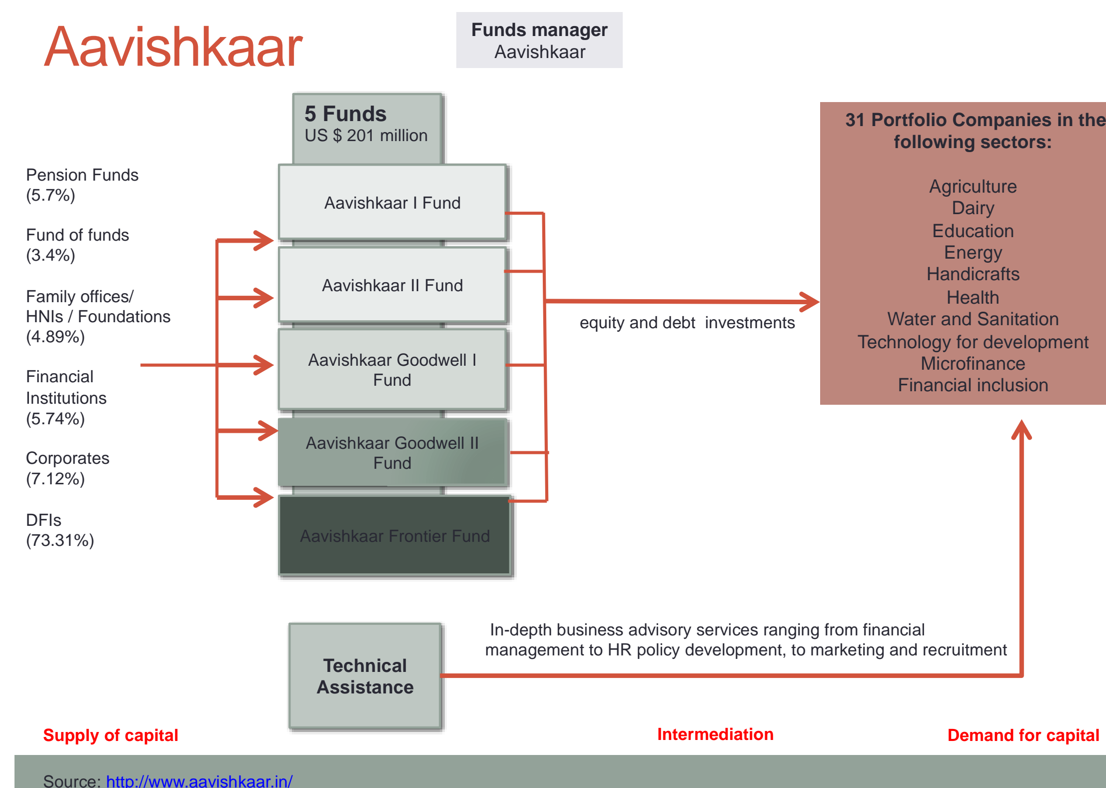
Return distribution and risk mitigation: Aavishkaar invests risk capital to support businesses and help them gain access traditional forms of financing. Their investments are meant to mitigate risk for future investors.

***Impact and additionality*:** Aavishkaar believes that development can be achieved through enterprise development and growth by providing employment as well as essential goods and services for individuals at the BoP. It also helps countries achieve sustainable and equitable economic growth. Its investments reach underserved markets and are complimented with business advisory services..

Innovation: Aavishkaar adopted the use of venture capital methodology to fund start-ups in underserved and rural geographies and to help individuals at the BoP.

Supporting measures: Aavishkaar offer in-depth advisory support to their investees. This support ranges from financial management, to HR policy development, to marketing and to recruiting.

3. Structure of Aavishkaar[2]



4. Further information

Link to the Aavishkaar website: https://www.aavishkaar.in

Aavishkaar (2015). Aavishkaar Impact Report.

Aavishkaar (2015). Aavishkaar Impact Report.

The Impact Investor (2013). Case Study: Aavishkaar India Micro Venture Capital Fund (AIMVCF).

[2] This fact sheet describes Aavishkaar, a for-profit Indian venture capital investor and its five impact investment funds. It is different from most of the fact sheets in this annex which represent impact investment funds or vehicles.

Fact Sheet
African Agricultural Capital Fund

1. Fund information

Fund manager	Pearl Capital Partners
Lead investor/initiator	The Gatsby Foundation
Domicile	Kampala, Uganda
Year	2011
Fund term	10 Years (option to extend two years)
Fund assets under management	USD 25 million
Geographic focus	At least 85% in East Africa (Tanzania, Kenya and Uganda) and up to 15% in neighbouring countries
Targeted intermediaries	N/A
Impact thesis	The African Agricultural Capital Fund aims to improve access to agricultural goods, services and markets for smallholder farmers.
Investment strategy	The fund aims to invest in small and medium-sized agribusinesses in Africa to demonstrate the investments as profitable positions to attract additional commercial investors to scale the investee business model.
Impact measurement	IRIS and is GIIRS rated
Target return	At least 15%
Financial instruments	Debt, equity and quasi-equity
Investment size	USD 200,000 to USD 2.5 million
Investment period	Maximum five years
Fund management fees	2.5% fee, 20% carry
Supporting measures	The Technical Assistance Facility provides access to business skills training, procuring agronomic or post-harvest expertise, financial training and capacity building to adapt to business environments.
Leverage ratio	*Information not publicly available*

2. Description

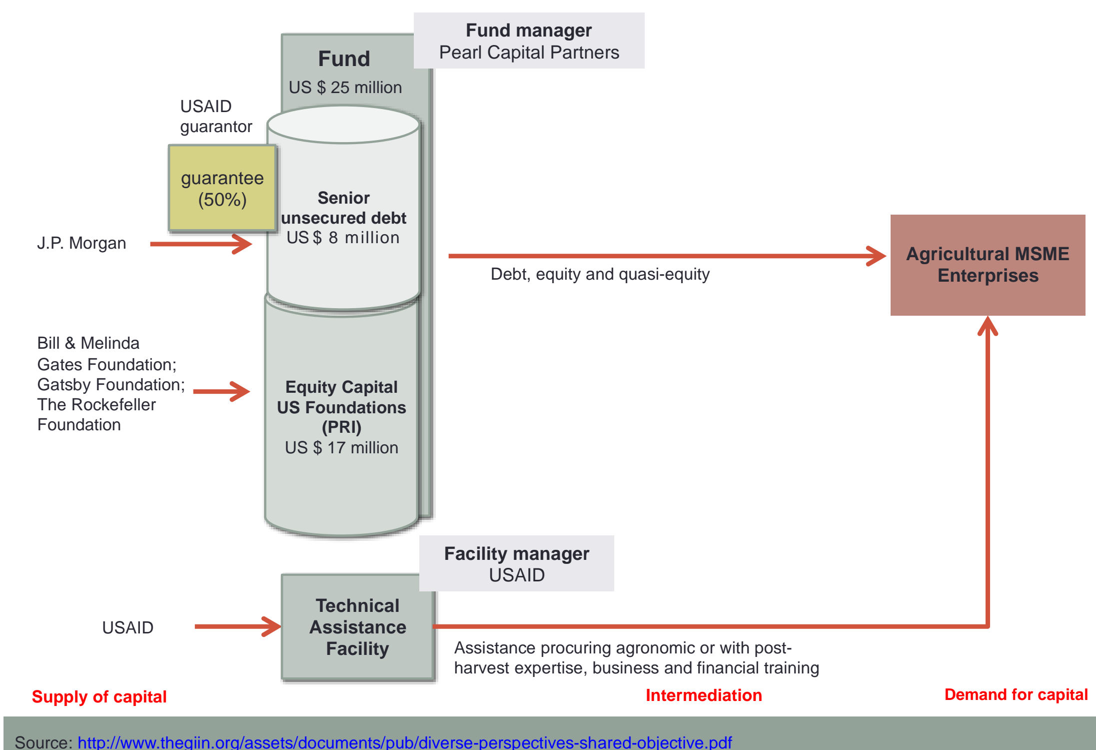
Return distribution and risk mitigation: The fund implements a social impact governance mechanism and an investment risk mitigation strategy at the fund and investee levels during negotiation with the stakeholders. The Technical Assistance facility also helps mitigate risk for investees, investors and the fund manager by providing capacity building for the investee to sustain their business.

Impact and additionality: The fund addresses the lack of small business financing for high-potential smallholder farmer run businesses in East Africa. The Fund's investments produce positive social impact by providing grassroots-level agronomic training to these smallholder farmers and Technical Assistance to scale their businesses.

Innovation: The fund is an innovative investment vehicle with the vision of channelling capital to small and medium-sized enterprises in agribusinesses in East Africa.

Supporting measures: The Technical Assistance facility provides access to business skills training, procuring agronomic or post-harvest expertise, financial training and capacity building to adapt to business environments.

3. Capital structure



4. Further information

The fund does not have a website.

<u>Key Documents</u>

Global Impact Investing Network (2012). Diverse Perspectives, Shared Objective: Collaborating to Form the African Agricultural Capital Fund.

Fact Sheet
Africa Health Fund

1. Fund information

Fund manager	Aureos Capital
Lead investor/initiator	*Information not publicly available*
Domicile	London, United Kingdom
Year	2009
Fund term	*Information not publicly available*
Fund assets under management	USD 105 million
Geographic focus	Africa
Targeted intermediaries	N/A
Impact thesis	The Africa Health Fund aims to help BoP Africans gain access to affordable and quality health goods and services.
Investment strategy	The fund aims to provide investors with good long-term financial returns by investing in small and medium sized (SME) businesses in the health sector.
Target return	*Information not publicly available*
Financial instruments	Equity and Quasi-Equity
Investment size	USD 250,000 to USD 5 million
Investment period	Three to seven years
Supporting measures	Strengthening of financial controls; enhancement of operations, finance and management systems; building management capacity; assist in product and service development; perform feasibility studies and industry research; maintain international health related compliance standards; appointment of experienced practitioners and advisors at board and senior management level
Leverage ratio	*Information not publicly available*

2. Description

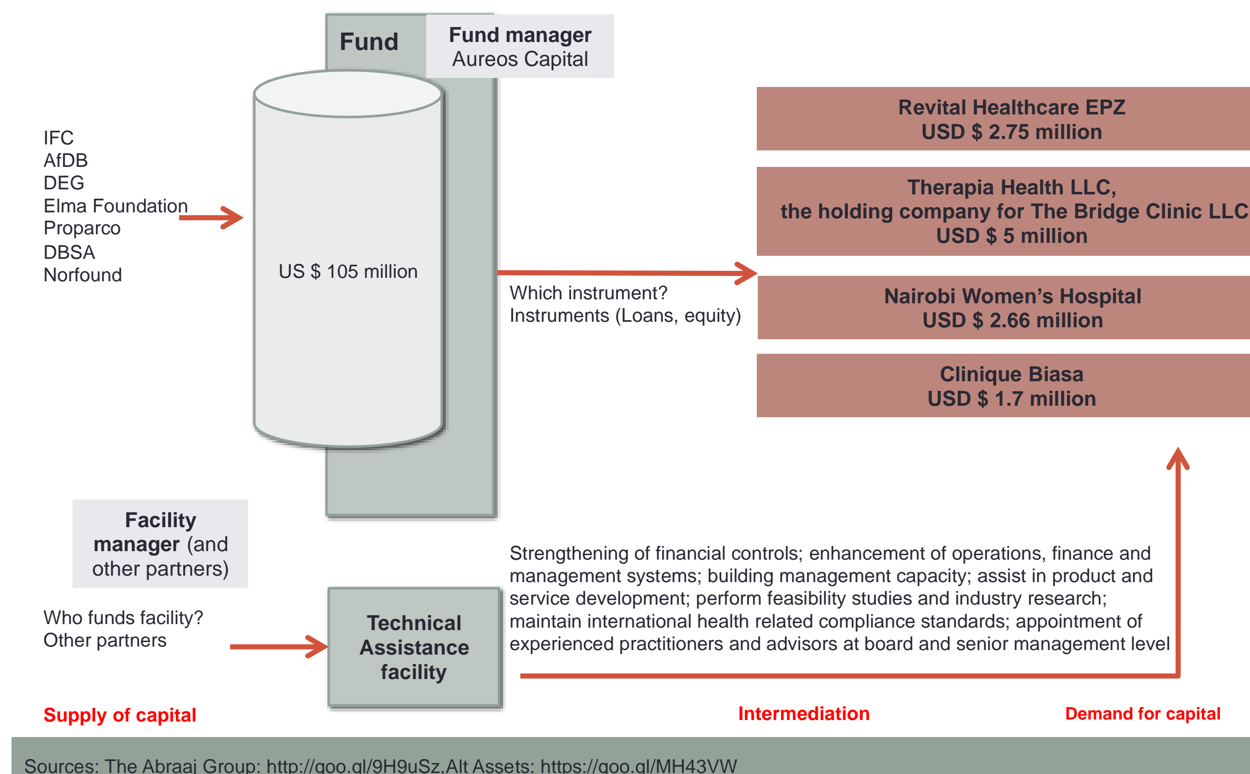
Return distribution and risk mitigation: The fund mitigates risk by targeting privately owned companies that have been operating for at least two years and generating at least USD 1 million in revenue and are profitable.

Impact and additionality: The fund invests in socially responsible and financially sustainable private health care companies to expand the health care services and products for low-income populations in Africa.

Innovation: The fund's innovative framework rewards portfolio companies for providing health goods and services to patients at the BoP.

Supporting measures: Provides a range of business development services and business growth strategies to investees.

3. Capital structure



4. Further information

The fund does not have a website.

Key Documents

Oxfam (2014). Investing for the Few: The IFC's Health in Africa Initiative.

The Abraaj Group (2013). Presentation on The Africa Health Fund.

Fact Sheet
African Guarantee Fund

1. Fund information

Fund manager	The African Guarantee Fund – for Small and Medium-Sized Enterprises Ltd.
Lead investor/initiator	Danida and the Spanish Agency for International Development Co-operation (Aecid) and the African Development Bank (AfDB).
Domicile	Port Louis, Mauritius
Year	2012
Fund term	*Information not publicly available*
Guarantees issued	USD 264 million
Geographic focus	WAMZ 17%, WAEMU 36%, Central Africa 15%, East Africa 16%, Southern Africa 16%
Targeted intermediaries	Financial institutions providing financial services to African Small and Medium Sized Enterprises (SMEs)
Impact thesis	The African Guarantee Fund guarantees investment in SMEs to produce economic growth, innovation development and job creation.
Investment strategy	The fund aims to provide guarantees to financial institution to increase their financing to African SMEs.
Impact measurement	*Information not publicly available*
Target return	*Information not publicly available*
Financial instruments	Equity guarantees
Investment size	Up to USD 500,000
Investment period	Guarantees have tenors not exceeding 80% of the tenor of the underlying financing, subject to a maximum of 10 year
Fund management fees	Facility fee: 1.00% / Utilization Fee: 5.00%
Supporting measures	Capacity development assistance to partner lending institutions to help scale their lending activities, improve solvency ratios, strengthen their skills, management practices, strategies, systems as well as competencies.
Leverage ratio	1:1 ratio with their paid-in capital

2. Description

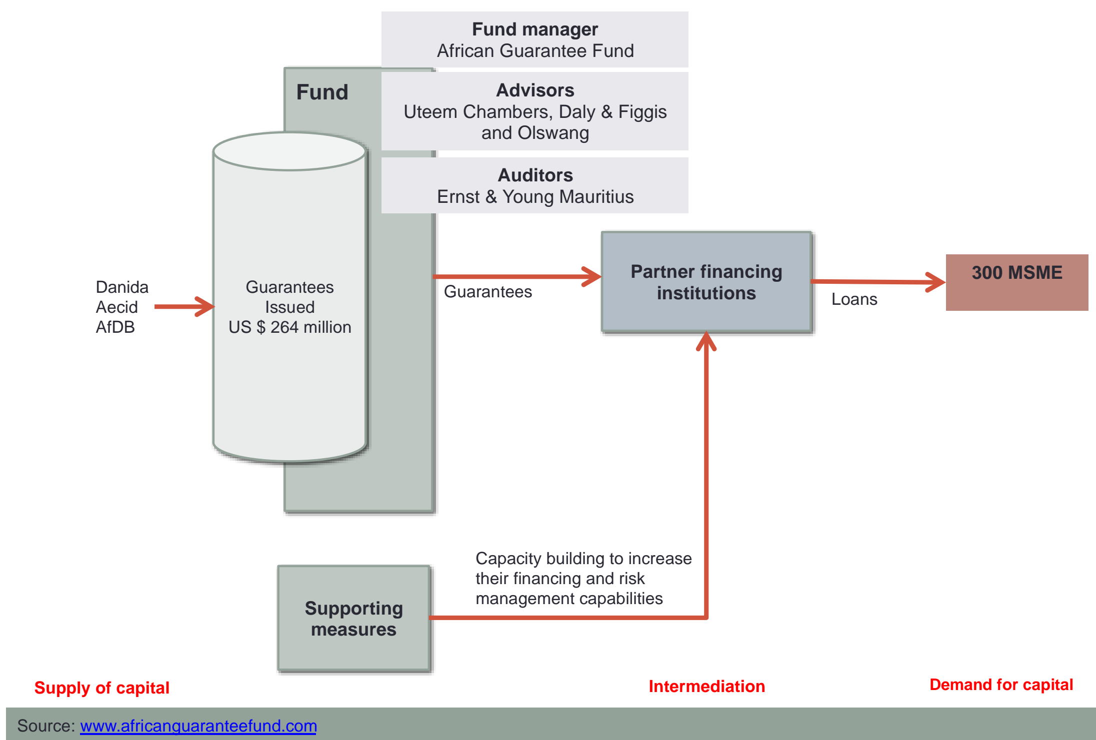
Return distribution and risk mitigation: The fund makes use of a sound risk management framework to properly assess and monitor risk.

Impact and additionality: The fund responds to the challenge of African SMEs having difficulty accessing financing for growth and innovation from the traditional financial institutions as well as relatively low levels of SME lending capacity in comparison to other regions. The Fund enables financial institutions to increase the pool of capital available to African SMEs by offering loan guarantees and providing SME lending capacity building.

Innovation: The fund uses a non-traditional mechanism to complement traditional funding for SMEs to have access to financing they need.

Supporting measures: The fund offers capacity building to financial institutions to increase their financing and risk management capabilities.

3. Capital structure



4. Further information

The link to the African Guarantee Fund websie: www.africanguaranteefund.com

Key Documents

African Guarantee Fund (2014). AGF Annual Report.

African Guarantee Fund (2013). AGF Annual Report.

African Guarantee Fund (2012). AGF Annual Report.

Fact Sheet
African Local Currency Bond Fund

1. Fund information

Fund manager	Lion's Head and United Capital
Lead investor/initiator	KfW on behalf of BMZ
Domicile	Port Louis, Mauritius
Year	2012
Fund term	*Information not publicly available*
Fund assets under management	€ 17 million
Geographic focus	All African countries with the exception of South Africa
Targeted intermediaries	African banks, micro finance institutions and agricultural companies that issue bonds
Impact thesis	The African Local Currency Bond Fund aims to create investment opportunities for African investors and to support the development of African bond markets.
Investment strategy	The fund aims to support African banks, micro finance institutions and agricultural companies to issue bonds and similar financial instruments in local currency.
Impact measurement	*Information not publicly available*
Target return	*Information not publicly available*
Financial instruments	Investments in local currency bonds and partial guarantees for bond issuances
Investment size	USD 500,000 to USD 4 million
Investment period	Up to 10 years
Fund management fees	*Information not publicly available*
Supporting measures	The fund supports investees with structuring of sustainable and long-term bond issuance programmes, feasibility of the bond issuance, structuring of bonds.
Leverage ratio	*Information not publicly available*

2. Description

Return distribution and risk mitigation: The fund mitigates local currency risks for institutions and borrowers by providing anchor investments in local currency bonds and partial guarantees for bond issuances.

***Impact and additionality*:** The fund improves access to bond markets for African financial institutions and local currency loans and savings for African MSMEs by attracting local and international investors.

Innovation: *Information not publicly available.*

Supporting measures: The fund provides technical assistance in the area of sustainable long-term bond issuance programmes, structuring of the bonds and feasibility of the bond issuance, 'road shows', costs for bond ratings and contract documentation and issue prospectus.

3. Capital structure

African Local Currency Bond Fund

Fund
Fund managers
Lion's Head and United Capital
Auditors
KPMG Mauritius
KfW
€ 17 million
Investment in local currency bonds and partial guarantees for bond issuances
Bayport Botswana
US $2 million equivalent
Bayport Zambia
US $ 3.2 million equivalent
Alios Finance, Gabon
US $ 2.1 million equivalent
Shelter Afrique, Kenya
US $ 2.4 million equivalent
CRRH, Togo
US $ 3 million equivalent
Bayport Botswana
US $ 3.5 million equivalent
HFC Bank Ghana Ltd.
US $ 2.2 million equivalent
Long term funding
MSMEs
Supporting measures
technical assistance in the area of sustainable long-term bond issuance programs, structuring of the bonds and feasibility of the bond issuance, "road shows", costs for bond ratings and contract documentation and issue prospectus
Supply of capital
Intermediation
Demand for capital

Source: www.alcbfund.com

4. Further information

Link to the African Local Currency Bond Fund website: www.alcbfund.com

Key Documents

ALCB Fund (undated). Information Fact Sheet.

KfW (2013). Presentation: Success factors in microfinance fund design.

Fact Sheet
AgDevCo

1. Fund information

Fund manager	AgDevCo
Lead investor/initiator	DFID
Domicile	London, United Kingdom
Year	2009
Fund Term	*Information not publicly available*
Fund assets under management	USD 40 million
Geographic focus	Mozambique, Tanzania, Ghana, Zambia , Malawi and Uganda
Impact thesis	AgDevCo aims to alleviate poverty and improve food security by investing in farming, food processing and marketing enterprises that have the potential to make a positive social impact in Africa.
Investment strategy	The fund provides flexible long-term capital in African agribusinesses and works in partnership with its investees to ensure they are successful in generating economic growth, creating jobs and contributing to food security.
Impact measurement	The fund has its own impact measurement methodology. The Fund follows the IFC Performance Standards on social and environmental sustainability.
Target return	10% per annum on debt
Financial instruments	Equity, quasi-equity and debt
Investment size	From USD 250,000 to USD 4 million
Investment period	*Information not publicly available*
Fund management fees	*Information not publicly available*
Supporting measures	The fund support agribusinesses in finding quality inputs and with capacity building in farming operations and governance.
Leverage ratio	The fund aims to leverage their investments by a multiple of five to ten times by helping investees to raise debt and equity from DFIs and commercial banks.

2. Description

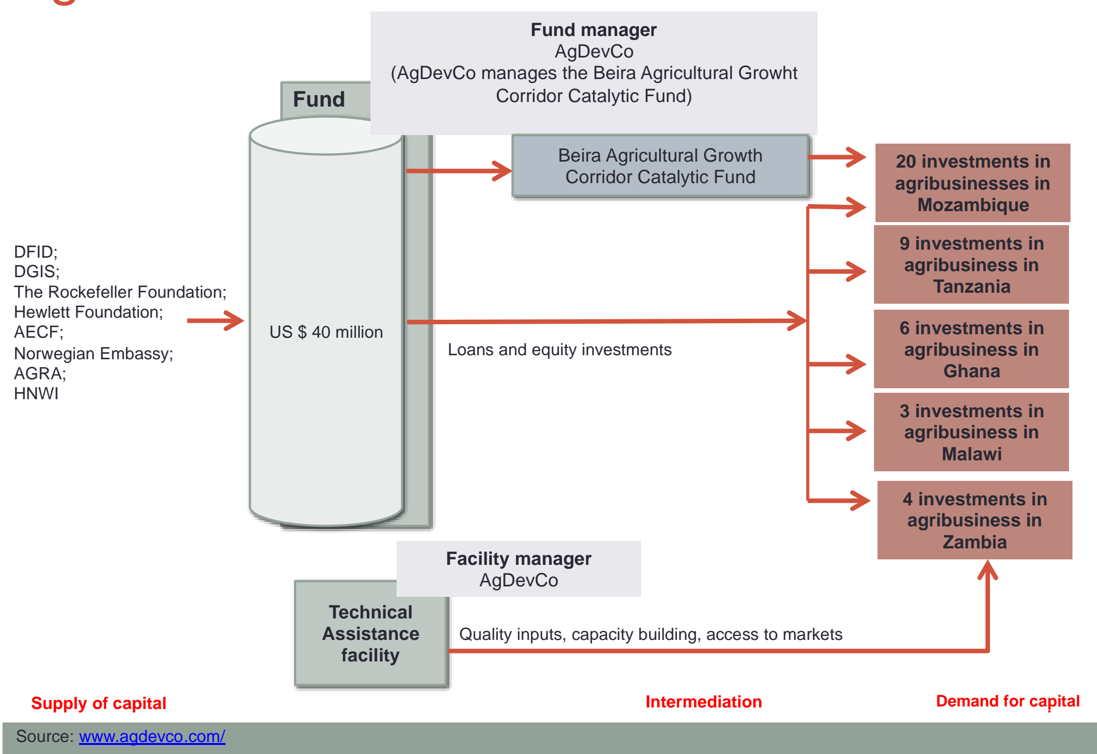
Return distribution and risk mitigation: The fund employs a commercial and legal due diligence process when selecting investees to mitigate risk and to ensure investment targets produce a social impact. This process includes undertaking local trials and pilot programmes to assess potential agribusinesses as well as supporting local management teams. The fund also negotiates long-term contracts.

Impact and additionality: The fund aims to reduce poverty in Africa by acting as a catalyst for private investment in the agribusiness sector in Africa by absorbing some of the unit costs and risk of investing in this sector. The fund argues that it is focused on the commercial agricultural sector because growth in agriculture produces greater impact on poverty reduction than growth in any other sector.

Innovation: *Information not publicly available.*

Supporting measures: The fund supports investees by ensuring the agribusinesses receive quality inputs such as seeds and fertilisers, by helping them manage their crops and/or livestock, by connecting agribusinesses to markets and by improving farming practices and governance systems.

3. Capital structure



Source: www.agdevco.com/

4. Further information

Link to the AgDevCo website: http://www.agdevco.com/

Key Documents

AgDevCo (2014). Investments Work Harder: Improving The Sustainability of African Agriculture, Annual Review 2013–2014.

AgDevCo (2012). Investment Portfolio.

AgDevCo (2010). Business Plan 2010-2014.

AgDevCo (2010). Agricultural Growth and poverty reduction in Africa: The Case for patient capital.

Fact Sheet
Althelia Climate Fund

1. Fund information

Fund manager	Althelia Climate Fund GP s. á. r. l. and Ecosphere Capital Partners LLP
Lead investor/initiator	*Information not publicly available*
Domicile	Luxembourg City, Luxembourg
Year	2011
Fund term	Closed-ended fund of eight years with possible extension up to 10 years
Fund assets under management	€ 200 million with a first closing of € 60 million
Geographic focus	40% Africa, 40% South America and 20% Asia
Targeted intermediaries	*N/A*
Impact thesis	The Althelia Climate Fund aims promote sustainable land use and to slow and stop forest destruction for the purpose of mitigating climate change, protecting biodiversity and providing fair and sustainable livelihood to rural communities.
Investment strategy	The fund aims to finance a transition to sustainable land use by investing in agricultural commodities that are sustainable and support local communities as well as offer investors competitive returns.
Impact measurement	International Finance Corporation's Performance Standards on Environmental and Social Sustainability, the EIB Statement of Environmental and Social Principles and Standards and the Climate Community and Biodiversity Standards
Financial instruments	Loans, community-based finance, payment for performance, guarantees
Investment size	€ 6 million to € 11.5 million
Investment period	Five to eight years
Fund management fees	*Information not publicly available*
Supporting measures	*Information not publicly available*
Leverage ratio	*Information not publicly available*

2. Description

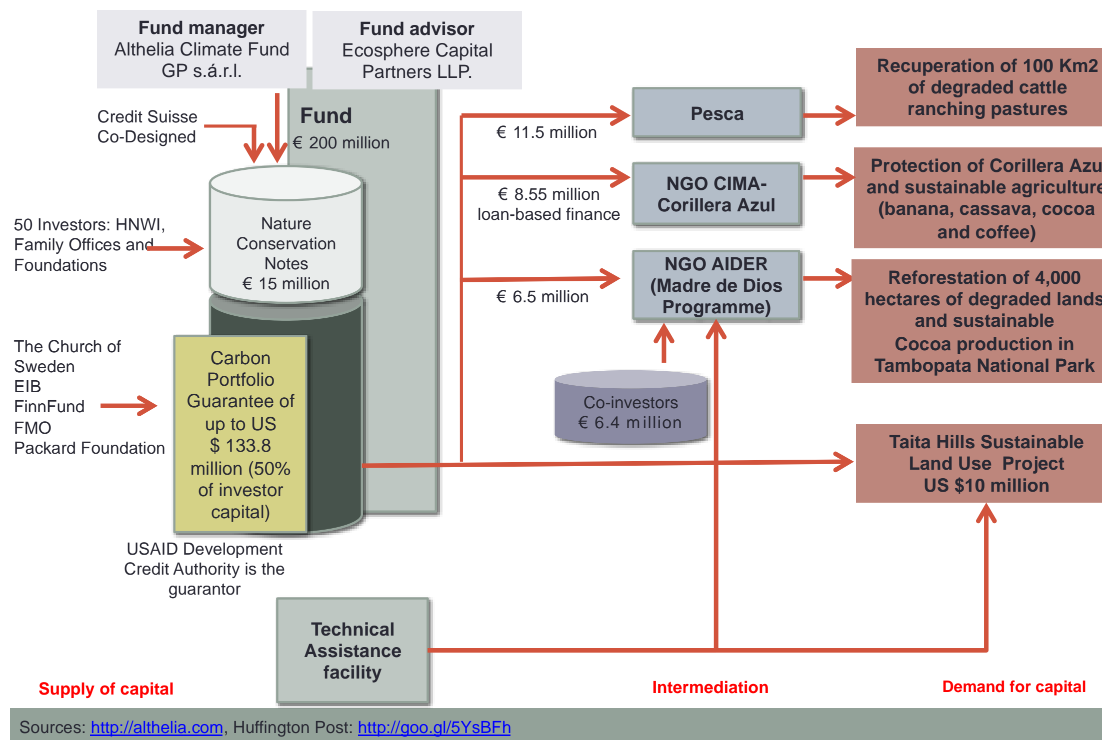
Return distribution and risk mitigation: The fund will distribute profits over time on an annual basis. The Fund is able to mitigate risk for its investors through an investment guarantees from the USAID Development Credit Authority. The fund also allows for strong risk management by entering payment for performance contracts and ensuring natural exit at contract maturing. The Fund uses a six-step investment and risk management process that includes a hedging strategy and insurance to evaluate the risk-return profile of its investments. Fund managers ensure environment, social and governance guidelines are adhered to when making investment decisions.

***Impact and additionality*:** The fund deploys capital to address environmental degradation with a focus on deforestation and overuse of agricultural land. The fund's investments produce positive social and environmental impacts as well as financial returns by investing in sustainable production of certified commodities and agricultural products and environmental services resulting in preserving eco-systems and improving the lives of small holder farmers in low-income countries as well as reducing forest-based carbon dioxide emission.

Innovation: The fund is a public-private partnership and a mission driven fund focussing on financing the transition towards sustainable land-use in developing countries by providing capital for scaling initiatives in the area of forest management, eco-system conservation and sustainable agriculture. The fund uses a blended value investment model to deliver social and environmental value in addition to strong economic returns.

Supporting Measures: *Information not publicly available.*

3. Capital structure



4. Further information

Link to the Althelia Climate Fund website: https://althelia.com

Fact Sheet
Danish Climate Investment Fund

1. Fund information

Fund manager	Investment Fund for Developing Countries (IFU)
Lead investor/initiator	Danish Pension Funds, Danish Government, IFU
Domicile	Copenhagen
Year	2014
Fund term	10 years
Fund assets under management	€ 175 million
Geographic focus	Asia, Africa, Latin America and parts of Europe
Targeted intermediaries	N/A
Impact thesis	The Danish Climate Investment Fund aims to reduce climate impact by investing in businesses and projects that are intended for lower greenhouse gas emission and adjusting to climate change.
Investment strategy	The fund offers risk capital for climate investments or climate related projects in developing countries.
Impact measurement	Amount of GHG emission reduction
Target return	Annual returns of 12%
Financial instruments	Equity and mezzanine financing
Investment size	€ 2 million to € 15 million
Investment period	Four years
Fund management fees	*Information not publicly available*
Supporting measures	*Information not publicly available*
Leverage ratio	*Information not publicly available*

2. Description

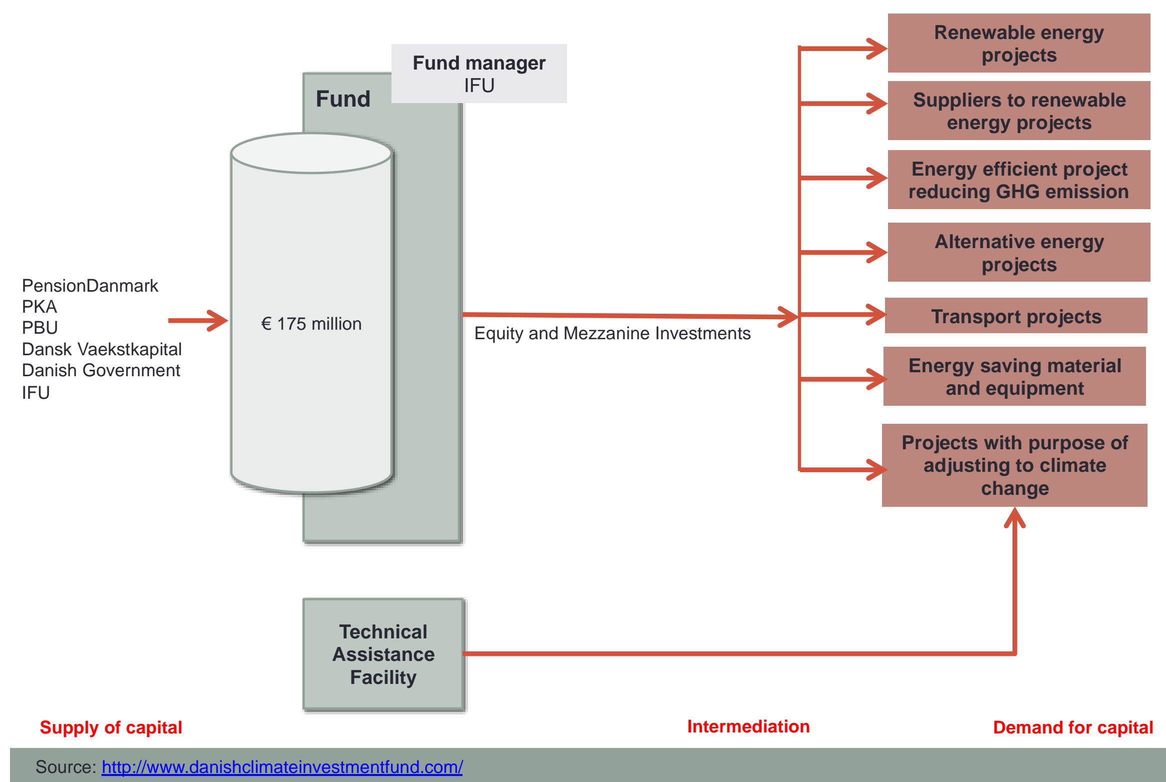
Return distribution and risk mitigation: The fund mitigates risk by investing in a broad geographical scope and variety of investment type. The fund invests in businesses and projects that are commercially viable and offer attractive returns.

Impact and additionality: The fund is a public private partnership with the purpose of mitigating the impact of climate change by investing in businesses or projects that either product energy efficiency or GHG emission reduction or increase climate readiness.

Innovation: One of the first investment vehicles for financing climate change mitigating businesses or projects.

Supporting measures: *Information not publicly available.*

3. Capital structure



Source: http://www.danishclimateinvestmentfund.com/

4. Further information

Link to the Danish Climate Investment Fund website: http://www.danishclimateinvestmentfund.com/

Key Documents

IFU (2014). Fact sheet: Facts about the Danish Climate Investment Fund.

Fact Sheet
DFID Impact Fund

1. Fund information

Fund manager	The CDC Group
Lead investor/initiator	DFID
Domicile	London, United Kingdom
Year	2013
Fund term	13 year programme
Fund assets under management	£ 75 million
Geographic focus	Low-income and lower-middle income countries in sub-Saharan Africa, South Asia and 15% of capital available for investing in India
Targeted intermediaries	Intermediaries that invest in businesses impacting BoP populations as consumers, producers or employees
Impact thesis	The DFID Impact Fund will generate positive social impact by demonstrating the viability of impact investing and attracting more capital towards impact investments to support businesses that provide jobs, incomes as well as goods and services to BoP communities.
Investment strategy	The fund is a fund of funds aiming to invest in businesses that achieve positive impact on the BoP population in its target geographies in Asia and Africa.
Impact measurement	The fund's Results Framework tracks progress towards improving access to affordable goods and services and income generating opportunities for BoP populations. The overall Results Framework is managed by the Programme Coordination Unit commissioned by DFID and managed by PwC.
Target return	Invests on an impact first basis and has no set target for returns, but will expect at a minimum to have its capital returned upon exit
Financial instruments	Debt, equity and guarantees
Investment size	From £ 5 million to £ 15 million per investment
Investment period	The fund will exit all investments within ten years of investment
Fund management fees	The fund will review a fund's management fee within the context of what is needed to run the fund management activities. The intent is to set management fees comparable to market rates.
Supporting measures	Technical assistance is provided by a technical assistance facility to support fund managers and their investees. The DFID impact programme also supports general market building measures in impact measurement or capacity building of first time fund managers.
Leverage strategy/ ratio	The fund seeks to mobilize new private capital to the investee fund and the field more broadly through financial and non-financial means.

2. Description

Return distribution and risk mitigation: The fund can take a subordinate position in an investment fund. In case subordination to other public investors such as DFIs the investee will have to raise private capital at the same level as the Impact funds commitment. In exceptional cases on a first loss basis are also possible. In the long term, the risk mitigation will be achieved by demonstrating financial returns are possible in the impact-investing marketplace. Leveraging the expertise and reputation of the CDC Group for fund management should also provide further comfort.

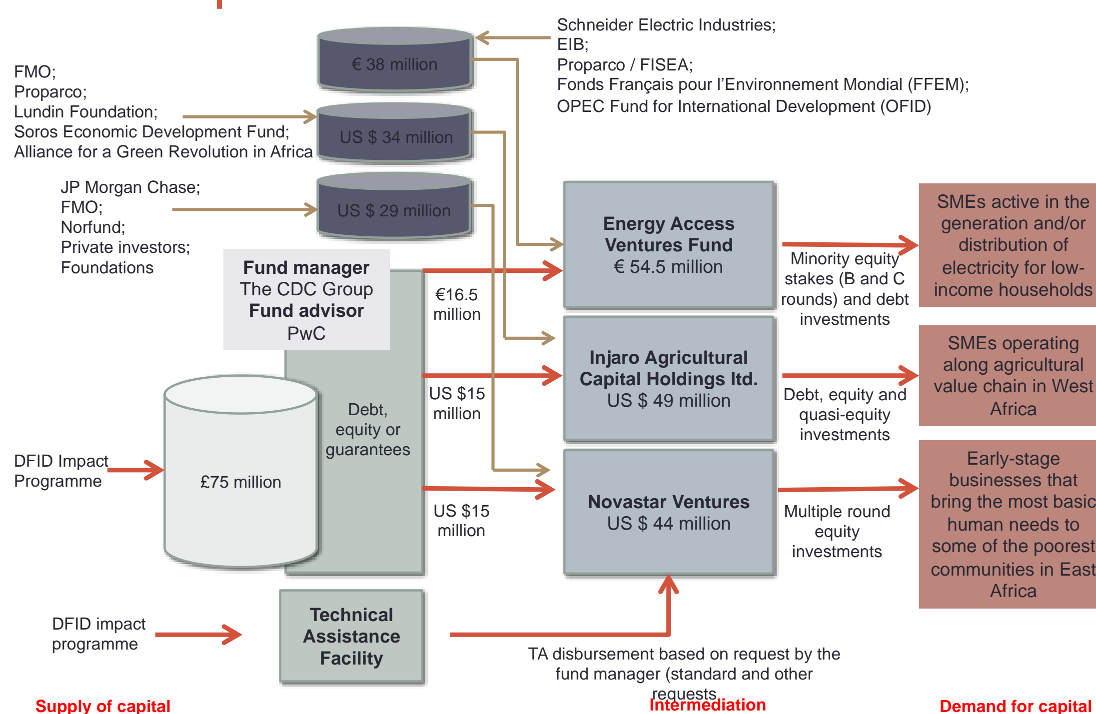
***Impact and additionality*:** The fund channels funds to business opportunities below the typical investor threshold in both size and risk/return profile targeting the BoP. Beyond beneficiary impact, the fund also aims to demonstrate the financial viability of impact investing, to mobilise private sector capital and to

build he market infrastructure through strengthening impact measurement systems and capacity of fund managers and entrepreneurs. All things being equal, the Fund will give priority to investment in low-income countries in Africa and South Asia compared to low middle-income countries in this geographical region.

Innovation: The fund is one of the first impact investing fund of fund with an explicit focus on reaching out to the Base of the Pyramid as well as mobilising new investment capital. The fund also provides a successful example of combining patient capital with below markets rates of return with capital from institutional investors that expect markets rates of return.

Supporting measures: Technical assistance funding is made available to intermediaries receiving investment capital to support the development of the enterprises they invest in. Technical assistance is also provided by a technical assistance facility to support underlying investees with their investments. The DFID impact investing programme also supports building of market infrastructure, impact measurement and strengthening the capacity of impact investment fund managers.

3. Capital structure



Source: www.theimpactprogramme.org.uk/dfid-impact-fund/, CDC FAQ on DFID Impact Fund: http://goo.gl/m4dlkd

4. Further information

Link to DFID Impact Programme website: http://www.theimpactprogramme.org.uk/

<u>Key documents</u>

CDC Group (2015). FAQs – The DFID Impact Fund (managed by CDC).
Devfin Advisers AB (2014). Innovative Finance Gap Analysis: Report to Sida.
Inigro Agricultural Capital Holdings Ltd (2014). DFID Impact Fund: Fund Snapshot.
UKAID (2014). The Impact Programme Annual Report 2013.
UKAID (2015). The Impact Programme Annual Report 2014.
UKAID (2015). The Impact Programme (a snapshot of the programme).

Fact Sheet
Dutch Good Growth Fund

1. Fund information

Fund manager	PricewaterhouseCoopers and Triple Jump
Lead investor/initiator	Dutch Ministry of Foreign Affairs
Domicile	Amsterdam, The Netherlands
Year	2014
Fund term	*Information not publicly available*
Fund assets under management	€ 700 million
Geographic focus	Africa, Asia, Latin America and Eastern Europe
Targeted intermediaries	Intermediary Funds providing capital to small and medium sized enterprises (SMEs) in or Dutch businesses exporting to developing countries.
Impact thesis	The Dutch Good Growth Fund aims to drive inclusive economic growth in fragile states to provide opportunities for young and female entrepreneurs by supporting small and medium sized enterprise growth via intermediary funds.
Investment strategy	The fund aims to invest in intermediaries that provide financial services to SMEs and large enterprises that do business in or export to low and middle-income countries.
Impact measurement	IFC Performance Standards on International Corporate Social Responsibility
Target return	*Information not publicly available*
Financial instruments	Loans, equity and guarantees
Investment size	Up to € 10 million
Investment period	*Information not publicly available*
Fund management fees	*Information not publicly available*
Supporting measures	*Information not publicly available*
Leverage ratio	*Information not publicly available*

2. Description

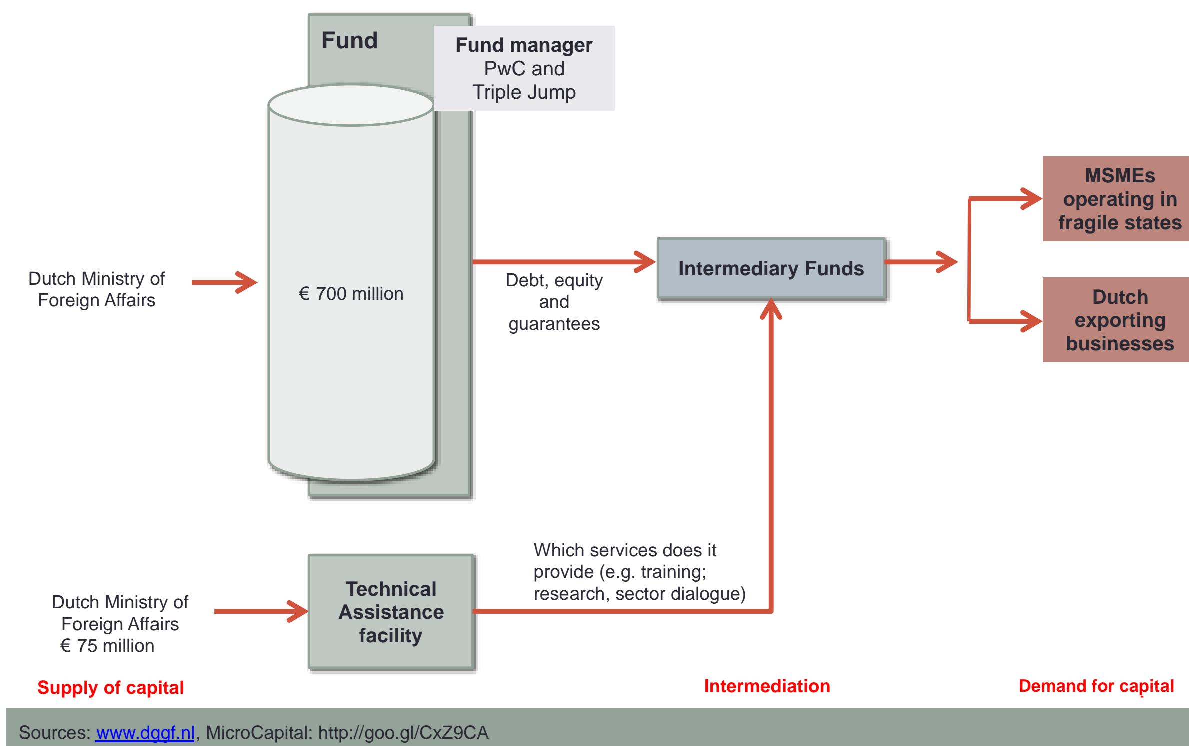
Return distribution and risk mitigation: *Information not publicly available.*

Impact and additionality: *Information not publicly available.*

Innovation**:** *Information not publicly available.*

Supporting measures: *Information not publicly available.*

3. Capital structure



4. Further information

Link to the Dutch Good Growth Fund website: http://www.dggf.nl/

Key Documents

Actionaid, Both Ends and Somo (2013). The Dutch Good Growth Fund: Who Profits From Development Cooperation?

Netherlands Enterprise Agency (2014). Dutch Good Growth Fund Fact Sheet.

Fact Sheet
European Investment Fund (EIF) Social Impact Accelerator Fund

1. Fund information

Fund manager	European Investment Fund
Lead investor/initiator	EIB Group, Crédit Coopératif and Deutsche Bank
Domicile	Luxembourg City, Luxembourg
Year	2013
Fund term	*Information not publicly available*
Fund assets under management	€ 243 million
Geographic focus	Europe
Targeted intermediaries	Social impact funds that strategically target social enterprises across Europe
Impact thesis	Social Impact Accelerator Fund aims to achieve social impact by being a market builder of a sustainable funding for social enterprises that are finding solutions to social issues based on scalable models promoting social inclusion and creating employment opportunities for marginalised social groups.
Investment strategy	The fund is a fund-of-funds investing in social impact funds investing.
Impact measurement	The fund will use a new framework for quantifying and reporting on impact metrics.
Target return	Between 3% and 5%
Financial instruments	Equity financing
Investment size	Between € 5 million and € 10 million
Investment period	Up to six years
Fund management fee	*Information not publicly available*
Supporting measures	Access to networks, advice on fund set-up including structuring and legal considerations, support with establishing standards and best practices
Leverage ratio	*Information not publicly available*

2. Description

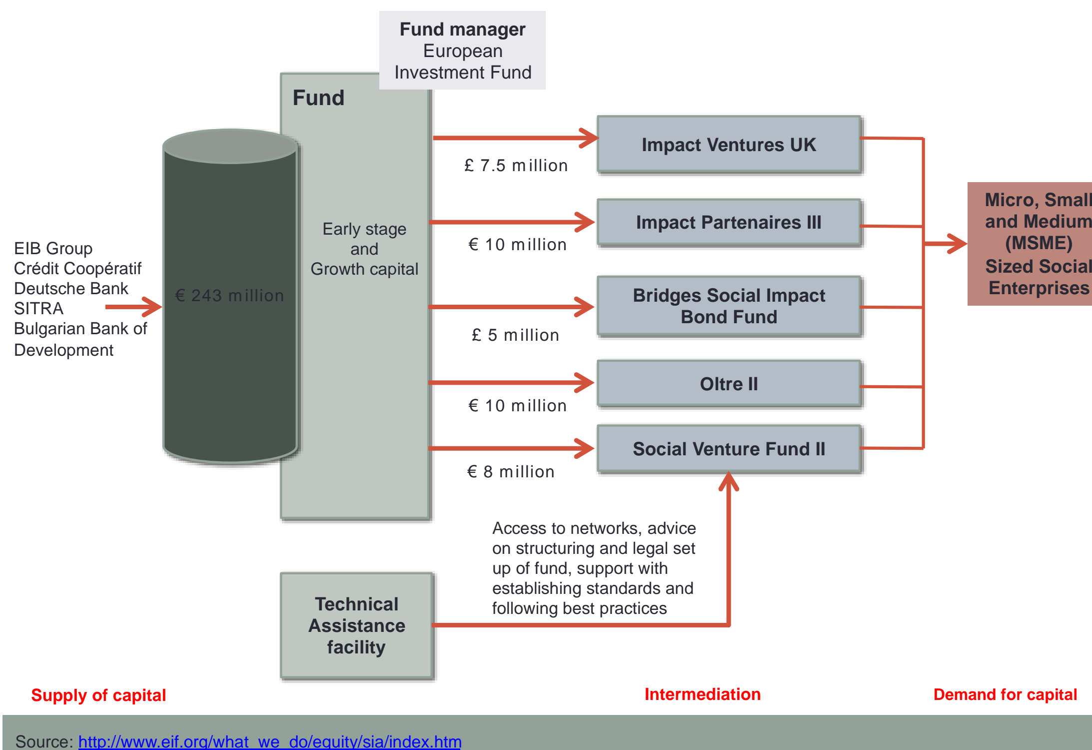
Return distribution and risk mitigation: *Information not publicly available.*

Impact and additionality: The fund supports European Union policy to stimulate innovation, entrepreneurship, economic growth and reemployment. By providing equity financing, the fund is a leading actor in the social enterprise market allowing social impact investing funds to scale and widen their scope of supported ventures.

Innovation: The fund is the first public-private partnership addressing the need for equity finance for European social enterprises. The Fund is a pioneer in providing funding for funds that aim to produce positive societal change in addition to making a financial return.

Supporting measures: The fund will help impact investing funds with gaining access to networks, structuring the logistics and legal requirements of impact investing funds and to establish standards and follow best practices.

3. Capital structure



4. Further information

Link to the EIF Social Impact Accelerator Fund website:
http://www.eif.org/what_we_do/equity/sia/index.htm?lang=-en

Key Documents

European Investment Fund (2015). EIF's approach to inclusive / impact financing.

Impact Lab Investing (2014). Impact Investing: A New Asset Class or A Societal Refocus of Venture Capital?

Fact Sheet
European Fund for Southeast Europe (EFSE)

1. Fund information

Fund manager	Oppenheim Asset Management Services
Lead investor/initiator	KfW and EIB
Domicile	Luxembourg City, Luxembourg
Year	2005
Fund term	Open ended
Fund assets under management	€ 1 billion
Geographic focus	Southeast Europe and the European Eastern Neighbourhood Region of the European Union: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, FYR, Macedonia, Georgia, Kosovo, Moldova, Montenegro, Romania, Serbia, Turkey, Ukraine
Targeted intermediaries	Commercial banks, microfinance institutions and non-bank financial institutions
Impact thesis	The EFSE fund aims to foster sustainable economic development and prosperity through financing micro and small enterprises and to low-income households as well as strengthening local financial markets
Investment strategy	The fund invests commercial long-term funds to qualified financial institutions including local commercial banks, specialized microfinance banks, microcredit organisations, leasing companies and investment companies or funds with a regional orientation.
Impact measurement	The fund measures development performance according to its breath of outreach (number of micro and small enterprises reached) and depth of outreach (average loan size).
Target return	*Information not publicly available*
Financial instruments	Medium to long-term loans, subordinated loans, term deposits, subscriptions to bond issues, certificates of deposit, syndicated loans, stand-by-letters of credit, guarantees, equity/quasi-equity participations
Investment size	The fund reports on partner lending institutions' investment size in investment target, however, it does not report its investment size in the partner lending institutions.
Investment period	Maximum maturity of 10 years (in exceptional cases up to 15 years)
Fund management fees	*Information not publicly available*
Supporting measures	Technical assistance for capacity building of partner lending institutions to increase outreach of finances for MSEs and private households
Leverage ratio	*Information not publicly available*

2. Description

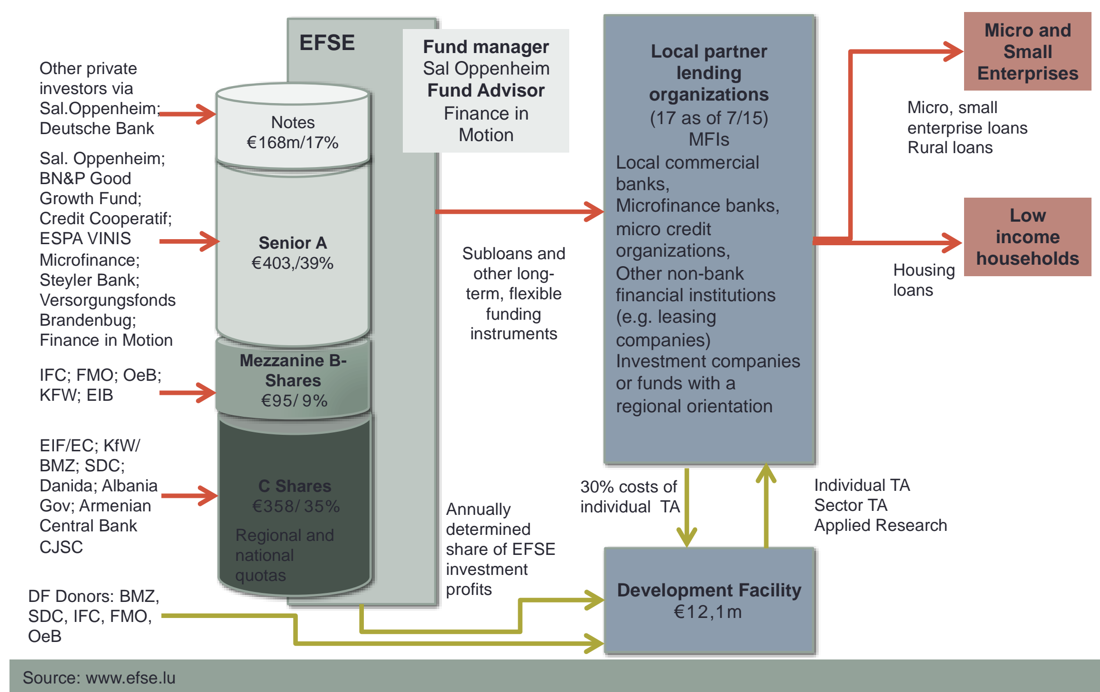
Return distribution and risk mitigation: The fund has taken development financial institution and multilateral development bank investment to crowd in private sector investment. It also manages risk by using a vetting process for selecting partner lending institutions.

Impact and additionality: There is monitoring of both investment and the implementation of technical assistance and impact.

Innovation: The fund is an innovative Public Private Partnership involving donor agencies, international finance institutions and private institutional investors. The fund mobilises funding from private institutional investors by leveraging public donor funding for development finance.

Supporting measures: The fund provides consulting, training and on-the job coaching in short-term and intensive intervals to partner lending institutions to build their capacity to serve micro and small enterprises and low-income households (example, how to provide strategic advice). The fund also works with sector bodies in supporting processes within the financial sector to improve the financial sector infrastructure as well as sponsors and conducts research. The technical assistance is provided in cooperation with the partner lending institution with both partners defining project outline, structuring of terms and conditions. Local consultants are chosen by the fund and the partner lending organisation to implement the technical assistance.

3. Capital structure



4. Further information

Link to EFSE website: http://www.efse.lu/

Key Documents

EFSE. (2014). Annual Report: Portraits of Progress.

EFSE. (2013). Annual Report: Supporting 16 Economies on Their Way to Growth.

EFSE. (2012). Annual Report: Strong Partners – Strong Impact.

Fact Sheet
Essential Capital Consortium Fund

1. Fund information

Fund manager	Deutsche Bank Global Social Finance Group
Lead investor/initiator	Deutsche Bank
Domicile	Frankfurt, Germany
Year	2005
Fund term	Five years
Fund assets under management	USD 50 million
Geographic focus	Developing countries
Targeted intermediaries	Microfinance institutions
Impact thesis	The Essential Capital Consortium Fund aims to invest in social enterprises in the energy, health and BoP financial service sectors to improve the lives of the poor in developing countries.
Investment strategy	The fund aims to provide high-risk growth debt capital to social enterprises in the energy, health and BoP financial service sectors.
Impact measurement	*Information not publicly available*
Target return	Market based rates
Financial instruments	Senior or subordinated debt and guarantees
Investment size	Between USD 1 million to USD 5 million
Investment period	Up to five years
Fund management fees	*Information not publicly available*
Supporting measures	*Information not publicly available*
Leverage ratio	*Information not publicly available*

2. Description

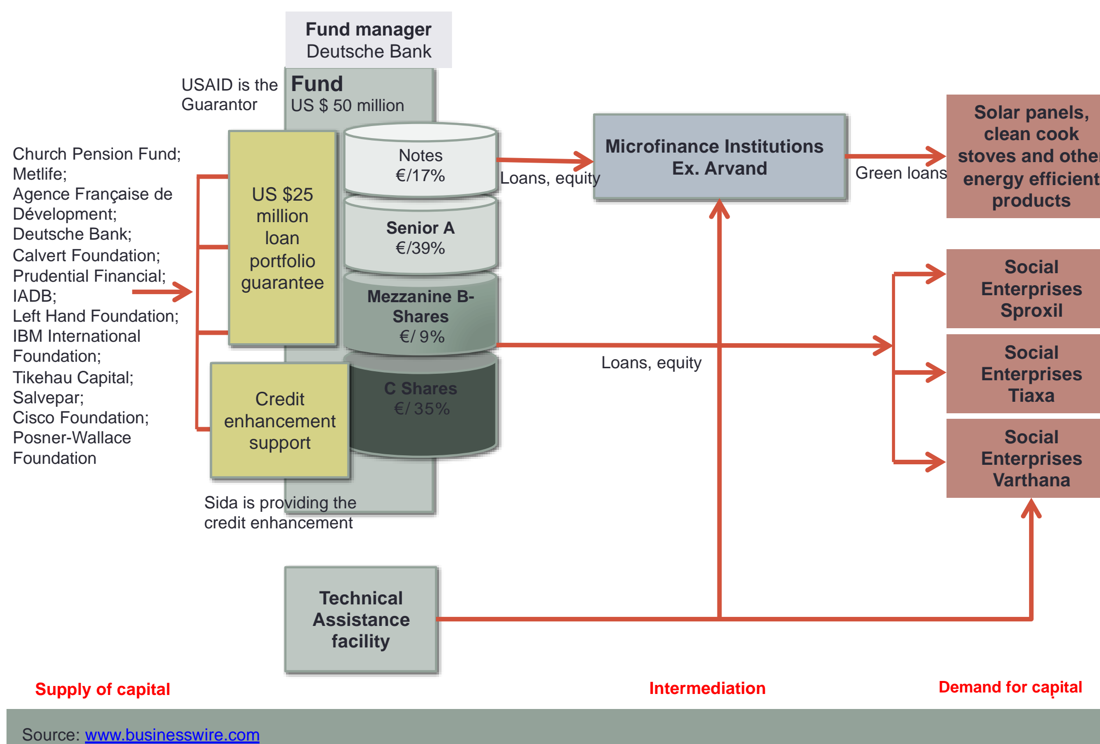
Return distribution and risk mitigation: The fund provides protection for some investors against losses by offering senior and subordinated financing to profitable or near profitable social enterprises. The Fund targets investees that are viable social businesses with annual revenue of USD 1 million and have positive profitability with audited financials as well as a strong track record. Sida provided credit enhancement support and USAID added a USD 25 million loan guarantee.

Impact and additionality: *Information not publicly available.*

Innovation: The fund finances growth of social enterprises by bringing together reputable investors including equity funds, pension funds, development banks and foundations. It is the first global fund to be exclusively focused on social enterprises.

Supporting measures: *Information not publicly available.*

3. Capital structure



4. Further information

The fund does not have a website and no documents were found.

Fact Sheet
Global Climate Partnership Fund

1. Fund information

Fund manager	ResponsAbility Investments AG
Lead investor/initiator	KfW and German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety
Domicile	Zürich, Switzerland
Year	2009
Fund term	*Information not publicly available*
Fund assets under management	USD 298.8 million
Geographic focus	Any emerging and developing country approved by the BoP
Targeted intermediaries	Financial Institutions
Impact thesis	The Global Climate Partnership Fund aims to reduce the emission of greenhouse gases by offering funding for energy efficiency and renewable energy projects and to create jobs by investing in Small to Medium Enterprises (SMEs) and private households.
Investment strategy	The fund invests capital in households, homeowner associations, leasing companies, SMEs, and energy efficiency and renewable energy companies to improve energy efficiency performance or to produce renewable energy.
Impact measurement	The fund has a Social and Environmental Management System and uses the IFC Social and environmental Performance Standards
Target return	*Information not publicly available*
Financial instruments	On-lending, debt financing
Investment size	USD 5 million and USD 30 million
Investment period	Up to 15 years
Fund management fees	*Information not publicly available*
Supporting measures	Supports recipients to conduct financial or/and technical feasibility studies, provides business development support, technical appraisals or potential initiatives, supports the design of dedicated sustainability energy financial products, market research and improve social and environmental management systems
Leverage ratio	*Information not publicly available*

2. Description

Return distribution and risk mitigation: The fund mitigates risks by providing financing for economically sound projects. The Technical Assistance Facility helps mitigate risk by supporting investees to conduct financial or/and technical feasibility studies.

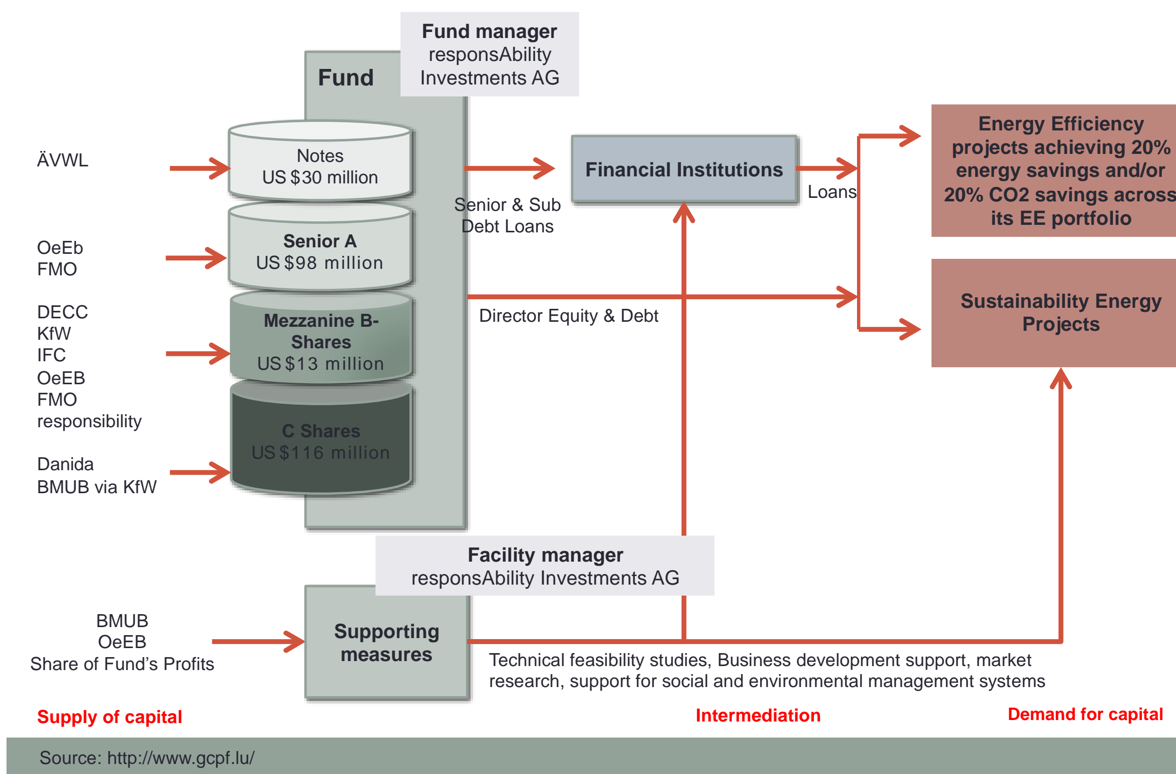
Impact and additionality: The fund provides resources to areas in need of capital for the reduction of greenhouse gas emissions by addressing areas that do not already serviced by the private sector or subsidized funding.

Innovation: The fund is a public private partnership providing financing energy efficiency and renewable energy projects for SMEs and private households in developing countries by cooperating with local financial institutions or financing projects directly. The fund attracts additional private capital for this purpose.

Supporting measures: The Technical Assistance Facility aims to maximize the outreach of the fund to have a maximum impact on reducing the effects of climate change and to develop local financial capacity. The technical assistance facility offers capacity building for direct investment projects and support to

partner institutions focusing on the range of sustainability energy products and marketing as well as raising awareness of these products.

3. Capital structure



4. Further information

Link to the Global Climate Partnership Fund website: http://www.gcpf.lu/

Additional Documents

GCPF (2014). Mitigating climate change together: GCPF Annual Report 2014.

IDFC (2012). Position Paper on Leverage of Public and Private Funds.

KfW (2011). Presentation: Leveraging private finance for climate action in developing countries: Promoting EE / RE Investments via the local financial sector.

Fact Sheet
Global Health Investment Fund (GHIF)

1. Fund information

Fund manager	Global Health Investment Corporation / Lion's Head Global Partners LLP
Lead investor/initiator	JP Morgan Chase & Co. and the Bill & Melinda Gates Foundation
Domicile	Wilmington, Delaware
Year	2013
Fund term	Open ended
Fund assets under management	USD 108.9 million
Geographic focus	Low-income countries
Impact thesis	The GHIF aims to improve public health in low-income countries by advancing the development of drugs, vaccines, diagnostics and other interventions against diseases.
Investment strategy	The fund will provide capital for the development of interventions that improve international public health outcomes by providing mezzanine debt funding to later stage Product Development Partnerships (PDPs), pharmaceutical companies, contract research organisations and government bodies. The intention to accelerate the development of products to address global health challenges by providing financing to initiatives and organisations that cannot access financing from traditional financial institutions.
Impact measurement	*Information not publicly available*
Target return	Two to seven per cent, however, twenty per cent of profits will be recycled back into global health research
Financial instruments	Form of mezzanine debt funding
Investment size	Investments so far have been from USD 5 million to USD 10 million
Investment period	Variable
Fund management fee	*Information not publicly available*
Supporting measures	*Information not publicly available*
Leverage ratio	*Information not publicly available*

2. Description

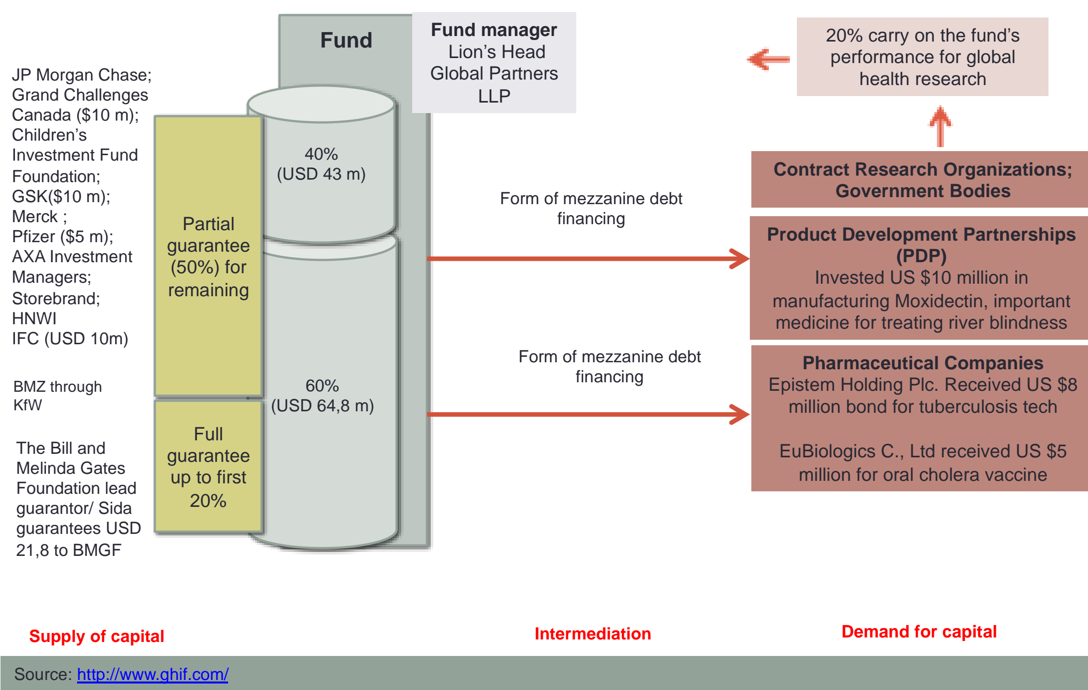
Return distribution and risk mitigation: Potential profits will come from neglected disease vaccine sales (if the R&D succeeds), 20% of profits recycled back into global health research. Potential losses are fully guaranteed for the first 20% and partially guaranteed (50%) by the Bill & Melinda Gates Foundation and Sida of Sweden i.e. up to 60% of the fund's capital is guaranteed via a guarantee.

Impact and additionality: if successful, the impact of GHIF investments will be health benefits from newly developed drugs, vaccines and other interventions against neglected diseases. Without public and philanthropic guarantees funding would not have been made available for relatively low return, high-risk R&D activities.

Innovation: The fund mobilizes resources by combining government and private guarantees to leverage private investment for research for new vaccines.

Supporting measures: *Information not publicly available.*

3. Capital structure



Source: http://www.ghif.com/

4. Further information

Link to GHIF website: http://www.ghif.com/

Key documents

Dalberg Global Development Advisors (2014). Innovative Financing For Development: Scalable Business Models that Produce Economic, Social and Environmental Outcomes.

Devfin Advisers AB (2014). Innovative Finance Gap Analysis: Report to Sida.

JP Morgan Chase (2014). Report on Corporate Responsibility.

United Kingdom Cabinet Office (2013). Achieving social impact at scale: Case studies of seven pioneering co-mingling social investment funds.

Fact Sheet
Global Innovation Fund

1. Fund information

Fund manager	Global Innovation fund
Lead investor/initiator	USAID, UKAID, Omidyar Network, Australian Government
Domicile	London, United Kingdom
Year	2014
Fund term	Five years
Fund assets under management	USD 200 million
Geographic focus	Developing Countries
Targeted intermediaries	N/A
Impact thesis	The Global Innovation Fund aims to support innovations that benefit people who live on less than USD 2 dollars a day in developing countries
Investment strategy	The fund offers three stages of flexible range of financing options to start-ups as well as initiatives and enterprises that are either ready to test their product/service or to scale their operation.
Impact measurement	Different methods and encourage investees to adapt their impact assessment models depending on the context.
Target return	Risk based returns
Financial instruments	Grants, debt and equity
Investment size	USD 50,000 to USD 15 million
Supporting measures	The fund offers access to their growing network and tailor made support.
Leverage ratio	*Information not publicly available*

2. Description

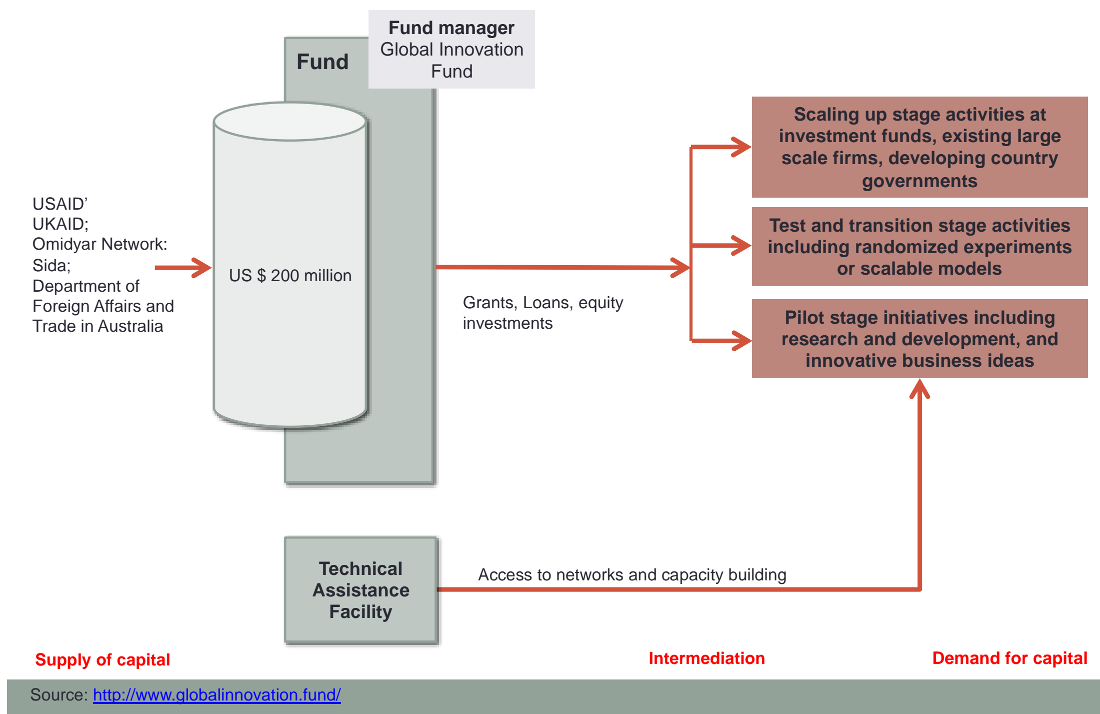
Return distribution and risk mitigation: The fund was created with the grant funding public development agencies and an impact investment firm. The fund has a culture of high-risk tolerance and learning.

***Impact and additionality*:** The fund invests in innovative approaches to poverty alleviation in developing countries that cannot access capital through traditional channels such as commercial banks or donor funding. The Fund engages with early stage ideas as well as encourages replication of existing business models. It generates rigorous evidence of innovations that produce social impacts.

Innovation: The fund itself is innovative because of its flexibility in the use of financial instruments and technical support. Funding and financing decisions are made by an external panel of experts. It is sector neutral i.e. Innovators from private, social and government sector can apply.

Supporting measures: The fund builds long-term relationships with their investees through formal funding agreements and offer non-monetary support including connecting the investees with individuals in their network and other pathways to scaling.

3. Capital structure



4. Further information

Link to the Global Innovation Fund website: http://www.globalinnovation.fund/

Fact Sheet
Grassroots Business Fund

1. Fund information

Fund manager	Grassroots Business Partners, Inc.
Lead investor/initiator	IFC
Domicile	Washington, DC, United States
Year	2011
Fund term	*Information not publicly available*
Fund assets under management	USD 49 million
Geographic focus	30% Latin America, 22% South Asia, 14% Southeast Asia and 34% Africa
Targeted intermediaries	N/A
Impact thesis	The Grassroots Business Fund aims to build sustainable businesses in poor and rural areas of developing countries to positively impact the lives of low-income people.
Investment strategy	The fund invests in high-impact businesses by providing long term flexible capital and mitigating risk with skill building providing accompanying business advisory services.
Impact measurement	GBF Environmental and Social management system with self-reported metrics / IRIS
Financial instruments	Equity, quasi-equity, loans and guarantees
Investment size	USD 750,000 to USD 2,500,000
Investment period	Five to seven years
Fund management fees	*Information not publicly available*
Supporting measures	Financial planning and management, corporate governance as well as measuring environmental and social impacts
Leverage ratio	*Information not publicly available*

2. Description

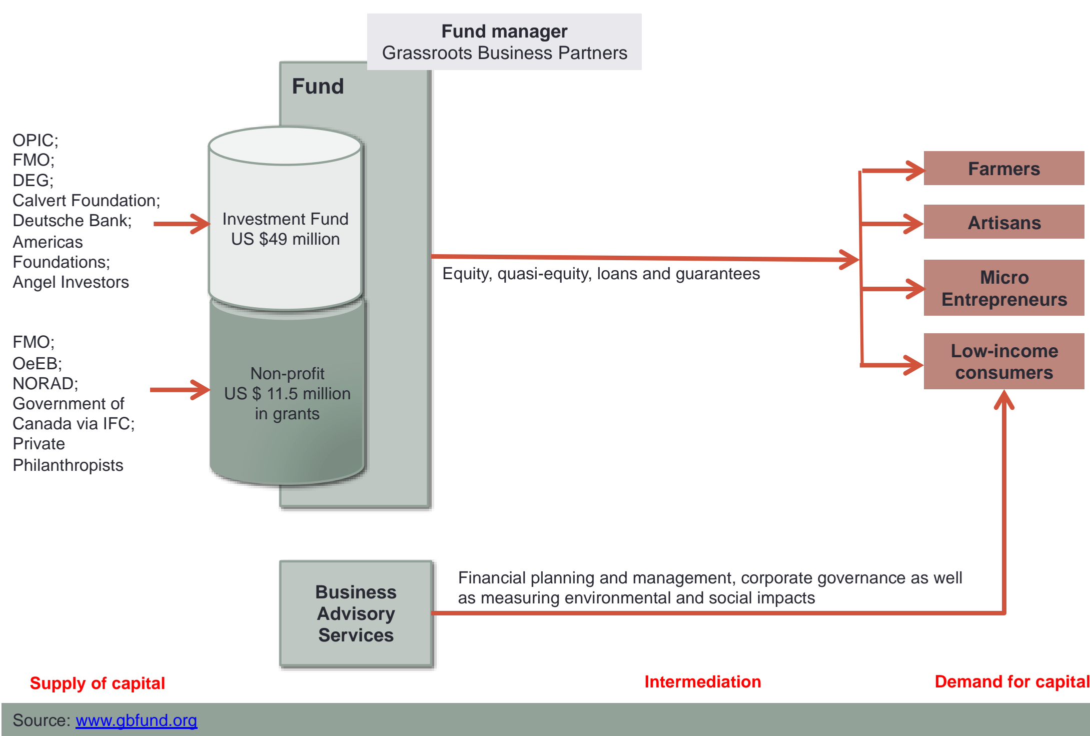
Return distribution and risk mitigation: The fund invests in high impact businesses that are at a growth stage with a proven track record and offer high quality products or services. Risk is mitigated by helping investees succeed by offering business advisory services to improve their operations and build stronger businesses in parallel with the investment. The Fund also uses a risk sharing capital model with its high level of investee engagement.

Impact and additionality: The fund invests in high impact businesses that have a strong commitment to bringing sustainable social and economic impact to low-income communities.

Innovation: The fund makes use of a unique model that includes a private investment fund that makes for-profit investments in high-impact businesses and a not-for-profit arm that provides business advisory services to investees.

Supporting measures: The fund's Business Advisory Services helps investee growth potential by supporting them in understanding business fundamentals, mitigating risk and identifying new opportunities. The investees receive customized support to strengthen their financial management, operations and strategy. The support is intended to help investees to growth, become commercially sustainable and create social impact. Business Advisory Services provides both direct support and through third-party consultants.

3. Capital structure



4. Further information

Link to the Grassroots Business Fund website: www.gbfund.org/

<u>Key Documents</u>

Grassroots Business Fund (2014). Annual Report.

Grassroots Business Fund (2014). Impact Report.

Grassroots Business Fund (2013). Annual Report.

Grassroots Business Fund (2012). Annual Report.

Grassroots Business Fund (2011). Annual Report.

Fact Sheet
Green for Growth Fund (GGF)

1. Fund information

Fund manager	Oppenheim Asset Management Services (fund manager) with Finance in Motion (advisor, TA management)
Lead investor/initiator	European Investment Bank and KfW
Domicile	Luxembourg City, Luxembourg
Year	2009
Fund term	The GGF is of unlimited time duration
Fund assets under management	€ 359.5 million
Geographic focus	Southeast Europe and the European Neighbourhood Region (currently 13 countries)
Targeted intermediaries	The GGF targets financial institutions such as commercial banks and non-bank financial institutions such as leasing companies that provide financing for energy efficiency and/or renewable energy projects in private households, SMEs, energy service companies and municipalities. Currently 27 partner financial institutions.
Impact thesis	The fund aims to enhance energy efficiency of and reduce CO_2 produced by households, SMEs, businesses and municipalities by ensuring the investments they make are sustainable and promote a culture of green energy consumption and production.
Investment strategy	The fund provides patient capital for energy efficiency and renewable energy projects. The GGF mitigates risk by diversifying its investments in a number of different partner entities and renewable energy projects.
Impact measurement	Impacts are measured by utilizing MACS Management & Consulting Services' eSave, a tool for calculation, monitoring and reporting of energy efficiency and / or renewable energy measures and credit portfolios.
Target return	Confidential
Financial instruments	Medium to long-term senior loans; subordinated loans; syndicated loans; letters of credit; guarantees; mezzanine debt instruments; local debt securities; equity
Investment size	From € 1.5 million to € 25 million into intermediaries
Investment period	A Shares are issued with a maturity of between five to ten year; B Shares and Notes are issued with maturities between five to fifteen years and three to eight years respectively; C Shares have an unlimited maturity.
Fund management fees	Confidential
Supporting measures	The GGF provides funds for technical assistance. They also provide capacity building for partner financial institutions to invest in energy efficiency and renewable energy projects as well as support for companies that intend on designing and implementing renewable energy projects and are interested in undertaking energy audits.
Leverage strategy	Currently seeking to mobilize additional private investors

2. Description

Return distribution and risk mitigation: The GGF utilizes a tiered risk sharing structure with notes, Senior A Shares, Mezzanine B Shares and first loss C Shares, which is designed to attract capital from multilateral, public and private institutional investors. Capacity risk of partner financial institutions in the area of renewable energy and energy efficiency lending is mitigated with a TA facility.

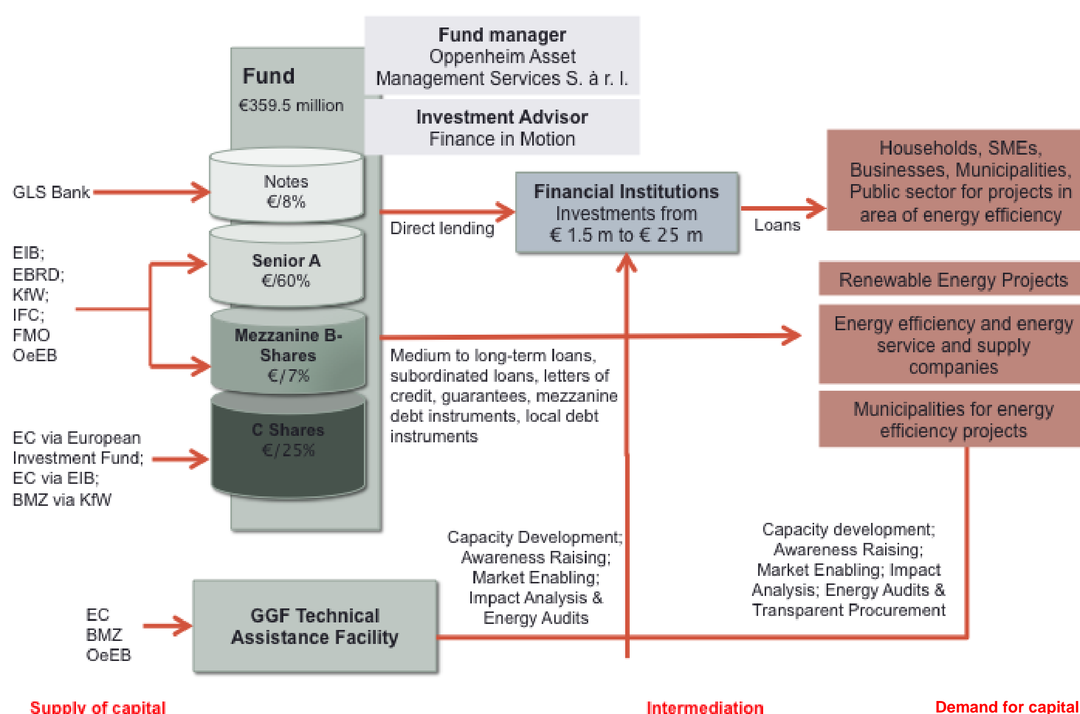
***Impact and additionality*:** The direct is the reduction of GHG emissions. The GGF also assists investees with the structuring and implementation of their investments in energy efficiency and renewable

energy projects, foster the local eco-system of engineers, energy auditors and consultants, and links demand, suppliers, and finance into a complete value chain.

Innovation: Key role of technical assistance building knowledge and skills with partner financial institutions in the area of renewable energy and energy efficiency as well as introducing suitable audit tools.

Supporting measures: The GGF Technical Assistance Facility provides targeted technical assistance to enhance energy efficiency and reducing CO2 emissions by providing capacity building for financial and non-financial institutions, awareness raising and market enabling activities, impact analysis and energy audits and research and analysis.

3. Capital structure



Source: www.ggf.lu/

4. Further information

Green for Growth Fund website: http://www.ggf.lu/

Key documents

Devfin Advisers AB (2014). Innovative Finance Gap Analysis: Report to Sida.
Green for Growth Fund Southeast Europe (2015). Annual Report 2014: 5 Years of GGF.
Green for Growth Fund Southeast Europe (2015). Impact Q2.
Green for Growth Fund Southeast Europe (2015). At a Glance Q2 General Information.

Fact Sheet
LeapFrog Investments

1. Fund information

Fund manager	LeapFrog Investments
Lead investor/initiator	LeapFrog Investments
Domicile	Port Louis, Mauritius
Year	2007
Fund term	N/A
Assets under management	More than USD 1 billion
Geographic focus	Africa, South Asia and South East Asia
Targeted intermediaries	N/A
Impact thesis	LeapFrog believes that financial returns and social impact are not mutually exclusive. It invests in businesses that provide insurance and financial tools to low income or excluded individuals.
Investment strategy	LeapFrog invests in high-growth financial services businesses that align with its values and operate in fast growing markets
Impact measurement	In-house measurement framework FIIRM (Financial, Impact, Innovation and Risk Management), Use IRIS insurance metrics to track both financial and social outcomes
Target return	*Information not publicly available*
Financial instruments	Private equity
Investment size	USD 10 million to USD 50 million
Investment period	Four to seven year time horizon
Fund management fees	*Information not publicly available*
Supporting measures	Provide knowledge and expertise in actuary, human resources, impact, operations and strategy.
Leverage ratio	*Information not publicly available*

2. Description

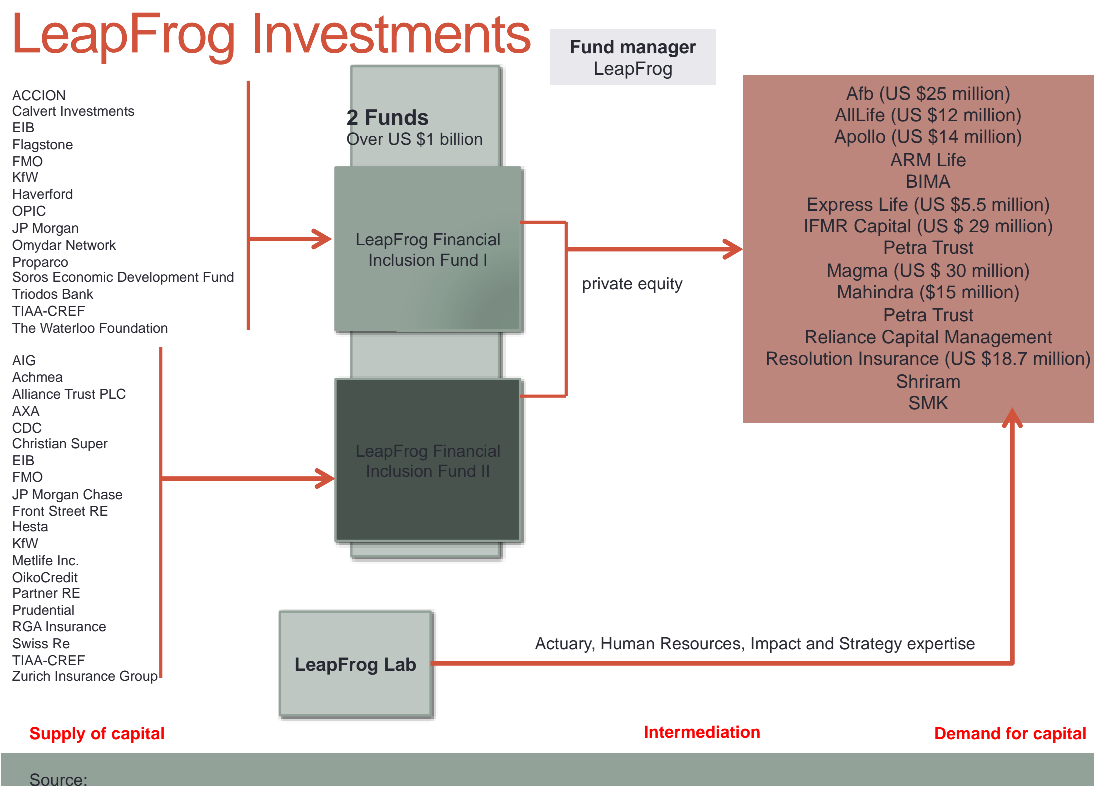
Return distribution and risk mitigation: *Information not publicly available.*

Impact and additionality: LeapFrog works very closely with its partner companies and shares its innovative consumer research for product development, distribution and customer education.

Innovation: *Information not publicly available.*

Supporting measures: LeapFrog's supporting measures are offered thought its LeapFrog B-Lab. It offers expertise in actuary, human resources, impact, operations and strategy.

3. Overview of LeapFrog Investments[3]



4. Further information

Link to the LeapFrog website: https://www.leapfroginvest.com

[3] This fact sheet describes LeapFrog Investments, a specialized investment company and its two impact investment funds. It is different from most of the fact sheets in this annex which represent impact investment funds or vehicles.

Fact Sheet
Private Infrastructure Development Group

1. Information

Year	2004
Cumulative disbursement to date	USD 2.9 billion
Geographic focus	Africa and Asia
Impact thesis	The Private Infrastructure Development Group invests in infrastructure projects with private sector participation to generate economic growth and alleviate poverty developing countries.
Impact measurement	PIDG results monitoring system
Financial instruments	Project development capital, investment equity, long-term debt finance, mezzanine debt, guarantees
Supporting measures	Technical Assistance Facility grants, capacity building, assistance identifying investment opportunities, structuring deals

2. Description

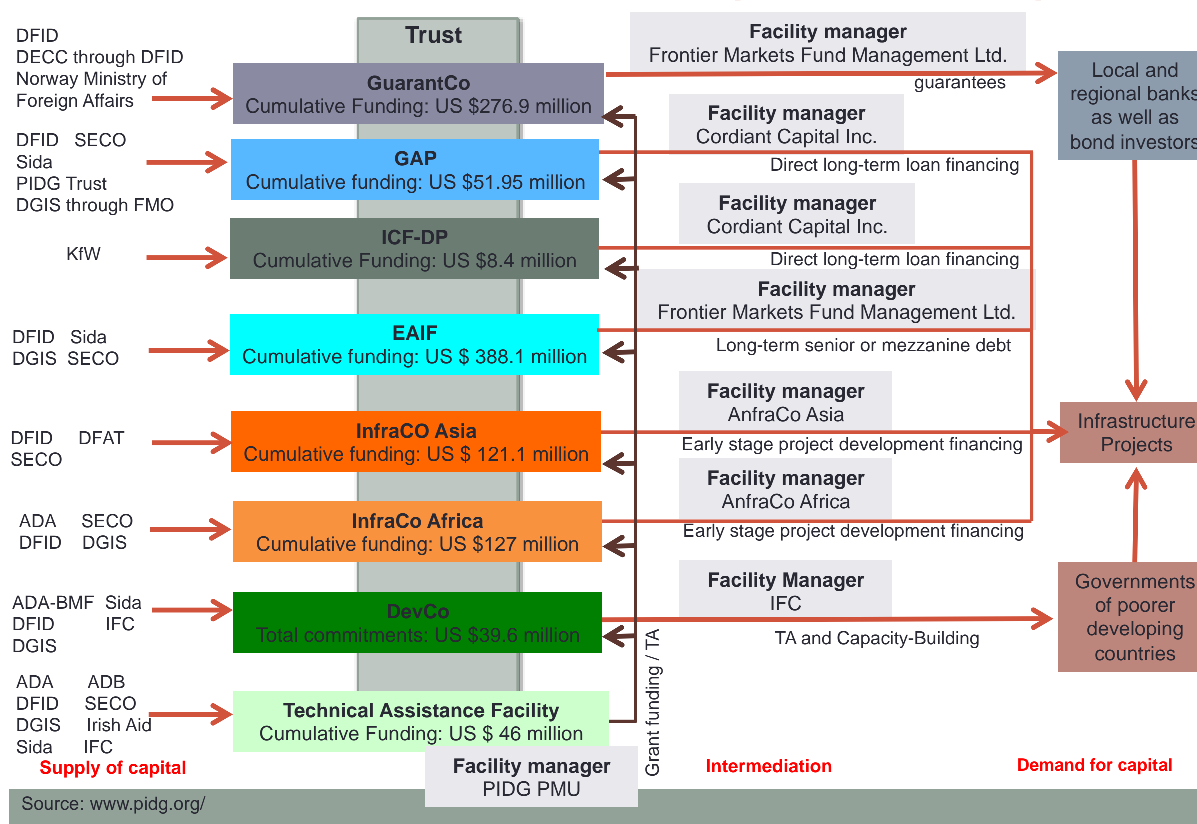
PIDG aims to finance and support infrastructure projects in poorer developing countries. Multiple donor countries and aid agencies provide funding for eight PIDG Facilities that act as a catalyst for international investor capital, lending and expertise in jurisdictions that are in need of this type of investment and capacity. The PIDG Facilities offer:

- Technical assistance, viability gap funding to improve the affordability and capacity-building support to infrastructure projects;
- Project development capacity, investment equity and expertise;
- Long-term debt finance in foreign currency and in local currency through guarantees.

***Achievement*:** Since its creation, the PIDG has received just over USD 2 billion from donors to support 156 projects. The PIDG Facilities have leveraged this funding to attract private sector capital from local, regional and international sources. In 2014, The PIDG Facilities raised USD 20 of private local and foreign commercial financing for every dollar it contributed. This is due to the success of the Group in mitigating risk for private investors when investing in challenging markets. The Group's activity has reduced poverty by creating quality long-term jobs, improved regulatory environments in developing countries, and resulted in improved design and efficiency of infrastructure projects.

Challenges: In 2014, Challenges included the difficulty raising capital from domestic markets in Africa because of the differential between local currencies and developed world interest rates. This required dollar guarantees offered by one of the Groups facilities, GuarantCo. Another challenge for the Group is to negotiate with and coordinate the large number of stakeholders involved in infrastructure projects.

3. Structure



4. Further information

Link to the PIDG website: www.pidg.org

Key Documents

Spratt, S. and Collins, L.R. (2012). Development Finance Institutions and Infrastructure: A Systematic Review of Evidence for Development Additionality. PIDG Trust.

PIDG Trust (2012). Annual Report.

PIDG Trust (2012). Audited Accounts.

PIDG Trust (2013). Annual Report.

PIDG Trust (2013). Audited Accounts.

PIDG Trust (2014). Annual Report.

Fact Sheet
Regmifa

1. Fund information

Fund manager	Symbiotics SA
Lead investor/initiator	KfW, BMZ and EU
Domicile	Luxembourg
Year	2010
Fund term	*Information not publicly available*
Fund assets under management	USD 128.9 million
Geographic focus	Sub-Saharan Africa
Targeted intermediaries	N/A
Impact thesis	The Regmifa aims to promote sustainable economic development, job creation and alleviate poverty by investing in micro, small and medium sized enterprises (MSMEs) in Sub-Saharan Africa.
Investment strategy	The fund provides refinance partner lending institutions, which service MSMEs in Sub-Saharan Africa. The fund aims to establish a balanced portfolio of partner lending institutions comprising a mix of small, medium and larger micro finance, local commercial bank and other financial institutions.
Impact measurement	*Information not publicly available*
Target return	Fixed or floating market interest rates
Financial instruments	Subordinated debt, term deposits and guarantees
Investment size	Minimum loans of USD 500,000
Investment period	From 12 to 60 months
Fund management fees	Two per cent per annum for the first USD 50 million of invested capital invested in partner lending institution at the end of such calendar month plus 1.75% per annum for the amount of invested capital in partner lending institution investment at the end of such calendar month exceeding USD 50 million up to the amount of USD 100 million plus 1.50% per annum for the amount of invested capital in partner lending institution investment at the end of such calendar month exceeding USD 100 million up to the amount of USD 200 million plus 1.25% per annum for the amount of invested capital in partner lending institution investment at the end of such calendar month exceeding USD 200 million.
Supporting measures	Supports governance, business planning, risk management, internal control, product development, human resources, finance and accounting, marketing and customer relationship management, institutional development and transformation, management information systems and others.
Leverage ratio	*Information not publicly available*

2. Description

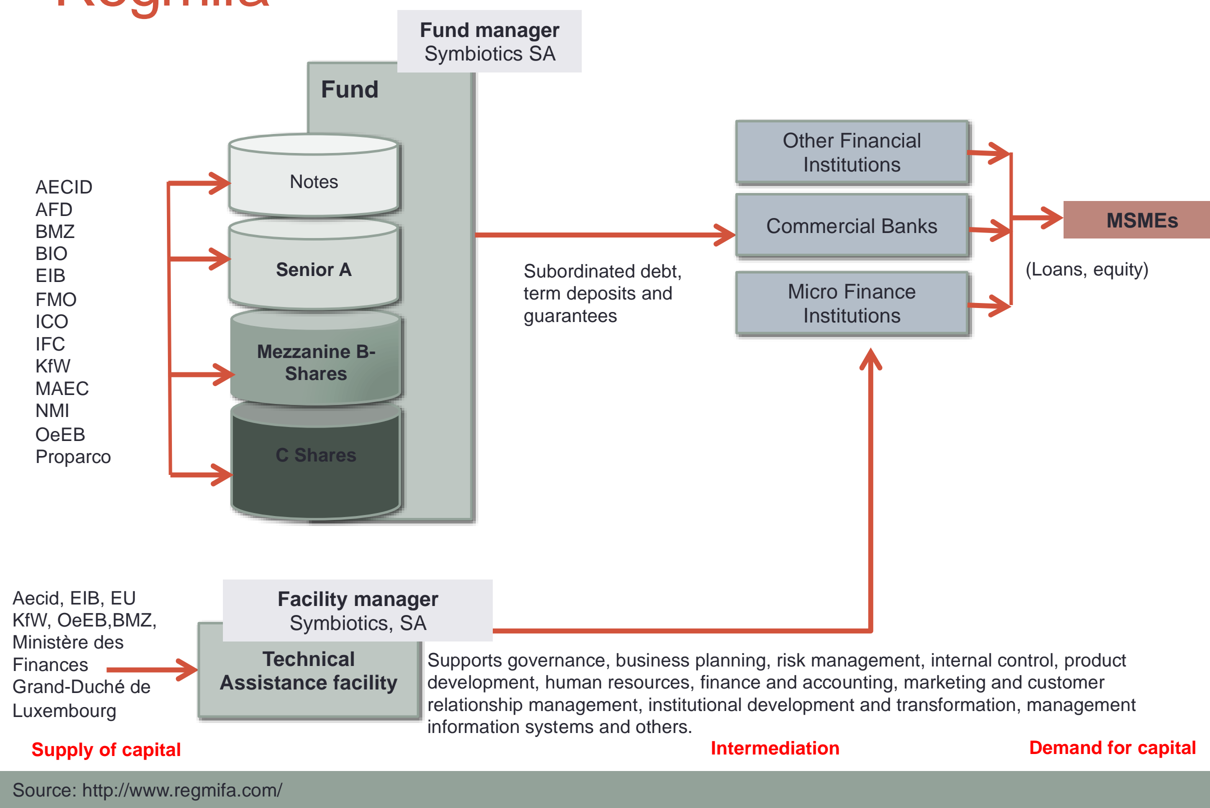
Return distribution and risk mitigation: The fund leverages public investment in first loss capital to mitigate risk for private investors. The fund also follows standard risk assessment and risk management principles and methods.

Innovation: The fund is founded on the principles of the Paris Declaration in that it combines public and private investments to refinance intermediaries servicing MSMEs. The fund leverages public funds to attract private sector investment by de-risking investments.

Innovation: *Information not publicly available.*

Supporting measures: The fund offers its supporting measures exclusively to its investees to address key operational needs by building capacity.

3. Capital structure



Source: http://www.regmifa.com/

4. Further information

The Regmifa website: http://www.regmifa.com/

Fact Sheet
SANAD Fund for MSME

1. Fund information

Fund manager	Oppenheim Asset Management S.à r.l. / Finance in Motion GmbH
Lead investor/initiator	KfW with investment form BMZ and EU
Domicile	Luxembourg City, Luxembourg
Year	2011
Fund term	Open-ended
Fund assets under management	USD 128.8 million
Geographic focus	MENA Region (Algeria, Egypt, Iraq, Jordan, Lebanon, Morocco, Palestinian Territory, Tunisia, Yemen)
Targeted intermediaries	Microfinance institutions, commercial banks, leasing and factoring companies, financial services providers, other financial institutions
Impact thesis	The SANAD Fund is aimed at job creation, poverty alleviation and financial inclusion in the MENA region by increasing the availability of capital for micro, small and medium sized enterprises (MSMEs). The Fund is particular interested in creating employment opportunities for youth.
Investment strategy	The fund provides debt and equity financing to partner institutions in the MENA region for the purpose of facilitating the flow of capital to MSMEs.
Impact measurement	Impact study every two year
Target return	*Information not publicly available*
Financial instruments	Short, medium and long term senior debt, subordinated loans (including mezzanine loans), term deposits, certificates of deposit, term enhancement instruments, co-investments, stand-by letters of credit, guarantees, equity participation
Investment size	From USD 500,000 to USD 20 million
Investment period	A shares are issued with maturities of three to ten years, B shares are issued with maturities of five to ten years
Supporting measures	The Technical Assistance Facility offers capacity building for a partner institution for the purpose of increasing financial services to MSMEs
Leverage strategy	Focus on mobilisation of private capital once fund and track record more established

2. Description

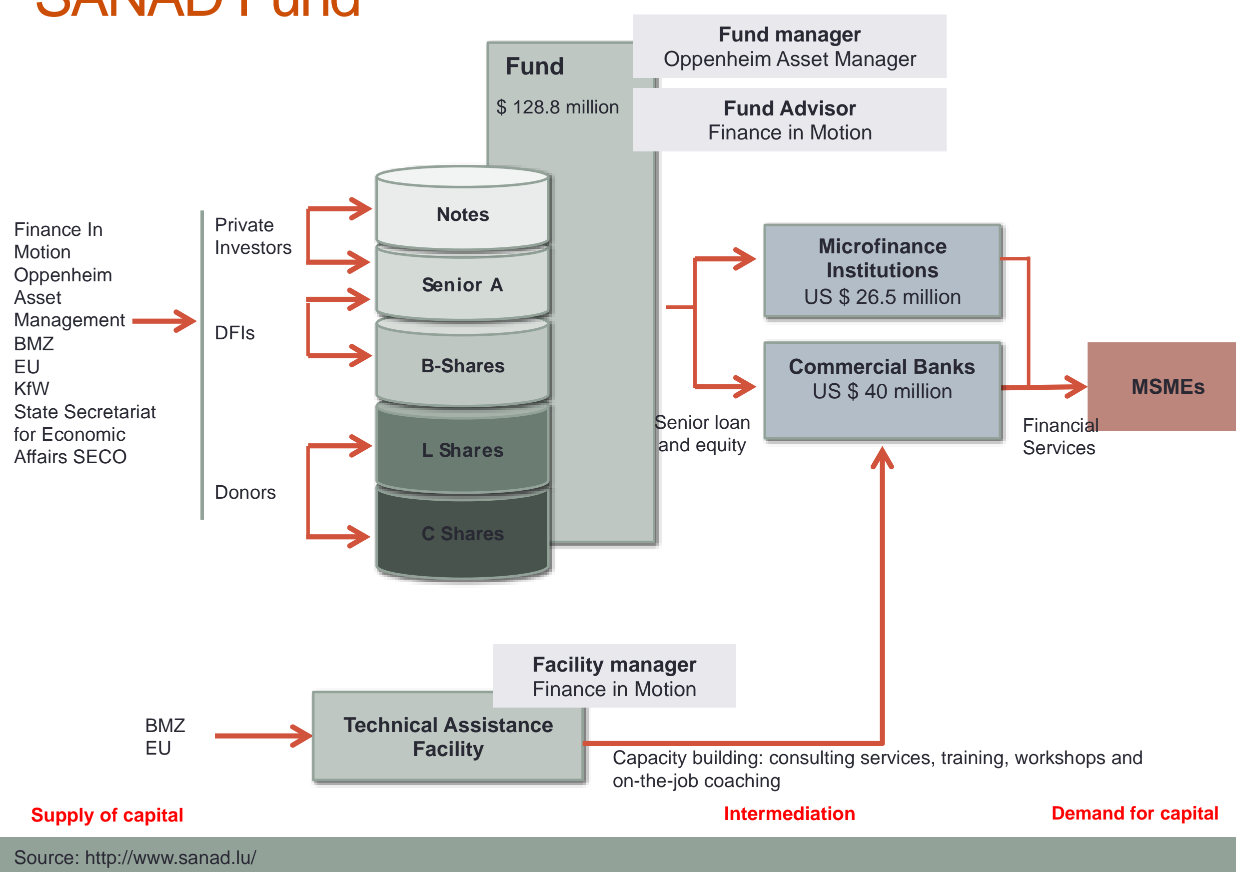
Return distribution and risk mitigation: The fund has a tiered structure of tranches of shares or notes with different risk/return levels and maturities. It includes notes and A shares drawing investment from private investors, A shares and B shares drawing investment from development financial institutions, junior tranche of C shares financed by donors. It has also included an L share tranches aimed at mitigating foreign currency risk by using donor money to mitigate this type of risk. The C shares will absorb the first losses of the fund and provide protection to investors in the senior shares.

Impact and additionality: The fund has chosen to address the lack of adequate capital for MSMEs by encouraging commercial banks to widen their client base of MSMEs. The Fund also offers tailored technical assistance for micro financial institutions and commercial banks by providing support in optimizing their financial services, expanding their client base, use new technologies and introduce new initiatives.

Innovation: The fund established an L share tranche, a unique feature designed to mitigate foreign exchange risk.

Supporting measures: The Technical Assistance Facility undertakes research and development projects for its investees to help with their investment strategy. It also offers: Market and feasibility studies, strategy and business model development, development of MSME finance operating models, product development, lending methodology, middle management organisation, delinquency and credit risk management, financial management and asset liability management, institutional transformation.

3. Capital structure



Source: http://www.sanad.lu/

4. Further information

Link to the SANAD Fund website: http://www.sanad.lu/

Fact Sheet
Voxtra East Africa Agribusiness Fund

1. Fund information

Fund manager	Voxtra AS (wholly owned subsidiary of Voxtra Foundation)
Lead investor	Norfund/initiator
Domicile	Oslo, Norway
Year	2011
Fund term	11+1+1
Fund assets under management	USD 18 million
Geographic focus	Burundi, Ethiopia, Malawi, Mozambique, Kenya, Rwanda, Tanzania, Uganda and Zambia
Targeted intermediaries	Direct investments
Impact thesis	The Voxtra fund aims to help people get out of poverty by investing in businesses that help smallholder farmers increase their incomes and lead to their empowerment.
Investment strategy	The fund provides both early and later stage growth capital to entrepreneurial agribusinesses that produce, process and/or distribute agricultural products and are commercially viable.
Impact measurement	Measurement of direct impact (number of farmers reached, income, changes in numbers and income). Measurement sometimes in cooperation with co-investors and partners.
Target return	Double digit returns at company level, single digit returns at fund level
Financial instruments	Equity, quasi-equity, mezzanine or debt
Investment size	USD 0.5 million to USD 3 million
Investment period	Three to seven years
Supporting measures	Tailor made technical assistance provided by local consultants
Leverage ratio	*Information not publicly available*

2. Description

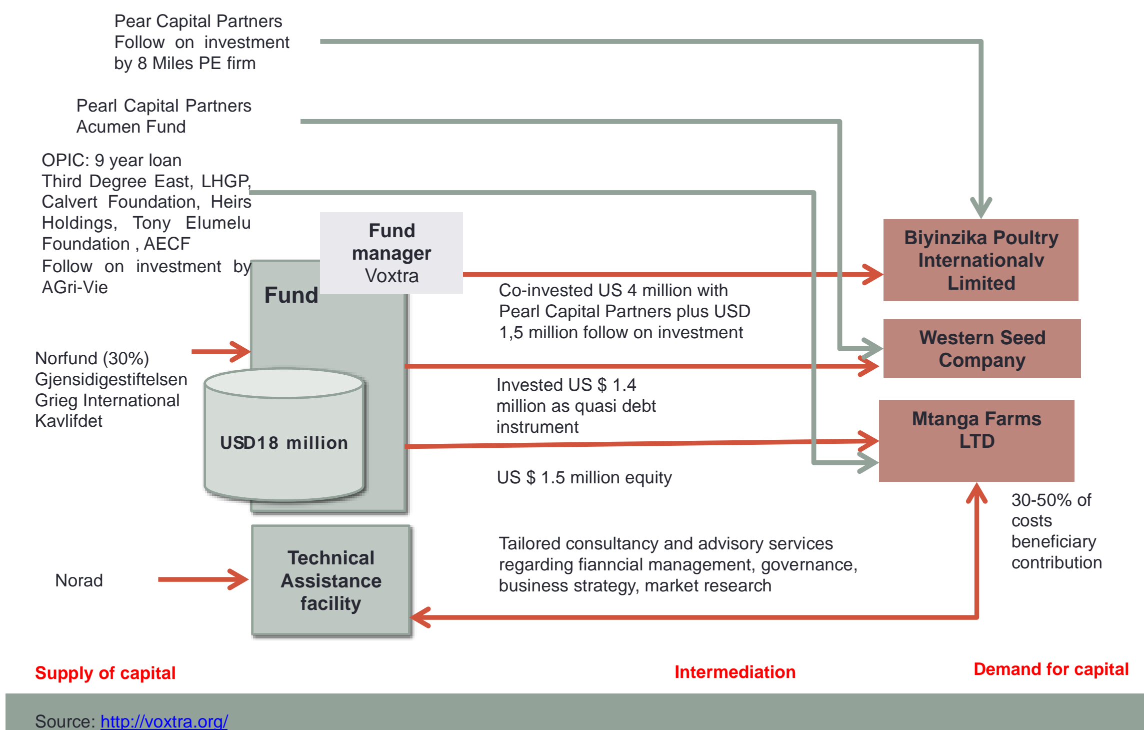
Return distribution and risk mitigation: Simple capital structure, no subordination. The Fund itself mitigates risk by co-investing with other financial institutions and impact investors, careful due diligence, active ownership approach and technical assistance facility.

Impact and additionality: The fund focuses on agribusiness sector as a key sector for poverty alleviation and development. It targets smaller, early stage, high risk companies that fall below the radar screen of larger investors. It provides active ownership to help investees develop their businesses. The Norwegian DFI Norfund added value by investing in a privately developed fund management concept and first time fund manager. Norad supports technical assistance facility.

Innovation: One of the first Nordic impact investing funds set up by family offices and individuals.

Supporting measures: In addition to capital, the fund support investees by providing funding for technical assistance and strategic advice on management systems, sales and marketing as well as governance (beneficiary contribution of 20%-50%).

3. Capital structure



4. Further information

Link to Voxtra East Africa Agribusiness Fund website: http://voxtra.org/

Features of the Funds and Vehicles

Investment Fund	Year Launched	Fund Term	Fund lead investor/initiator	Investment Size	Investment Period	Impact Assessment	IRIS and/ or GIIRS Rated
African Agriculture Capital Fund	2011	10 years (option to extend two years)	The Gatsby Foundation	Eight investments valued at over USD 5.5 million USD 25 million AUM	Max. five years	–	IRIS user; GIIRS rated
African Health Fund	2009	*Information not available*	Information not available	Five investments valued at USD 12.11 million USD 105 million AUM	Three to seven years	*Information not available*	–
African Guarantee Fund	2010	*Information not available*	Danida, Aecid and AfDB	77 guarantees valued at USD 171 million USD 264 million AUM	Max. 10 years	*Information not available*	–
AgDevCo	2009	*Information not available*	DFID	42 investments USD 40 million AUM	Information not available	• The Fund has its own impact measurement methodology • The Fund follows the IFC Performance Standards on social and environmental sustainability	–
ALCB Fund	2012	*Information not available*	KfW on behalf of BMZ	Seven investments EUR 17 million AUM	Up to 10 years	*Information not available*	–
Althelia Climate Fund	2011	Eight years (option to extend two years)	Information not available	Three investments valued at EUR 26 million EUR 200 million AUM	Five to eight years	• IFC's Performance Standards on Environmental and Social Sustainability • EIB Statement of Environmental and Social Principles and Standards and the Climate Community and Biodiversity Standards	–
Danish Climate Investment Fund	2014	10 years	Danish Pension Fund, Danish Government and IFU	Three investments valued at EUR 18.4 million EUR 175 million AUM	Four to ten years	• Amount of GHG emission reduction	–
DFID Impact Fund	2013	13 years	DFID	Three investments valued at £ 30 million £ 75 million AUM	Max. 10 years	• The DFID Impact Fund's Results Framework tracks progress towards improving access to affordable goods and services and income generating opportunities for Bottom of the Pyramid (BoP) populations	IRIS user; working with B Analytics
Dutch Good Growth Fund	2014	*No information available*	Dutch Ministry of Foreign Affairs	Information not available EUR 700 million AUM	*No information available*	• IFC Performance Standards on International Corporate Social Responsibility	–
EC Social Impact Accelerator Fund	2013	*No information available*	EIB Group, Crédit Coopératif and Deutsche Bank	Five investments valued at EUR 44.6 million EUR 243 million AUM	Up to six years	• The Fund will use a new framework for quantifying and reporting on impact metrics	–
European Fund for Southeast Europe	2005	*No Information available*	EIB and KfW	73 partner lending institutions with investments of EUR 2 billion	*Information not available*	• Development Impact Studies • Performance is measured according to breadth and depth of outreach	–

Investment Fund	Year Launched	Fund Term	Fund lead investor/initiator	Investment Size	Investment Period	Impact Assessment	IRIS and/ or GIIRS Rated
				EUR 10.24 billion AUM			
Essential Capital Consortium Fund	2005	Five years	Deutsche Bank	Three investments USD 50 million AUM	Up to five years	–	GIIRS rated
Global Climate Partnership Fund	2009	*No information available*	KfW	16 investments USD 298.8 million AUM	Up to 15 years	• The Fund has a Social and Environmental Management System • IFC Social and Environmental Performance Standards	–
Global Health Investment Fund	2013	Open ended	JP Morgan Chase and Gates Foundation	Three investments valued at USD 23 million USD 108.9 million AUM	Variable	*Information not available*	–
Grassroots Business Fund	2011	*No information available*	IFC	23 investments valued at USD 29 million USD 49 million AUM	Five to seven years	• GBF Environmental and Social management system with self-reported metrics	IRIS user
Green For Growth Fund	2009	Unlimited duration	EIB and KfW	27 investments valued at EUR 328.6 million EUR 359.5 million AUM	Five to fifteen years	• Impacts are measured by utilizing MACS Management & Consulting Services' eSave, a tool for calculation, monitoring and reporting of energy efficiency and/or renewable energy measures and credit portfolios	–
Private Investment Development Group	2004	*Information not available*	Multiple organisations	Cumulative disbursements USD 29 billion	Information not available	• PIDG results monitoring system	–
Regmifa	2010	*Information not available*	KfW, BMZ and EU	152 investments USD 144.8 million AUM	From 12 to 60 months	*Information not available*	–
SANAD Fund	2011	Open-ended	KfW	27 investments valued at USD 66.5 million USD 128.8 million AUM	A shares three to ten years and B shares five to ten years	• Impact study every two year	–
Voxtra Fund	2011	11 years (+1+1)	Norfund	Three investments valued at USD 6.9 million USD 18 million AUM	Three to seven years	• Measurement of direct impact (number of farmers reached, income, changes in numbers and income) • Measurement sometimes in cooperation with co-investors and partners.	–
Aavishkaar Aavishkaar I Fund Aavishkaar II Fund Aavishkaar Goodwell I Fund Aavishkaar Goodwell II Fund Aavishkaar Frontier Fund	2001	Variable	Private fund	31 investments valued at USD 90.12 million USD 201 million AUM	–	• They use PRISM, Portfolio Risk, Impact, and Sustainability Measurement Tool	–
Leapfrog Investments Financial Inclusion	2007	Variable	Private fund	15 investments valued at over USD 61.5 million	Four to seven years	• Uses in-house measurement framework, Financial, Impact, Innovation and Risk Management (FIIRM)	IRIS user and GIIRS Rated

Investment Fund	Year Launched	Fund Term	Fund lead investor/initiator	Investment Size	Investment Period	Impact Assessment	IRIS and/ or GIIRS Rated
Fund I Financial Inclusion Fund II				More than USD 1 billion AUM		• It uses insurance metrics of IRIS to track both financial and social outcomes	

Annex E: Market overview

This annex is an output of the Inception Report produced for this study in September 2015.

State of the market

Investments required levels to achieve the Sustainable Development Goals (SDGs) are significant. The UN estimates that USD 3.9 trillion per year will be needed to achieve the SDGs in developing countries. Assumptions based on current investment levels and private sector participation leave a financing gap of USD 2.5 trillion annually.[4] The financing gap for economic infrastructure such as power, transport and telecommunications ranges between USD 50 billion and USD 690 billion, while the gap for mitigating the effects of climate change are estimated at USD 360 billion and USD 680 billion and climate change adaption at USD 60 billion and USD 100 billion. This overall financing gap can only be closed with increased participation by the private sector.

Figure 1: SDG investment needs, private sector participation and financing gaps (2015-2030)

Sector	Description	Estimated current investment (latest available year) $ billion	2015-2030 Total investment required	Investment Gap	Average private sector participation in current investment[b]	
			Annualized $ billion (constant price)		Developing countries	Developed countries
		A	B	C = B - A	Per cent	
Power[c]	Investment in generation, transmission and distribution of electricity	~260	630–950	370–690	40–50	80–100
Transport[c]	Investment in roads, airports, ports and rail	~300	350–770	50–470	30–40	60–80
Telecommunications[c]	Investment in infrastructure (fixed lines, mobile and internet)	~160	230–400	70–240	40–80	60–100
Water and sanitation[c]	Provision of water and sanitation to industry and households	~150	~410	~260	0–20	20–80
Food security and agriculture	Investment in agriculture, research, rural development, safety nets, etc.	~220	~480	~260	~75	~90
Climate change mitigation	Investment in relevant infrastructure, renewable energy generation, research and deployment of climate-friendly technologies, etc.	170	550–850	380–680	~40	~90
Climate change adaptation	Investment to cope with impact of climate change in agriculture, infrastructure, water management, coastal zones, etc.	~20	80–120	60–100	0–20	0–20
Eco-systems/ biodiversity	Investment in conservation and safeguarding ecosystems, marine resource management, sustainable forestry, etc.		70–210[d]			
Health	Infrastructural investment, e.g. new hospitals	~70	~210	~140	~20	~40
Education	Infrastructural investment, e.g. new schools	~80	~330	~250	~15	0–20

Source: UNCTAD 2014.

4 UNCTAD. *World Investment Report 2014, Investing in the SDGs: An Action Plan*, United Nations Conference on Trade and Development, New York and Geneva, 2014, p. 140.

There are a number of 'megatrends' that shape SDG related business and investment opportunities. These 'megatrends' create incentives for the private sector to contribute to finance for development and open opportunities for sustainable and profitable business models.[5]

- **Business and investment opportunities at the base of the pyramid (BoP):** Research estimates there is a USD 5 trillion in latent demand for entrepreneurial solutions for people living at the base of the pyramid.
- **Resource efficiency and green growth as an imperative for the next decade.** Investment in low-carbon green growth is estimated at USD 500 billion per year by 2020 in order to limit global warming to two degrees Celsius, which is far from the USD 100 billion to USD 150 billion currently invested in climate change mitigation and adaption today.
- **New approaches to the provision of public services:** Government sustainable procurement reforms in developing countries, innovative financing models for public services and public-private-social sector partnerships such has pay-by result contracts offer new opportunities for responsible and impact driven businesses and impact investors.
- **The rise of 'Lifestyles of Health and Sustainability' (LOHAS) consumers**: With a population of around 4 billion people in developing and emerging countries ready to 'graduate' to the middle class, LOHAS consumption is predicted to grow by 150% from 2010 to 2025, compared with 31% in developed markets. In some emerging countries such as China, India, Malaysia, and Singapore, data show that 84% of consumers would pay a premium for eco-friendly products, compared with 50% of consumers from France, Germany, Japan, and the US.

The rise of impact investing offers significant opportunities to attract further impact capital. There is a noticeable global demand for investment solutions that facilitate the deployment of capital for sustainability, impact and development. The European SRI Study 2014 on European investors found that all that sustainable and responsible investment strategies are continuing to grow, and they will do so at a faster rate than the broad European asset management market.[6] The same study also found that, with a 52% compounded annual growth rate (CAGR) the growth of impact investing investment strategies has outperformed the growth of all other sustainable investment strategies between 2011 and 2013 compared to 11%-38% CAGR.[7]

Furthermore, according to the 2015 JP Morgan impact investor survey, the most comprehensive global impact investing industry survey to date, impact investors managed a total of USD 60 billion in impact investments at the time of the survey. They committed USD 10.6 billion in 2014 and intended to commit 16% more in 2015 (USD 12.2 billion). The number of impact funds as well as the committed assets under managements by these funds has also increased within the past five years.

Most impact investors seek to achieve and measure social impact or a combination of social and environmental impact, while only few aim for environmental impact only. Over half of

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[5] Martin, M. *Making impact investible*, Impact Economy Working Papers No 4. 2013, p. 10.
[6] Eurosif. European Social and Responsible Investment Study 2014, 2015, p. 7.
[7] Eurosif 2015, p. 24. This figure is likely to underestimate the real market, as only professional private investors are included in the study.

respondents to the JP Morgan survey report that they primarily target social impact, while 5% target environmental impact and 39% include both social and environmental objectives.[8]

Furthermore, 60% of impact investors align impact metrics to IRIS, a catalogue of generally-accepted performance metrics an initiative of the Global Impact Investing Network.[9] In contrast, research on impact measurement amongst fund managers in East Africa found that a majority does not specify a particular language or tool for impact measurement, but rather uses flexible structures adapted to each new investment.[10]

A majority of impact investors target – and achieve – competitive market rate returns. Some 55% of respondents to the JP Morgan 2015 survey target 'competitive, market rate returns', while 27% 'expect below market rate returns, but closer to market rate'. Only 18% expect market rate returns that are closer to capital preservation. Only 9% reported financial underperformance relative to their expectations.[11]

A recent study of the financial performance of impact investment funds by the Global Impact Investing Network and Cambridge Associates established that impact investment funds have outperformed funds in a comparative universe of conventional private investment funds. Moreover, the results also showed that emerging market impact investment funds have returned 9.1% to investors (9.7% for those focused on Africa) versus 4.8% for developed market impact investment funds.[12]

Developing countries continue to account for a significant part of global impact investing capital allocation. Some 90% of capital is managed by organisations headquartered in US or Europe, while 51% of assets are deployed in emerging countries.[13] More respondents to the JP Morgan survey report allocations to Sub Saharan African (69/146) than to any other region.

In 2014, 186 impact capital vehicles were active across East Africa, managed by 107 fund managers and 28 other impact asset managers, including foundations, family offices, banks, and angel networks.[14] According to a study on selected countries in South Asia, there are about 50 impact investment funds active in India, 11 in Sri Lanka, nine in Bangladesh and seven in Pakistan.

Kenya, India and Brazil are emerging as hubs for impact investing activities, and are to some extent shifting the balance from headquarters mostly in the US and Europe to these regions.

DFIs remain the dominant impact capital provider in developing countries despite the increasing number of non-Development Finance Institution (DFI) impact investors. Only 5% of respondents in the JP Morgan survey are development financing institutions, but they manage a disproportionately large quantity of assets in the space.[15] The 20 DFI investors active in the East Africa region today have publicly recorded more than USD 7.8 billion across over 410 direct

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[8] Saltuk, Y., Idrissi, A.E., Bouri, A., Mudaliar, A. and Schiff, A. *Eyes on the Horizon: The Impact Investor Survey*. JP Morgan and GIIN, 2015, p. 37. http://www.evaluatingimpactinvesting.org/wp-content/uploads/Eyes-on-the-Horizon.pdf

[9] Saltuk et al. 2015, p. 38.

[10] Open Capital Advisors and the Global Impact Investing Network. *The Landscape for Impact Investing in East Africa*. New York and Nairobi, 2015, p. 27.

[11] Saltuk et al. 2015, p. 10.

[12] Cambridge Associates and the Global Impact Investing Network. *Introducing the Impact Investing Benchmark*, New York, 2015, p. 19.

[13] This is a steep fall, however, from previous year. In 2013, 70% of assets under management where allocated to emerging markets. Saltuk et al. 2015; and Saltuk, Y., Idrissi, A.E., Bouri, A, Mudaliar, A. and Schiff, *A. Spotlight on the Market: The Impact Investor Survey*, JP Morgan and GIIN, 2014. http://www.thegiin.org/binary-data/2014MarketSpotlight.PDF

[14] Open Capital Advisors and GIIN 2015, p. 3-4.

[15] Saltuk et al. 2015, p. 30.

investments, while non-DFI impact investors have disbursed nearly USD 1.4 billion through more than 550 deals. DFIs account for at least 50% of estimated impact capital currently committed to East Africa via impact funds.[16]

India is the largest and most active impact investing market in South Asia. Similar to East Africa, in India and other countries in the South Asian region, most of the impact capital (65%-95%) originates from DFIs.[17] To date, development finance institutions have deployed USD 5 billion, while other impact investors have deployed USD 437 million. A landscape study for West Africa carried out in 2011 estimates a commitment of USD 3.2 billion, of which USD 2.1 billion is from DFIs.

There are notable difference between DFI and non-DFI impact investment strategies, instruments and products. Table 1 provides an overview of typical features of DFI and non-DFI investors in impact investing as identified in recent impact investing landscaping studies in West Africa (2012),[18] South Asia and Africa (2013),[19] South Asia (2014)[20] and East Africa (2015).[21]

Table 1: Traits of DFI and non DFI investors' engagement in impact investment in East Africa (EA), South Asia (SA) and West Africa (WA)

	DFI Investors	**Non-DFI investors**
Impact	Compliance with minimum international and internal ESG standards (OECD MNE, IFC performance standards, Equator principles) Focus on general developmental impact i.e. job creation (social impact); GHG emissions reduction and avoidance (green impact). New efforts on separating development and high impact sector portfolio from impact investing portfolio (OPIC).	Impact definitions range from ESG compliance to active intentionality and impact measurement.
Financial return	Market rate returns.	Target returns ranging from return of investment, below market return to market rate return.
Sector	Predominantly investment in sectors with strongest effect on economic development such as energy sector, financial services through commercial banks, agribusiness/food or manufacturing.[22]	SA: Predominantly investments in microfinance, (off-grid) energy and health.
Inter-mediation	Majority of investments are direct investments and credit lines to financial intermediaries. More recently fund-of-fund structures. EA: approx. 9% investment in impact funds.[23]	
Investment size[24]	EA: Average deal size of direct investments approx. USD 18 million; 50% of capital disbursed in deals	EA: Rarely > USD 5 million/ deal; majority < USD 1 million.

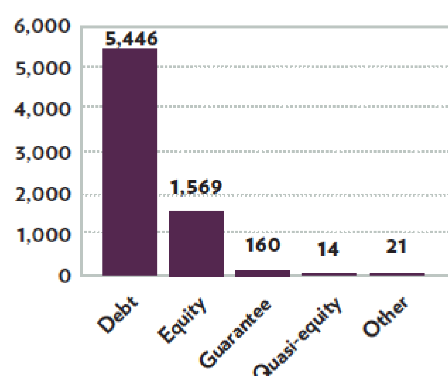
16 Open Capital Advisors and GIIN 2015, p. 9.
17 GIIN 2015, p. 5.
18 GIIN and Dalberg 2015, p. 5.
19 UKAID. The impact programme market baseline study, impact investment in sub-Saharan Africa and South Asia in 2013, 2013.
20 GIIN and Dalberg 2014.
21 Open Capital Advisors and GIIN 2015, p. 10; and Ngoasong, M., R. Paton and A. Korda, Impact Investing and Inclusive Business Development in Africa: A research agenda. The Open University, Milton Keynes, 2015.
22 Open Capital Advisors and GIIN 2015; and Dalberg 2015, p. 7.
23 Open Capital Advisors and GIIN 2015, p. 11.
24 For example, DFI energy investments have focused on large scale infrastructure projects, whereas energy investments by other impact investors have supported smaller, off-grid technologies. Similarly, DFI investments

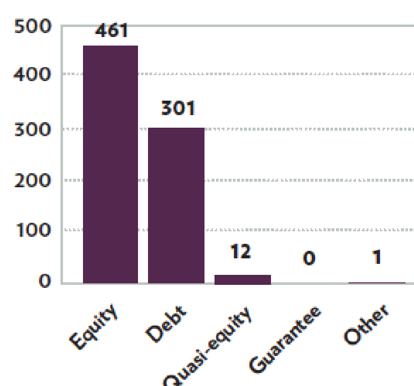
	DFI Investors	Non-DFI investors
	more than USD 50 million driven by investments in large energy and infrastructure projects and credit lines/ guarantees to commercial banks.[25]	
Maturity	Direct investments more likely to target mature companies, indirect investments flow in growth phase companies.	Only a handful target early stage, mostly in venture and growth stage.[26]
Instruments	EA: Direct investments continue to be predominantly debt finance (70%) reflecting nature of project finance in infrastructure, lower risk and lower cost strategy of DFIs. Guarantees offered by some, albeit few donors and DFIs offer guarantees for MSME (USAID, OPIC, IFC, KfW, Sida). Technical assistance grants to companies and fund managers.	Preference for equity investment Business development support, mentorship and active technical assistance.

Source: Open Capital Research 2014; Dalberg 2015.

Debt instruments are still the most frequently used financial instrument in many developing countries. DFIs that account for most of the impact investing in emerging countries so far prefer to use debt for several reasons: DFIs have a lower risk appetite given that they are investing taxpayer money compared with non-DFI investors that may have less restrictions; with debt investment, a lower level of due diligence required; and less active management of the investment is needed, compared with equity investments. In some countries, regulations restrict the use of equity, further fostering the preference for debt. More recently, however, both DFI and non-DFI investors have been experimenting with more creative instruments, such as convertible debt, revenue-participating debt and guarantees.[27]

Figure 2: Instruments deployed in impact investing in South Asia





Source: Dalberg 2015.

Financial services still attract much of the impact investing capital in developing countries. Investment allocations to financial services (including microfinance sector) dropped during the past two years, but it still remains among the most popular sectors in the impact

in financial services have targeted bigger banks, while financial services investments by other impact investors have focused more on microfinance institutions and more recently, fintech companies.

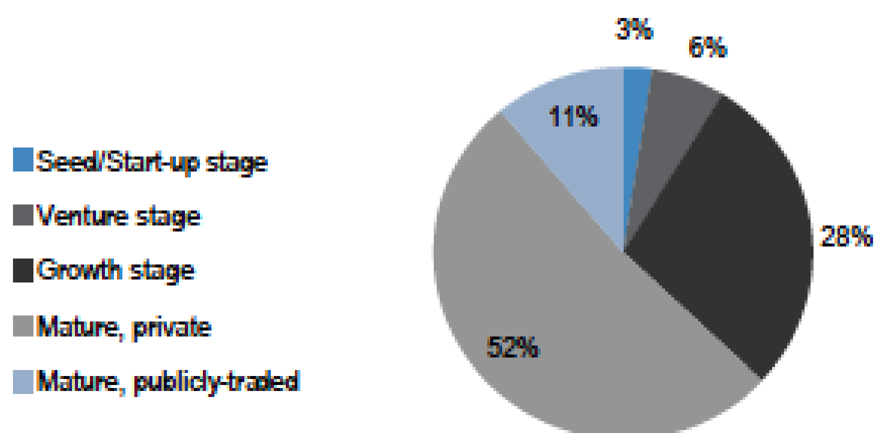
25 Open Capital Advisors and GIIN 2015, p. 13.
26 Open Capital Advisors and GIIN 2015, p. 11.
27 Dalberg 2015, p. 9.

industry.[28] In East Africa, for both DFI and non-DFI impact investors, 50% of deals and investment capital is in the agriculture and financial services sectors (approximately 50% of all known deals in East Africa), followed by the housing sector, while education and energy have seen relatively fewer deals.[29] In South Asia, however, the largest quantum of capital besides, financial services and microfinance, have been deployed in the sectors of energy, and manufacturing.

In most emerging countries with impact investing activities, interest in health, education and housing is increasing. So are products and services that serve the base of the pyramid (enhanced by technology), in particular in countries with large potential consumer base such as Pakistan or India. Sustainable tourism, hospitality and transport sectors have drawn impact capital to destinations such as Nepal, Kenya or Sri Lanka.[30] A recent study on conservation finance found evidence of rapid growth and interest in this sector, cutting across energy finance, climate finance as well as investments in food, water and natural livelihoods.[31]

Most impact investing capital managed today is invested in companies at the post venture stage. According to the 2015 JP Morgan survey, impact investors globally allocate 28% of capital towards companies at the growth stage, 52% in mature, private firm and 11% in mature, publicly traded companies. Only nine percent of capital is committed to seed/start-up companies or venture-stage businesses.

Figure 3: Assets under management by stage of business



Source: Saltuk et al. 2015.

Progress has been made in building the impact investing market but key challenges remain. At the global level, the lack of high quality investment opportunities as well as the lack of appropriate capital across the risk/return spectrum have dominated the list of challenges cited by impact investors for the past three years. (Figure 5):

[28] Saltuk et al. 2015, p. 24.
[29] Open Capital Advisors and GIIN, 2015.
[30] GIIN and Dalberg 2015, p. 5.
[31] NatureVest and Eko Asset Management. Investing in Conservation: A landscape assessment of an emerging market. November 2014.

Figure 4: Challenges to the growth of impact investing industry

n = 146; Respondents ranked top three

Rank	Score	Available answer choices
1	193	Lack of appropriate capital across the risk/return spectrum
2	174	Shortage of high quality investment opportunities with track record
3	115	Difficulty exiting investments
4	97	Lack of common way to talk about impact investing
5	87	Lack of innovative deal/fund structures to accommodate investors' or portfolio companies' needs
6	76	Lack of research and data on products and performance
7	67	Inadequate impact measurement practice
8	57	Lack of investment professionals with relevant skill sets

Source: Saltuk et al. 2015.

The following constraints are particularly relevant for the growth of impact investing in developing countries:

- **Regulatory and policy barriers**: Domestic institutional investors are often not allowed to invest in private equity funds, and bespoken impact enterprise legal forms do not exist. Policies encouraging business and investment beyond financial returns are yet to be introduced in most developing countries.
- **Lack of market infrastructure**: Good-quality market infrastructure providers – for the impact investing market to reduce transaction costs, increase information and market efficiency – are just starting to emerge in some pioneering impact investment markets, such as Kenya and India. This includes, for example, ratings agencies, investment advisors, product developers, networks, event organisers and other facilitators.
- **Investment products:** Financing from local banks remains prohibitively expensive for most enterprises. A much larger variety of products is needed for smaller investments (below USD 100,000), earlier early-stage financing needs, as well as local currency and long term investment products.
- **Awareness:** The notion of impact investing is still unfamiliar to most investors, enterprises, policy makers and donors in most developing countries. There is also strong scepticism, particularly in non-Anglophone countries, towards the use of profit-oriented entrepreneurial and investment approaches to address social challenges.
- **Capacity:** Entrepreneurs often lack the education, skills, and access to information required to turn their entrepreneurial spirit into bankable project ideas. Furthermore, in the entrepreneurial eco-system advisors, supporters and investors lack the skills and 'multilingualism' needed to move comfortably between social, business and financial sectors.[32] Attracting skilled international staff is challenging, given work-permit restrictions for foreigners in various developing countries, as well as high salary expectations on the part of qualified experts.

[32] Clark, C., J. Emerson and B. Thornley. The Impact Investor: Lessons in Leadership and Strategy for Collaborative Capitalism, San Francisco: Jossey-Bass, 2014.

- **Exit options:** The nascent character of the mainstream capital markets in developing countries limits the options of initial public offerings as well as the pool of suitable strategic buyers. Only 61% of investors are concerned with mitigating the risk of mission drift and only few actively do so by setting objectives or selecting a suitable acquirer.[33]
- **Terminology, impact measurement and evidence:** The lack of consistent terminology and measurement practices, as well as access to credible data, makes it difficult for investors to compare social, economic, and environmental returns of different investments, to manage their portfolios effectively and to communicate to attract other investors and supporters to this emerging field.
- **Competition:** Concentration in some strong regional hubs such as Kenya, Brazil or India has led to increased competition among investors for a limited number of opportunities in these countries and a neglect of entrepreneurs in other countries or areas outside these centres. Furthermore, in East Africa, the five most active DFIs account for over 80% of the disclosed capital disbursed to impact fund managers. Here, DFI funded impact funds tend to be homogenous in their fund structures and targets, often pursuing same investee funds and firms.[34]

Trends

The following trends are noteworthy for the present study:

- Trend 1: A holistic approach to market development
- Trend 2: Governments' increasing role as market participant and market builder
- Trend 3: From impact measurement to managing for impact
- Trend 4: Collective impact and collaborative capitalism

Trend 1: A holistic approach to market development

Successful entrepreneurs and impact investors do not act in isolation. Their success depends on the country-specific political, economic, social and cultural context, the availability of market infrastructure and intermediaries, as well as the strength of human capacities, networks and leaders. Impact investment leaders are therefore increasingly arguing for expanding the discourse from individual companies and investment vehicles to a more holistic, sector-wide or market building perspective.[35] Some investors see an analogy between the growth of venture capital industry in the 1960s and 1970s and the emerging impact investment ecosystem in the past decade.[36]

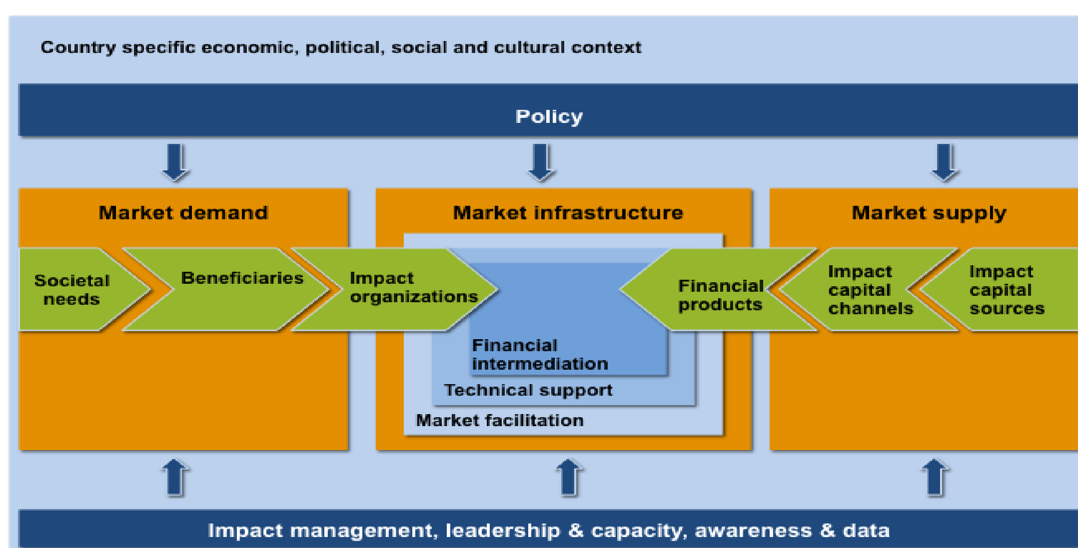
[33] Saltuk et al. 2015, p. 37.

[34] Open Capital Advisors and GIIN 2015, p. 10.

[35] See Bannick, M. and P. Goldman. *Priming the Pump: The Case for a Sector Based Approach to Impact Investing*, Omidyar Network, London, September 2012; Wolk, A. 'Social Impact Markets,' *Stanford Social Innovation Review*, Winter 2012; Koh, H., N. Hegde and A. Karamchandani. *Beyond the Pioneer: Getting Inclusive Industries to Scale,* Omidyar, MasterCard Foundation and Shell Foundation, 2014; Koenig, A. D*eveloping social impact markets in Turkey: Framework for government engagement and review of policy options*. Istanbul Policy Center: Istanbul, April 2014. In international development, concepts such as Making Markets Work for the Poor (M4P) that encourage both the consideration of market-led solutions to development as well as a holistic sector-wide development perspective have been promoted by development agencies for almost a decade http://m4phub.org/.

[36] Cohen, R. and W. Sahlmon. Social Impact Investing Will Be the New Venture Capital, Harvard Business Review, January 2013.

Figure 5: Impact investing markets

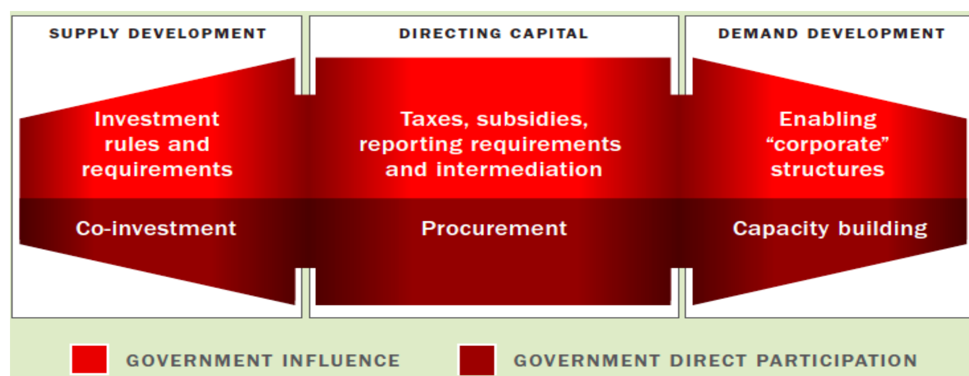


Source: Based on Koenig 2014.

Trend 2: Governments' increasing role as market participant and market builder

An increasing number of governments around the world such as the UK, the US and France, and also Ghana and South Africa, have taken steps to provide a conducive regulatory environment for impact investing and to mobilize private capital for the public good. Strategies focused on: increasing the amount of capital for investment (supply development); increasing the availability or strengthening the capacity of capital recipients (demand development); or adjusting terms of trade, market norms, or prices (directing capital).[37]

Figure 6: Impact investing policy framework



Source: Thornley et al. 2011.

Many governments as well as development agencies are still in the process of determining strategies on how to engage in a way that fits their country specific context. The US government's Overseas Private Investment Corporation (OPIC) is an example of a development financing institution that has started to segregate its entire portfolio in a way that differentiates between development finance investments, high impact sector investments and actual impact investments.[38] Beyond investments, there are calls on development agencies to provide technical

[37] Thornley et al. 2011.

[38] Littlefield, E., M. Strauss, and A. 'Kimball. Creating a Future Impact Investing Strategy,' *Stanfield Social Innovation Review*, 20 January 2011.

assistance to developing country governments to carry out policy reforms and to assist in building social impact investing markets in their own right, that are similar to the support provided in building the microfinance sector.[39]

Impact investing has also found its place on the international agenda. The Social Impact Investment Task Force, launched by the UK Prime Minister following a G8 Social Impact Investment meeting in London in 2013, and taken up by the Global Steering Committee on Impact Investment (GSCII) in 2015, is a cross boundary, multi-stakeholder initiative: to advocate for consistency in approaches to develop the global architecture of impact investing; to embed discourse on social impact investment in future government level discussions; and, more recently, to build engagement across geographies beyond G7 countries.[40]

In addition, the G20 Inclusive Business Framework, launched by the G20 Development Working Group in 2015, highlights the role of governments in promoting inclusive business. Also in 2015, GreenInvest, a global platform to mobilise private capital from institutional investors, was launched.[41]

Trend 3: From impact measurement to managing for impact

The concept of impact is central to the impact investing field. Impact measurement generates value for beneficiaries, and increases accountability that is needed to mobilize greater capital and support for the impact investing. The field has made important gains in creating a global infrastructure, including IRIS and GIIRS, research and data collection, as well as work on capacity building and consensus building around key principles (EC Social Business Working Group and SIITF Working Group).

However, challenges remain: social benefits remain difficult to value, measure and compare and the process of tracking and measuring these returns can be costly in terms time and resource. Some emerging trends and issues in this field include:

- **Converging with the mainstream:** Boundaries demarcating what constitutes and what does not constitute impact investing are blurred and may become even more fluid in the future. To protect the integrity of the market, and prevent 'green washing' – while at the same time facilitating the integration of impact investing into traditional capital markets and making it appealing for large scale institutional investors – strong practices, metrics, and systems are needed that streamline entry for new investors.

- **Impact and integrated performance management**: Much of the present discussion is moving from concerns of investors in the early phase of how to track, quantify and validate impact effectively, towards using information on impact for daily investment management that can drive impact performance.[42] This requires the integration of elements of company performance that have previously been considered separately – people, profit and planet – to be integrated into one system of planning, management, reporting and evaluation.

- **Financial quantification**: The ability to quantify social outcomes, and thus incentives and other contractual mechanisms to reveal and price the value of impact delivered, are essential for market forces to work well.

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[39] Koenig, A. 'Government in social impact investing – what's next on the global agenda.' *Practitioner Hub*, May 2015.

[40] Addis, R. and A. Koenig. Why the social impact investment taskforce matters Catalyzing A Global Market: Why The G8 Taskforce Work Matters And What Comes Next, in: *Impact Investing In 2014: A Snapshot Of Global Activity: Reflections On The Global Market.* November 2014.

[41] For information on GreenInvest see Global Green Growth Institute website: http://gggi.org/g20-launch-of-greeninvest-to-mobilize-private-capital-for-inclusive-green-investments/

[42] Simon, M. 'Managing impact vs measuring impact investment.' *Standard Social Innovation Review*, May 2015.

- **External effects:** So far, impact measurement has focused on the primary impact of social delivery organisations on their target groups. Impact investors and leaders are becoming more 'externality-aware' regarding secondary spill overs and positive external effects on society and market development. Examples of such secondary effects include: pioneering entrepreneurs that raise awareness and de-risk new business models and products for the benefit of their followers; intermediaries such as accelerators or capacity providers that enable entrepreneurs to deliver goods and services to beneficiaries more effectively.

- **Additionality of impact investor:** Beyond the impact generated by investees, there is a growing debate about the impact of impact investors. What is the increase in the quantity and quality of outcomes beyond what would otherwise have occurred and provided by a 'socially neutral investor'? This question is closely linked to the 'theory of change' and the investors' investment strategy. Examples of additionality by impact investors range from including the ability of the impact investor to attract fiduciary investors, de-risking new business models and geographies, or sharing lessons learned.

Trend 4: Collective impact and collaborative capitalism

Development organisations and new actors, such as foundations, corporations, impact investors, international and local NGOs and associations, are creating new vehicles for cross-sector coordination, and new models of collaboration, based on the belief that individual interventions are insufficient to solve increasingly complex development challenges.

Collaboration such as joint initiatives, cross sectoral networks and development partnerships are not new. Unlike such traditional partnerships, however, collective impact involves 'a centralized infrastructure, a dedicated staff, and a structured process that leads to a common agenda, shared measurement, continuous communication, and mutually reinforcing activities among all participants.'[43] Collaborative capitalism is the 'realization of a community's highest economic and social aspirations through the enterprising deployment of ideas, capital and shared resources in pursuit of collective impact.'[44] It is based on increasing calls for a social role and responsibility of the private sector to contribute to social outcomes as core to business practice, the shift of economy through technological revolution, and the acceptance that individual organisations cannot meet societal challenges alone. The spirit of collaborative capitalism has become more visible in the impact investing and development finance field today through:

- The rise of financing and investment syndications, such as blended finance, yin-yang deals, layered financing or co-mingling of funds, phased 'baton pass' investments co-investing and internal horizontal syndication.

- Cross sectoral collaboration among the public, private and the social sector, using instruments such as tripartite output based aid contracts, public-private-social sector partnerships or social impact bonds that combine one partner's expertise in structuring, investing or managing with the expertise of the other in the delivery to end-beneficiaries.

- Platforms matching organisations and individuals with different impact/risk/return profiles (e.g. Convergence) as well as joint initiatives to experiment with innovative financing and risk mitigation instruments (e.g. SDIG).

- Joint sourcing through investor networks and investor collaboration.[45]

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[43] Kania, J. and K. Kramer. 'Collective Impact.' *Stanford Social Innovation Review*, Winter 2011.

[44] Clark, C., J. Emerson and B. Thornley 2014, p. 2.

[45] The 2015 JP Morgan Survey found that 87% of respondents see co-investors as important or critical when assessing investments. And over 50% of respondents indicated that referrals from other investors were high effective means of sourcing deals. See Saltuk et al. 2015, p. 18 and 19.

Annex F: Perspectives on additionality

Introduction

Additionality is a central concept for donors and public sector agents in understanding when to engage with the private sector and what to do when mobilizing and deploying private sector capital for sustainable development. Donor agencies and development finance institutions using public funds to support private companies and to mobilize private capital, to achieve both commercial and developmental benefits, need to clearly demonstrate additionality.

Engagement by donors, DFIs and other public sector agents with the private sector can result in market distortions and other unintended consequences. If poorly designed and implemented, donor engagement with the private sector may result in:

- crowding out market players that could provide needed finance at market rates;
- subsidizing selected investors or companies, resulting in a competitive advantage for them vis-à-vis other investors or companies; or
- wasting public resources by supporting an activity that would have happened anyway or by providing supporting at a higher level than would have been required to mobilise the private sector.

Additionality has also become an important concept for impact investors to understand their specific added value as investors beyond the impact generated by investee companies. This working paper sets out recent developments in all three areas: private business, private investment and impact investment. Critical issues in relation to additionality in impact investment funds are highlighted in the main text of this study, as well.

Additionality in donor engagement with private businesses

For the Donor Committee on Enterprise Development (DCED), demonstrating additionality in private sector development initiatives 'requires showing that donor support either triggers private activities that would otherwise not happen at all, that it makes them better (e.g. by enhancing their viability or pro-poor impacts) or helps make them happen significantly sooner.'

While the assessment approach of many development interventions too often has not allowed donors to precisely determine their additionality, a guide by DCED indicates that 'it is possible to enhance assessments in practical ways – to make an informed judgement on additionality and to maximise the added value of public funds.'[46] Derived from practice in the field, the guide proposes eight criteria for ex-ante additionality assessments in engaging with private companies for developmental impact:

1) The company has insufficient funds to self-finance the project (within a reasonable time frame);
2) The company lacks the knowledge or competencies to design and/or implement a business model in a way that maximises poverty-reducing or other development impacts;
3) Without the public subsidy, the company would be unwilling to implement the proposed business model and/or changes in operational standards because of a perceived negative balance of costs/risks and benefits;
4) The company cannot access the services offered by the publicly-funded agency on a commercial basis – whether commercial bank funding or advisory support of similar quality;

[46] These quotes are drawn from DCED's online summary of M. Heinrich. *Demonstrating Additionality in Private Sector Development Initiatives*. Donor Committee on Enterprise Development: Oxford, UK, 2014. See http://www.enterprise-development.org/page/demonstrating-additionality

5) The cost-shared project does not displace other companies already operating in the market, or that are ready to undertake the same project without public support;
6) The cost-shared contribution does not duplicate other donor-funded support – whether grant, in-kind advice, loan or equity;
7) Public support leverages investment by other entities that would otherwise not be forthcoming; and
8) Conditions attached to the cost-sharing project, or agency activities complementing it, are expected to have a positive influence on wider business operations, the business environment or other institutional factors.

The guide further advises that:

> 'To connect all information relevant for additionality, agencies should develop a clear, transparent narrative on the theory of change underlying the collaboration. Such a narrative would capture the agency's assessment of the counterfactual, i.e. what would happen anyway, and a clear articulation of how the collaboration is expected to change the company's activities. Such an approach is preferred to complicated indices or other quantitative measures of additionality, although agencies may find these useful to develop or complement an overarching theory of change.'[47]

Nonetheless, development agencies and their private partners must work hard to gather sufficient data to present a credible analysis of the additionality of their contribution to an intervention. The DCED guide points to factors that work, individually and together, to limit the strength of such additionality assessments. Such factors include, for example, limited interaction with the applicant; limited knowledge about the financial sector in the target market; donor pressure to disburse funding quickly; and lack of clear criteria for considering additionality internally in the company.

Additionality in donor engagement with private investors

Additionality in the context of private-capital mobilisation is seen as the unique inputs and services public sector organisations (and indeed any other impact oriented organisations, such as impact investors, philanthropic organisations and support organisations) can provide in addition to those available in the market. A donor intervention is additional in this context if:

- interventions are necessary to make the project happen, i.e. the private investor would not have engaged without public sector involvement (this is often defined as financial additionality); and/or
- interventions increase the development impact and sustainability of a project with positive implications for growth and poverty (this is often defined as development additionality).[48]

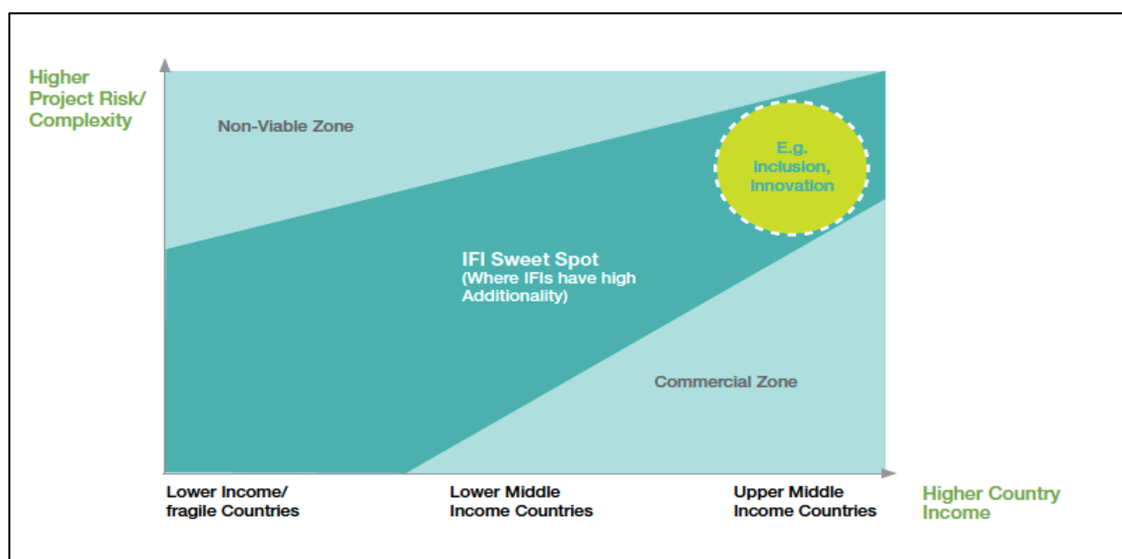
It has been argued that development finance institutions achieve high additionality in complex, high risk and high impact projects, in fragile, low-income countries and regions (Figure 1).[49]

Figure 1: Where donors have high additionality

[47] Heinrich, M. Donor Partnerships with Business for Private Sector Development: What Can We Learn from Experience. Working paper, Donor Committee for Enterprise Development, March 2013, p.vi.

[48] For useful discussions on additionality, see Spratt, S. and L.R. Collins (2012) *Development Finance Institutions and Infrastructure: A Systematic Review of Evidence for Development Additionality*. Report, IDS and PIDG: UK.; see also International Finance Cooperation. *IFC's Additionality Primer: Updated January 31, 2013*.

[49] International Finance Corporation. International Finance Institutions and Development Through the Private Sector. A joint report of 31 multilateral and bilateral development finance institutions. IFC, Washington, DC, 2011, p. 28.



Source: International Finance Corporation 2011.

Using both financial and non-financial instruments, donors can be additional, depending on the unique strength and instruments of a specific donor, the context and the specific project. Table 1 illustrates different types of additionality in more details.

Table 1: Types of donor additionality

Types of additionality	Examples
Financial	Offering better terms, longer maturities, countercyclical finance, lower price, subordination, holding riskier portfolios, providing smart subsidies, guarantees and other to enhance returns and reduce risks.
Aggregation	Supporting projects at regional or global level for aggregation of opportunities, diversification of risk and cross boundary sharing of experience.
Signalling	Providing a stamp of approval, providing credibility, attracting other investors, acting as honest broker.
Knowledge	Strengthening the quality of the investment model and technology; sharing knowledge building the capacity of local partners, facilitate technology transfer, publicly share experiences and learning (beyond project boundaries).
Demonstration	Support innovative pacesetter to de-risk new business models; attracting capital in lower income, fragile countries and frontier markets that are not (yet) able to attract significant level of commercial capital.
Poverty	Influencing design to reach lower income market segments; reduce inequalities, improve local participation, generate employment of BoP.
Standards	Promoting high environmental, social and governance standards in investee companies, financial institutions, funds and at industry level.
Market building	Strengthening policy environment, build eco-systems and support market infrastructure, generate market data and support industry research.

Source: Based on S. Mustapha et al. 2014.

Some donors have explicitly defined their approach to achieving additionality in leveraging private capital for development. For example, Norfund states: 'Norfund strives to be additional quantitatively by accepting higher risks and lower income than private investors would, and qualitatively by contributing to better investments through high requirements for Environmental, Social, and Governance (ESG), active ownership and effective support for business development. Moreover, Norfund has made a strategic decision to focus on specific sectors and regions and it also prefers to invest in SME companies, greenfield businesses and equity

instruments which, as such, guide investment towards projects which are assumed to be more additional.'[50]

Most DFIs refer to the IFC additionality primer (as updated in 2013) when assessing additionality. It has to be noted that the perspective of this primer focuses on investments into private companies rather than the making of (concessionary) investments aiming to mobilise private sector capital, per se. The following questions are part of the IFC assessment on additionality prior to engaging with a new private sector client (in addition to assessing strategic fit and clients' specific needs):

- Is our money really needed?
- What risk are we willing to take that others are not?
- What services are we providing that others are not (Knowledge/Innovation, Standard Setting, Policy Work)?
- What would happen without IFC's involvement? Would the project still proceed? If yes, how? How are the expected results likely to be better with IFC involved?

Interviews for the present study indicate that some European Development Finance Institution (EDFI) members are in the process of developing a guide on additionality in mobilising private capital in order to clarify questions that arise in that specific context.

Additionality in impact investing

Recent debate and use of the additionality concept in the impact investing field offer some interesting lines of further expanding the scope of impact measurements from the investees' impact on beneficiaries to the actual impact of the impact investor.

The 2015 JP Morgan survey of impact investors notes that additionality can be conceptualized as 'proof that impact would not have occurred had the organisation not made the investment.'[51] The most influential and comprehensive suggestion on how to include the concept of additionality in impact investing has been made by Brest and Born with the objective of 'unpacking the impact in impact investing'.[52] They argue that additionality is at the very centre of impact investing: '…for an investment or non-monetary activity to have an impact, it must provide additionality – that is, it must increase the quantity or quality of the enterprise's social outcomes beyond what would otherwise have occurred.' And, to demonstrate this additionality, it is advantageous to present evidence for a counterfactual –'on what would have happened if a particular investment or activity had not occurred.'[53]

Bridges Ventures, an impact investment firm based in the United Kingdom, has included additionality returns in its impact radar, with the other dimensions being outcome, ESG and alignment returns. They differentiate between two kinds of additionality. Investor-level additionality is defined as the extent to which the investor was integral to the development or performance of the investment. For example, an investment that helped to incubate the business that serves local consumers in a deprived area would be seen as investor-level additionality. Enterprise-level additionality is defined as the investment enabling the investee to deliver a greater or higher quality of outcome than without the investment. For example, investing in a renewable energy business that adds to the overall level of energy being produced by renewable sources is seen as enterprise-level additionality. If that same business would take away market

[50] Norad. Evaluation of the Norwegian Investment Fund for Developing Countries, Norfund, Report 1, 2015, p. 42.
[51] Saltuk et al. 2015, p. 39.
[52] Brest, P. and Born, K. 'Unpacking the Impact in Impact Investing,' *Stanford Social Innovation Review*, 14 August 2013, p. 4-5.
[53] Brest and Born 2013, p. 4-5.

share from another renewable energy company, however, then this would not be seen as additionality at all and would not be viewed as a strong case for impact investment.[54]

The additionality of individual funds and investee businesses can be assessed using these and other questions and criteria. In this context, there is an argument for exploring investment in traditional businesses that serve BoP populations and in businesses that have an indirect social and/or environmental impact.[55]

54 Bridges Ventures. *Investing for Impact: A Strategy of Choice for African Policymakers*. Bridges Ventures and African Private Equity and Venture Capital Association (AVCA), 2014.

55 See the early work of Prahalad and Hart, for example: The Fortune at the Bottom of the Pyramid, *Strategy+Busines*, Issue 26, 2002.

Annex G: Investor profiles

Different types of private investors have a different propensity for developing country engagement as well as for engaging in impact investment more specifically. This Annex provides an overview of trends and motivations.[56]

Foundations

Foundations will continue to play a significant role moving from supporting market infrastructure and capacity building to unlocking impact capital and becoming impact investors themselves.

Some 35 private, family and corporate foundations and trusts, mainly based in the US and Europe, are members of the Global Impact Investing Network, and a sub-set are active – as both grant-makers and investors – in Africa, including the Calvert, Citi, DOEN, Ford, Lundin, Omidyar, Gates, Gatsby, MacArthur and Rockefeller foundations.[57] In general, European foundations tend to use grants, though some also use guarantees and hybrid instruments, in their venture philanthropy and social investment. For their part, American foundations use two channels for impact investing. One involves concessionary programme-related investments (PRIs) that yield below market rates of financial return and are used to achieve programmatic objectives and meet foundations' 5% distribution obligation. For example, the Ford Foundation manages a PRI portfolio of nearly USD 300 million, including a PRI in BRAC Africa's loan fund for East Africa and Southern Sudan that helped it raised USD 60 million from other investors.[58] The second channel is referred to as mission-related investments (MRI), which seek market rates of return as well as positive social impact. The non-profit network Mission Investors Exchange promotes learning by foundation personnel on both PRIs and MRI.[59] According to estimates by the World Economic Forum, 7% of foundations engage in programme related investment and 14% in mission-related investments.[60]

In the past, the majority of philanthropic investors have deployed capital domestically or in Western Europe.[61] Interest in philanthropic activities in developing countries is growing as the membership base of the OECD Global Network of Foundations Working for Development (netFWD) and the Worldwide Initiative for Grantmaker Support (WINGS) demonstrates.

One notable example is the Shell Foundation's support of GroFin, an impact-oriented intermediary investing in SMEs across Africa that today manages USD 500 million on behalf of 30 investors and plans to double its assets by 2020.[62]

In an innovative partnership, the Rockefeller Foundation is collaborating with the Overseas Private Investment Corporation, the US Development Finance Institution (DFI), on six impact investment projects. The foundation provides flexible, early-stage capital for high-impact deals

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56 This paper builds on analysis presented in the Inception Report for this study.

57 Global Impact Investing Network: http://www.thegiin.org/

58 Bloomberg. BRAC Africa Loan Fund Launched to Combat Poverty in East Africa. *Bloomberg News*, 6 January 2008.

59 Mission Investors Exchange, website. https://www.missioninvestors.org/

60 World Economic Forum. From the Margins to the Mainstream: Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors. Industry Agenda, World Economic Forum Investors Industries, Geneva. 2013, p 13.

61 Only 11% of respondents to the EVPA survey 2014 have made contributions to projects in Africa. See Hehenberger, L., P. Boiardi and A. Gianoncelli. *European Venture Philanthropy and Social Investment 2013/2014: The EVPA Survey*, European Venture Philanthropy Association (EVPA), Brussels, Belgium, December 2014.

62 For more on GroFin, see http://www.grofin.com/ and on the Shell Foundation's role in establishing GroFin, see http://evpa.eu.com/wp-content/uploads/2014/02/EVPA_full_member_case_study_shell_foundation.pdf.

while the corporation brings wide-reaching operational capacity in deal origination and conducting due diligence. The aim of this collaboration is to attract and de-risk investment capital from commercial investors. This joint effort prompted OPIC to set up its new Align Capital platform, which provides information and matches investors to 'develop collaborative deals that draw on each player's respective strengths.'

American foundations have also played key roles in social impact bonds in the US in such areas as reducing youth recidivism and pre-school education. Here they have often mitigated the risk of senior lenders, especially banks, by providing first-loss guarantees or other credit enhancements.[63]

Along with the Center for Global Development and Social Finance UK, some US foundations are working with partners to design development impact bonds, the SIB analogue for poor countries. Currently, the Fred Hollows Foundation in Australia is working on a development impact bond to increase access to surgery for cataract blindness in Africa.[64] Other cases of what the GIIN has called 'catalytic first-loss capital' provided by foundations have enabled social enterprises to flourish in the US.[65]

In terms of Southern-based foundations, the Tony Elumelu Foundation, headquartered in Nigeria, has committed USD 100 million to its flagship programme on entrepreneurship, was an early co-investor in M'tanga Farms in Tanzania, a potato and beef business, and collaborated with the Rockefeller Foundation on an innovation grants programme on the impact economy in Africa, supporting, among other projects, an impact investing research centre in Ghana.[66] Another case is that of the Aga Khan Foundation, with deep roots in East Africa, which works with its sister economic development organisation to invest in microfinance and other financial products for the poor, independent media and local energy production in Africa and Asia.[67]

One new vehicle for foundations is the SDG Philanthropy Platform, managed by Rockefeller Philanthropy Advisors and supported by the Ford, Hilton and MasterCard foundations and UNDP. This online platform supports foundations from anywhere in the world to use the tools of impact investing and innovative finance to contribute to the achievement of the Global Goals. Following its launch meeting in 2015, the SDG Philanthropy platform has begun to work with local philanthropy partners in Kenya, Ghana, Indonesia and Colombia, offering a range of engagement options to potential users.[68]

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[63] For a good overview of SIBs and PFS contracts, see Godeke, S. and L. Resner. *Building a Healthy and Sustainable Social Impact Bond Market: The Investor Landscape*, Godeke Consulting and Rockefeller Foundation, New York, 2013; also see Rangan, V.K. and L.A. Chase. 'The Payoff of Pay-for-Success,' *Stanford Social Innovation Review*, Fall 2015, p. 35. For the article and the debate it sparked, consult http://ssir.org/articles/entry/the_payoff_of_pay_for_success.

[64] Post L. and A. Glassman. *An Insider's Perspective on Delivering a DIB,* Center for Global Development, Washington, DC, 2015.

[65] Bouri A. and A. Mudaliar. *Catalytic First Loss Capital*, Global Impact Investing Network, New York, 2013.

[66] Tony Elumelu Foundation. http://tonyelumelufoundation.org/; also see Bouri et al. *Improving Lives, Removing Barriers: Investing for Impact in Mtanga Farms*, Global Impact Investing Network, New York, 2011. The major stakeholders in the Africa Enterprise Challenge Fund include IFAD and the development cooperation programmes of Canada, Denmark, the Netherlands and the United Kingdom. (see http://www.aecfafrica.org/). On the Agri Vie investment in Mtanga, see http://www.mtangafoods.com/category/agri-vie/. For information on the GIMPA Centre for Impact Investing, see http://gcii.gimpa.edu.gh/ and, on the Ghana Venture Capital Trust Fund, see http://www.venturecapitalghana.com.gh/.

[67] On the Aga Khan Foundation and Development Network, see http://www.akdn.org/akf; and, on the Aga Khan Fund for Economic Development, consult http://www.akdn.org/akfed.

[68] The website of the SDG Philanthropy Platform is found at http://sdgfunders.org/home/lang/en/; for a video on the SDG Philanthropy Platform, go to https://www.facebook.com/hiltonfoundation/posts/1149122771769004. For more background, see also United Nations Development Program. *Philanthropy Leaders Call for Greater Role in Tackling Global Challenges Defined in the New Sustainable Development Goals*, Press release 24 September 2015.

Many foundations have signed on to the global divest-invest movement to divest their assets from fossil fuels and reinvest in sustainable energy and green growth solutions. The 100% IMPACT Network, a group of family offices, foundations and high-net worth individuals aims to mobilise their peers to commit 100% of their assets to impact and share experience to building a successful diversified portfolio across multiple asset classes.[69]

Pension funds and insurers

If there is to be a meaningful scaling up of the impact investing in developing regions, pension funds from both the North and the South, will need to play a central role. As a source of long term and patient capital with reduced liquidity needs, pension funds and insurer are particularly suitable for infrastructure and patient capital investments. Some pension funds made pilot investments in the Europe and the US (e.g. Investing4Growth Fund, a GBP 250 million impact investing fund collectively funded by five municipal pension funds in the UK; TIIA-CREEF in the US or PGGM in the Netherlands).[70] UNCTAD estimates that pension funds have at least USD 1.4 trillion of assets invested in developing market. So far, however, social and environmental impact investments are the exception.

This is because most impact investing opportunities in developing countries have been smaller in size and shorter term in nature, providing a mix of rates of return, and sometimes unclear prospects for exit. In contrast, pension funds require large-scale, lower risk, long-term investments that yield market-rate returns and have clear exit pathways.

The insurance industry, whose members are liability-constrained investors, has demonstrated an increased propensity for green and climate change investment driven by the opportunity to offset investments against savings from fewer insurance claims and lower insurance. By mid-2015, 83 insurers had adopted the 2012 UN Principles of Responsible Insurers representing approximately 20% of world's premium volume and USD 14 trillion in assets under management.[71] Examples of engagements in impact investing by pension and insurance funds include the EUR 150 million Axa Impact Investing project,[72] and the Zurich Insurance Group's responsible investment strategy with impact investments of USD 667 million in 2014.[73]

Public and private pension plans in Europe and North America have been building up their holdings in wind, solar and hydro projects in advanced and some emerging economies.[74] One promising model is that of the Danish Climate Investment Fund, which has successfully mobilized Danish pension fund capital for major wind and solar projects in Africa.[75] Moreover, demand for such investment opportunities by Northern institutions seems poised to grow. For example, the New York State Common Retirement Fund, plans to invest about USD 5 billion in African private equity firms and infrastructure and power plants over the next five years 'to diversify its assets and boost returns.'[76] Other major funds, such as the USD 260 billion California Public Employees Retirement System (CalPERS), are prominent leaders in impact investing in their home markets, but have not yet applied this expertise overseas. They could do so in the green energy sector. Furthermore, the US Department of Labor recently issued

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69 See Toniic. *100% Impact*, San Francisco, undated. http://www.toniic.com/100-impact-network/

70 See Investin4Growth website: http://www.investing4growth.co.uk/

71 UNEP News Centre. UN Principles for Responsible Insurers, UN and Insurers launch global Insurance Principles for Propel Sustainable Insurance. Nairobi, 19 June 2012.

72 AXA Group. Global Responsible Investment Policy, July 2013.

73 See Zurich website: https://www.zurich.com/en/corporate-responsibility/responsible-investment

74 Illustrative recent examples include Mittal, S. *Pension Funds Back Euro 2 Billion Danish Renewable Energy Fund*, Clean Technica, 10 July 2015; and Downing, S. 'Canadian Pensions Start $2 Billion Green Fund,' *Bloomberg Business*, 28 May 2015.

75 Bakewell, S. and M. Carr. Danish Pension Fund to Invest in Renewable Energy Projects in Developing Nations, RenewableEnergyWorld.Com, 13 January 2014.

76 Clark, S. 'New York Pension Fund to Invest Billions in Africa,' *Wall Street Journal*, 29 April 2015.

guidance that provides more room for US pension funds like CalPERS to increase their application of ESG criteria in their investment decision-making.[77]

Africa-based pension funds are beginning to focus on renewable energy projects, as well. South Africa's largest pension fund, the Public Investment Corporation, recently invested about USD 80 million to buy 20% stakes in two solar power stations in Northern Cape Province.[78] Also in South Africa, the Metal Industries Benefits Funds Administrators committed up to ZAR 1 billion in investments in renewable energy. Moreover, this decision was endorsed by the sector's largest union, the National Union of Mineworkers, as a way of addressing poverty and global warming. At the same time, though, the union also expressed its strong support for social ownership of renewables and local-content requirements in sourcing equipment for these projects.[79]

Outside the realm of green power, the impact investing arm of Dutch fund manager ACTIAM has, since 2007, offered two international microfinance funds to institutional investors. The two funds together in turn have invested EUR 640 million in nearly 130 microfinance institutions in the Americas, Asia and Eastern Europe, reaching almost 2.2 million customers. The average annual return realized by the funds has been approximately 6%. Key features of both funds are that investee MFIs have been obliged to offer micro-insurance and other inclusive products to their customers as well as credit, and also have been required to be rated on their customer protection measures. Based on this track record, ACTIAM Impact Investing has launched a third, close-ended microfinance fund for its institutional clients.[80]

Some governments have actively supported the mobilisation of pension funds for impact investing. In Australia, the national government provided a AUS 6 million grant, including AUS 4.5 million for first-loss protection, to the Community Finance Fund for Social Entrepreneurs which convinced the non-profit pension fund, Christian Super, to make an AUS 6 million equity investment in the Fund.[81]

Banks

Flows of cross-border bank lending to developing countries were roughly USD 325 billion in 2013, making international bank lending the third most important source of foreign capital to developing countries after FDI and remittances. Some 80 banks in 35 countries (27 in developing or emerging countries) adopted the Equator Principles, a risk management framework that helps bank determine, assess and manage environmental and social risk.[82] Wealth management arms of banks in developed countries are starting to offer impact investing solutions to their clients (JP Morgan, UBS, German Private Bank Berenberg), whereas Deutsche

[77] For a discussion of CalPERS's investment principles and their importance to the broad impact investing field, see Clark et al. 2015. In the United Kingdom, attention has been drawn to the potential of pension funds to bring their scale and power to the impact investing field. See Ritchie, M. *'Huge potential' for pension funds in social impact investing*, Pension Age, 10 June 2013; on the Department of Labor's new guidance, see Department of Labor. *Interpretive Bulletin Relating to the Fiduciary Standard under ERISA in Considering Economically Targeted Investments*, Washington, DC, 2015, pp. 5-6.

[78] Motsoeneng, T. South Africa pension fund invests $81 mln two solar power projects, Reuters Africa, 18 March 2015.

[79] COSATU. South Africa: Numsa's Response to Metal Pension Fund Investment in Renewable Energy, Congress of South African Trade Unions: Johannesburg, 25 April, 2013.

[80] ACTIAM, Institutional Microfinance Fund III, 2014. https://www.actiam.nl/nl/producten-en-diensten/Documents/AIMF_III_2pager.pdf; for more detail on the first two microfinance funds, see SNS Institutional Microfinance Fund I, 2013. https://www.actiam.nl/Documents/Engelse%20documenten/Eye4impact%20SIMF%201%202013.pdf; and SNS Institutional Microfinance Fund II, 2013. https://www.actiam.nl/Documents/Engelse documenten/Eye4Impact SIMF 2 2013.pdf

[81] Bouri and Mudaliar 2013.

[82] See Equator Principles website: http://www.equator-principles.com/index.php/members-reporting .

Bank and Citibank have been offering microfinance and impact investment products for more than a decade.[83] DFIs such as IFC, KfW or AfD are provided credit lines and technical assistance to local commercial banks to increase debt finance for MSME, renewable energy and efficiency finance, women entrepreneurs or finance to entrepreneurs in disadvantaged regions. Many of traditional non-profit microfinance organisations in emerging countries have transformed into deposit taking financial institutions offering a variety of financial services beyond credit to small enterprises.

Sovereign wealth funds

Eighty per cent of total SWF assets (USD 5.4 trillion in 2013) are owned by emerging country governments, but more than 70% of direct investments by SWFs are currently made in developed markets. Some SWF have similar functions to pension funds, others are established as investment vehicles (Qatar) or development fund (e.g. Temasek). For such SWF the pursue of public interest objective is part of their mandate. In fact, some have traditionally engaged in economic infrastructure and there are recent examples of SWF engagement in impact investing (e.g. Senegal, Norway).

Transnational companies (TNC) and emerging market corporations

TNC have currently USD 7.7 trillion invested in developing countries (% of total investment) and cash holdings of USD 5 trillion, thus offering a significant source of finance as well as opportunity for knowledge and scaling partnerships. The number of signatories committing to comply with responsible business standards and certifications such as to the UN Global Compact, OECD MNE guidelines, and most recently the B-Corp Certifications has increased significantly in the past decade.

Moving beyond compliance and risk management, pioneering players have explored opportunities for value creation through partnerships with social and green ventures as a source of innovation and access to new market segments or started using a corporate venture investing approach for impact investing (e.g. Patagonia's USD 20 Million Change fund, Schneider Electric Access Fund, Danone funds, the Pearson Affordable Learning fund, Adidas greenEnergy fund and Hydra Ventures fund).[84] In 2014, Unilver successfully raised a GBP 250 million green bond to fulfil its core strategic aim of halving its environmental footprint (while doubling turnover) by 2020.[85]

Diaspora

Diaspora communities are an important source of financing for developing countries. Remittances constitute around 60% of FDI flows to DC and make up to 50% of GDP in some countries.[86] While these flows mostly constitute flows at household level for consumptive use, studies confirm a strong interest amongst wealthier individuals in impact investing in their countries of origin.[87] Diaspora networks started philanthropic activities (e.g. Turkish Philanthropy Fund), entrepreneurship promotion or investment initiatives (e.g. Homestring in the UK founded by a Nigerian businessman). Impact investors have developed specific retail products targeting the diaspora (e.g. the Diaspora Community Initiative by the Calvert

[83] Deutsche Bank, Microfinance, New York, undated. https://www.db.com/usa/content/en/microfinance.html
[84] Varga, E. *Corporate social impact strategies: new paths for collaborative growth*, L. Hehenberger and P. Boiardi (eds), European Venture Philanthropy Association (EVPA), Brussels, Belgium, 2015.
[85] Daneshkhu, S. and A. Bolger. Unilever issues GBP 250 million green bond, *Financial Times*, 19 March 2014.
[86] World Bank. *Diaspora Bonds Gain Momentum*, PREM Network, Washington, DC, 23 September 2011.
[87] US-Mexico Foundation survey of members, November 2013.

Foundation targeting the Mexican and Caribbean diaspora in the US) and DFIs such as USAID and OPIC are actively reaching out to the US-based diaspora communities.[88]

Retail investors

Ordinary citizens are a category of impact investors that is often overlooked. Recent research indicates however, that 73% of people in the U.K. with net wealth between GBP 50,000 and GBP 100,000 are interested in impact investing. Banks and credit unions of the Global Alliance for Banking on Values (GABV) serve 20 million people who use their finances for wider societal good. Between 1995 and 2008, the Dutch 'groenFonds' raised EUR 11 billion of funding from 234,000 individual investors investing in 5,761 green projects such renewable energy, wildlife conservation, and organic farmland. Other retail investment formats such as (peer-to-peer) lending and equity crowdfunding platforms such as global microfinance platform Kiva or Ethex in the UK already amount to approximately USD 6 billion in capital origination. The 100% year-to-year growth for lending, and 30%-40% growth for equity platforms, have demonstrated the ability of crowdfunding to reduce barriers for individual investors.[89] Investors circles such as Toniic or India based Intellecap Impact Investing Network I3N are successfully engaging both experienced investors and inexperienced individuals in the impact investing field.[90]

Table 1 provides an overview of investors typical profile in terms of motivation, impact, risk and return.as discussed in Section 2.4.

[88] USAID. *Diaspora Investment*, Washington, DC, 2014.

[89] Triodos. *Impact investing for everyone. A blueprint for retail impact investing.* Report produced for the Social Impact Investment Taskforce, established by the G8, September 2014.

[90] Intellecap. *Impact Investing Network*, Mumbai, 2015, Website: http://www.i3n.co.in/

Table 1: Motivation, impact, risk and return profiles by investor type

	Motivation	Impact orientation	Real or perceived risk	Return target
Pension funds and insurers	Exploration of opportunities in new markets, learning opportunities For insurers opportunities to offset investments in climate change against savings for fewer claims Looking for long term placements offered by many impact investing opportunities	Protection against reputational risk (negative ESG screening) Government policy and legal mandate (e.g. SA, F) Members request for sustainability investments	Protection against downside capital risk important but also upside risk critical. Lack of understanding of relevant risk factors Risk of disproportionate transaction costs for small deal sizes Exit path must be clearly defined but liquidity risk not a priority	Risk adjusted financial returns Capital growth and profit maximisation a priority as 'steward' of people's pensions
Banks	Increasing demand by clients for responsible investment products 'Testing the waters' for new products	Need for robust evidence to justify diversion of funds from traditional investments, high learning and transaction costs	Focus on limiting downside capital risk a priority Rigorous internal risk operation and compliance requirements inhibit engagement without separate unit / budget	Sensitive to high transaction costs (due diligence) reducing potential returns
Corporations	Exploration of new markets Concern about sustainable value chain Move beyond CSR to create blended value and triple bottom line returns	Establishment of ESG standards a minimum requirement in global market place Inclusive business models have become more widespread (e.g. G20 IB framework) Opportunities for blended value	Protection against downside capital risk a priority High unquantifiable risk: limited knowledge and data on market opportunities	Market opportunities as important as financial returns Willingness to forego some short term financial returns for successful entry into new markets

	Motivation	Impact orientation	Real or perceived risk	Return target
		creation significant: innovation, market and product development		
Family offices & HNWI	Opportunity to align investment with personal values Invest in new markets with high return potential	Impact performance key to advisor offering products to their clients Impact risk may quickly become reputational risks	Typically not prepared to absorb capital losses Advisors do not understand new investment models, and would rather not recommend opportunities without track record	Demonstrated willingness to forgo some financial return for the sake of impact
Impact investors (e.g. Omidyar Network)	Invest in approaches that generate both financial and social returns	Intentional and measurable impact is at the core (positive screening) Often investee companies impact beyond ESG standards and job creation required	Assume risk that impact neutral investors are not willing to take Exit risk both an issue of liquidity and linked to impact risk (mission perseverance)	Majority target competitive or close to competitive financial returns, but still wide range between capital preservation and market rate return Flexibility across entire portfolio
Foundations (e.g. MacArthur, Hewlett Packard, Gates)	Grant making: Making grants more impactful Mission investing: Placing endowment funds in investments that are aligned with own values and foundation's mission	Evidence for impact critical, alignment to foundations mission Mission Investing: ESG compliance in target sectors sufficient	High reputational risk in relation to impact performance Mission investing: Significant risk of erosion of capital base i.e. ability to generate income for grantmaking activities. Trustees often unfamiliar with impact investing opportunities and related risk	Capital preservation a priority Aim to recycle capital for further development activities

	Motivation	Impact orientation	Real or perceived risk	Return target
Development finance institutions (e.g. FMO, IFC, Proparco, DEG)	Development policies require DFI to engage in high risk and high impact areas and support private capital mobilisation for development	All DFI have developmental impact at core of their mandate Direct impact limited to job creation; GHG reductions Indirect impact: introduction of ESG standards/monitoring of ESG compliance Additionality: Demonstration effect, crowding in, pioneering	Sensitive to capital risk as DFIs need to account rigorously for investments of tax payers money Engagement in high risk areas and countries mostly for funds managed on behalf of their governments or if part of mandate	Market rate or near market rate returns for own funds Lower returns (and higher risks possible) for funds managed on behalf of their governments
Retail investors Value based banks (e.g. GLS Triodos) The 'crowd'	Increasing demand for sustainable investment products Crowd-investors look for investment opportunities aligned with their values	Impact performance must be sufficiently transparent and easy to understand to justify opportunity cost of capital	Independent financial advisors are often unfamiliar with impact investing products, they look for track record and benchmark with conventional products Crowd potentially risk taking but possibly legal restriction	Capital preservation at minimum, a priority, but varying requirements Uncertain cash flow demands can make liquidity a priority (at the cost of returns)
Non-profit investors (e.g. WWF, Oxfam, IRDC)	Opportunities for mobilising additional funding to realise own objectives Willingness to work with private sector players Demonstrate success of new models for social sector	Impact core to any intervention	Ready to take innovation risk, first mover risk, Capital preservation could be one objective but may not be priority	Sustainability objective Intention to recycle for development purposes

Sources: Bridges Ventures, Bank of America; WEF; EVPA; interviews.

Annex H: Typology of funds

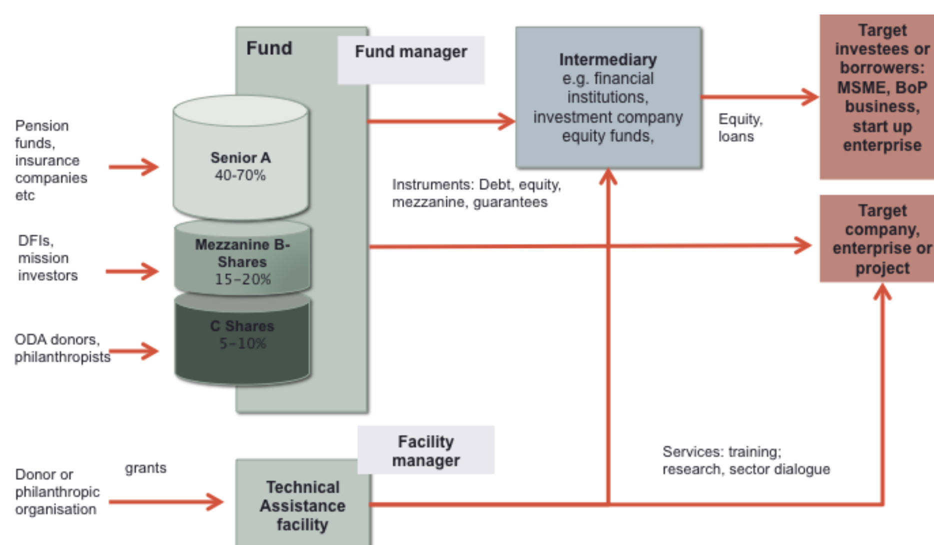
Structured funds

Structured funds with a waterfall structure offer opportunities for investors with different risk/ return profiles. The overall risk is divided into tranches, each with different degrees of 'seniority' (e.g. order of repayment or return allocation in the event of losses, bankruptcy or sale), and these are passed on to investors with varying risk appetites. The first loss tranche (C-Shares) is usually provided by governments and ODA donors, while mezzanine tranche (B-Shares) are funded by DFIs whereas commercial investors are attracted to the A-Shares and notes.[91]

In development finance, this instrument is often used when supporting refinancing financial institutions in partner countries with the objective of promoting a new product, a specific sector or an underdeveloped market segment such as (M)SMEs finance (e.g. EFSE, SANAD) or renewable energy or energy efficiency (Green for Growth Fund, Global Climate partnership fund). Some funds also address structural gaps in local financial and capital markets such as Currency Exchange Fund (TCX) or the African Local Currency Bond Fund.

Most of these structured fund mitigate capacity risk with technical assistance facilities that help partner institutions adapt and strengthen their systems with regard to MSME lending, (environmental) audit as well as environmental, social and governance standards. Beyond direct capacity building partner funds are sometimes made available for policy advisory support, research and data collection, impact measurement and others.

Figure 1: Typical structure of structured funds



Source: The Authors.

Donor development funds

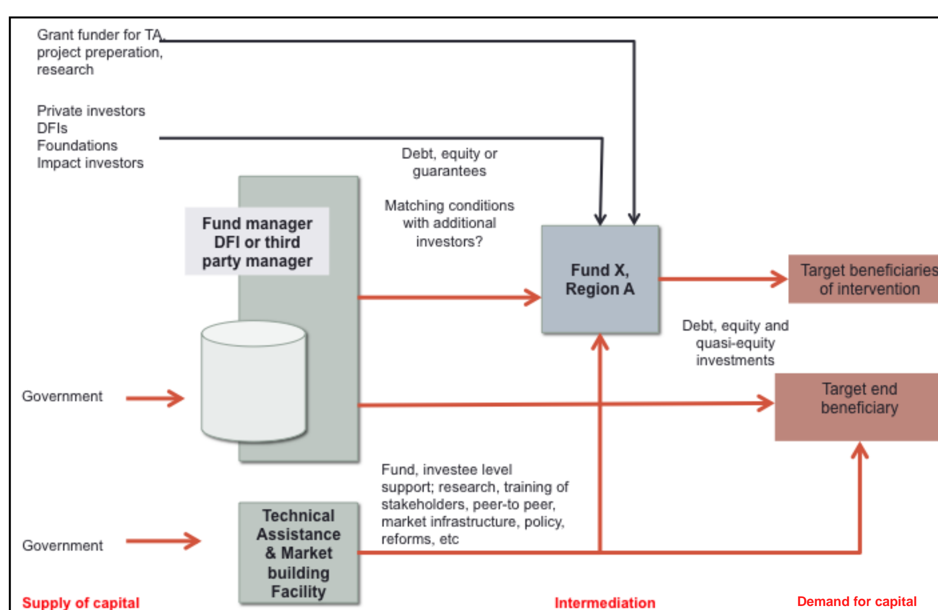
Donor development funds adopt commercial fund approaches to channel concessional capital to investment opportunities with high developmental impact but also higher level of risks and potentially lower returns. Donor developmental funds allow donors to use a market-based

[91] Loans issued by local financial institutions serve to secure the international loan granted to the finance institution itself. All defaulting amounts from the (micro) loans are borne in the first instance by the first loss tranche; it is not until this tranche has been fully consumed (i.e. the first loss investors' capital has been entirely lost) that the mezzanine tranche takes the load; and the senior tranche is only called upon to cover losses once the mezzanine tranche has been completely exhausted.

approach to invest in areas, projects and countries that are too risky for development financing institutions and commercial investors. This includes for example early stage capital, risk capital to social innovation, investment in low income or fragile countries or investment in enterprises that target the Base of the Pyramid, and address a social and/or environmental challenge at the core of their business model (e.g. Department for International Development (UK) (DFID)) impact programme). It may also include the provision of financial products that are not (yet) provided by the market due to market failures and market inefficiencies, such as disaster risk insurance, guarantees to facilitate access to hard currencies or convertible bonds to extent loan terms.

Donors will assume higher risks and therefore seek some, albeit modest financial returns. Returns can be redeployed in development programmes increasing value for money. Examples include the UK Aid DFID impact fund, FMO Government funds, and the Global Innovation Fund.

Figure 2: Typical donor development fund



Source: The Authors.

Result based financing

Result based financing is used by developing country governments (national or local), state agencies, or donor agencies in cooperation with the private sector to incentivize the provision of goods or services, to create or expand markets, or to stimulate innovation in. While initially, result based approaches were a means to improve aid effectiveness and value for money in the provision of public services (payment by result approaches), recent approaches seek to align public and private sector interest by linking outcomes to financial returns and to mobilise additional financing from investors that would normally not consider investments in the social sector due to low returns. Despite the variety of models, RBF are based on common principles:

- Disbursement of funds is contingent on the delivery of pre-determined results, outputs or outcomes.
- The private sector (and non-profit sector) has discretion over how results are achieved allowing for product and service innovation.
- Independent verification acts as the trigger for disbursement.

There are a number of examples of different types of innovative RBF mechanism being piloted or mainstreamed in recent years:

- *Output based aid (OBA):* OBA is an approach to increase access to basic services – such as water, healthcare or education – for low income communities in developing countries. OBA links the payment of public funding to the delivery of 'outputs' like connection to electricity grids or the provision of solar home systems. Service delivery is contracted out to a third party, which receives a subsidy to complement the portion of user fees that poor households are not be able to afford.[92]
- *Advance market commitments (AMCs):* Governments, donors or philanthropists offer a fixed off-take quantity, price or revenue in order to guarantee a viable market. The objective is to stimulate research, product development and private investment into areas and sectors that the private sector would otherwise consider unattractive. In 2007, five countries (Canada, Italy, Norway, Russia, the United Kingdom), and the Bill & Melinda Gates Foundation committed USD 1.5 billion to launch the first AMC to help speed the development and availability of a vaccine targeting pneumococcal disease, a major cause of pneumonia and meningitis. AMC mechanism are also indirectly applied in low carbon economy e.g. with the setting of feed-in tariffs, renewable obligations or commitments to green public procurement.
- *Public-private partnerships (PPPs):* PPPs as used for the purpose of this study are long-term contracts between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance. PPPs enable the public sector to mobilize additional financial resources and to benefit from the expertise and efficiencies of the private sector. They have mostly been applied in infrastructure transport sectors but also in social and climate change sectors. PPP models differ with respect to the degree of sharing of resources, responsibilities, and risks. Typical PPP models include public service concession, joint venture, and management contracts. The Public Infrastructure Development Group for example is a public-private finance initiative in itself with several project finance and development subsidiaries to facilitate private investment in infrastructure.
- *(Social) Development impact bonds (DIBs):* The Outcome purchaser e.g. a government in a developing country or a donor enters into a contract with a service provider (normally a social organisation) in which it agrees to pay the provider only for the successful outcomes of its programme. For example, the number of its graduates who receive stable employment rather than the number of people it train. The provider would raise money from socially-motivated investors to fund its work. The outcome purchaser pays for the programme after verifying that the provider achieved results, and investors get their investment back, plus a premium for taking the risk that the programme might have failed. DIBs are a variation of the Social Impact Bonds piloted in the UK and adapted in a number of developed countries. None of the DIBs under preparation are operational, however. The Uganda DIB on sleeping sickness is perhaps the most advanced DIB in a developing country context.

New promising approaches on outcome based financing are emerging applying some of the experience gained in the social sector for early stage entrepreneurship development. This includes the *Social Success Note* developed by Yunus Social Business in cooperation with the Rockefeller Foundations as well as *Social Impact Incentives* developed by Roots of Impact and piloted in Latin America with support by IDB and the Swiss Development Cooperation (Box 1).

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92 See case studies and further details on at Global Partnership on Output Based Aid www.gpoba.org/

Box 1: Social Impact Incentives (SIINC) by Roots of Impact

Social Impact Incentives (SIINC) applies an outcome-based approach to catalyse private investment to impact entrepreneurs in areas with high social impact, but where business models are unknown and current conditions would result in lower financial returns. An outcome funder (e.g. a philanthropic organisation, development agency or public funder) agrees to make temporary incremental payments to selected impact entrepreneurs for a determined period of time based on the measurable and verified social and environmental contribution the enterprises generates. In this way, SINNC links the social performance to the financial profitability of the enterprise and thus increases its attractiveness to potential investors. Enterprises will be selected to the programme in a specifically designed SIINC suitability assessment based on additionality, impact scalability and potential for future financial sustainability. The selection process will be supported by SIINC partners as well as potential investors. The SIINC also includes a comprehensive pre-investment process to strengthen investment and public contract readiness, impact modelling (parallel to the financial modelling to enable SIINC structuring) and impact measurement and reporting.

The first SIINC is being piloted in Latin America in a public private partnership model between the Swiss Development Cooperation as outcome funder, the IDB as impact payment facility manager, and Roots of Impact as lead advisor.

Source: Roots of Impact 2015

Guarantee programmes and funds

Risk underwriting instruments can improve the credit profile of a project, a company or a fund seeking to raise more or cheaper capital and provide comfort to investors that they will be able to recover the investment or limit their losses. A guarantee is a commitment that if a negative event occurs, the guarantor will take action if the guaranteed party is unable or unwilling to do so. The benefit of guarantees is that they not require an immediate outlay of capital and only require funding when called which allows a guarantee fund to be spread across multiple projects. In impact investing and innovative finance guarantees have been used in a myriad of ways such as:

- Lengthening the maturity of loans to small enterprises (e.g. USAID guarantee to impact investor Acumen Fund) or farmers (e.g. USAID USD 50 million credit guarantee to Root Capital);
- Deepening capital markets by facilitating local currency bond issues (e.g. KfW Africa Local Currency Bond);
- Sida and Bill and Melinda Gates first loss guarantees in the Global Health Investment Fund;
- Enabling local banks to enter new markets such as mortgage or microenterprise lending (DFI guarantees to local banks).

Sida is currently exploring options for setting up an innovative Social Enterprise Guarantee Framework in which the authority for standardized guarantee is delegated to private investment intermediaries. Bilateral development agencies have not used guarantee programmes much due to questions of their non-DAC eligibility.

Specific guarantee funds have been set up to mobilise private capital from local and international banks such as the GuarantCo under PIDG for infrastructure sectors, African Risk Capacity or Global Parametrics in climate-related hedging, or the African Guarantee Fund and the Greater Anatolian Guarantee Facility for SME finance (Box 2).

Box 2: The Greater Anatolia Guarantee Facility (GAGF)

Launched in October 2010, the Greater Anatolia Guarantee Facility (GAGF) aims to facilitate MSMEs access to finance in Turkey's developing regions. A partnership between the Republic of Turkey, the European Union Commission, and four Turkish banks, the goal of the GAGF is to enhance access to finance for SMEs and micro-enterprises in the less developed regions of Turkey by generating EUR 938 million in loans. GAGF covers 43 developing provinces which are home to 25% of Turkey's MSMEs, but who historically receive only 10% of the country's MSME lending.

The GAGF provides portfolio guarantees and loans to SMEs through the four selected banks. The European Investment Fund also provides a counter-guarantee to Kredi Garanti Fonu, another guarantee fund to issue guarantees to micro loans. SMEs access to finance components are complemented by a capacity building component targeted at the partner banks, Kredi Garanti Fonu and the Internal Trade of the Ministry of Customs and Trade. Between 2011 and 2013, over EUR 440 million was provided to more than 5,300 micro enterprises and SMEs. GAGF reported a leverage ratio of more than 20 times.

Source: G20 Development Working Group 2015

Sovereign thematic bonds

DFIs and development banks have issued thematic bonds to raise finance for development projects. Thematic bonds are fixed income, liquid financial instruments that are used to raise funds dedicated to specific purpose such as climate-mitigation, adaptation, and other environment-friendly projects, inclusive business or infrastructure. There are also interesting examples of developing country governments reaching out to the regional and global capital markets as well as the diaspora community to raise finance for development and infrastructure purpose using government thematic bonds (e.g. Nepal, Ethiopia, India or Kenya). Prominent fields for thematic bonds include green and climate sector, diaspora bonds as well as general development bonds:

- *Green or Climate Bonds*: The green bond market is estimated at USD 346 billion. The World Bank has issued about USD 8.5 billion in green bonds in 18 currencies including a 10-year USD 600 million benchmark green bond and green growth bonds linked to an equity index and designed for retail investors. Separately, the IFC has issued USD 3.7 billion, including two USD 1 billion green bond sales in 2013. Proceeds are used to support renewable energy, energy efficiency, sustainable transportation and other low-carbon projects, as well as financing for forest and watershed management, and infrastructure to prevent climate-related flood damage and build climate resilience.[93] The bulk of climate bonds have been bought by institutional investors like pension funds and fund managers. In the Netherlands and South Africa banks have also offered green bonds to individuals. Some fund managers have created special funds that individuals can invest in.
- *Diaspora bonds*: The diaspora bond is a bond issued by a government to tap into the migrant's communities assets in the destination country potentially help lower the cost of financing for development projects back home. It is estimated that the world's 230 million international migrants save more than USD 500 billion annually.[94] Bonds are often called upon in times of crises when financing from other sources has become expensive (e.g. Ethiopia Renaissance Dam Bond to alleviate the electricity crises) but some countries have used diaspora bonds for

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93 World Bank. *Green Bonds*, Washington, DC., 2015, Website: http://treasury.worldbank.org/cmd/htm/WorldBankGreenBonds.html

94 Mohieldin, M. and D. Ratha. Remittances and savings of the diaspora can fiancé development. Eurartiv, 1 August 2014.

a long time raise finance for investment in infrastructure and the country's development (e.g. India).[95]

- *Development and infrastructure bonds*: a number of countries have issued bonds to tap into the capital market to finance investments in development and infrastructure supported by DFIs and MDB (e.g. AfDB and IFC). The Central Bank of Kenya issued its first infrastructure bond for a total amount of USD 222.8 million in 2009. It is noteworthy that USD 12 million was a *sukuk* tranche complying with sharia requirements of risk taking and sharing of profits and losses to attract the increasing number of Islamic investors.

Project preparation, innovation and business development

A key constraint for most investment vehicles is the lack of investment ready projects, companies and vehicles, the small size and high risk of early stage ventures and lack of capacity of young teams. The following are examples to illustrate the variety of initiative created to respond to these challenges with by supporting the project development and capacity building on the demand side or providing patient, higher risk capital – or both. In fact, the tension between the institutional mandate of development finance institutions, the institutional culture, and the capability of staff, on one hand, and the demand of governments, partners and the global development community to provide impact, on the other hand, has been increasingly acknowledged. In some cases, additional ODA budgets have been allocated to their DFIs for management off the DFI's own balance sheet (e.g. FMO Government Funds see Section 4.3). Some have set up specific blended finance units, which allow concessional finance under strictly defined conditions (e.g. the IFC Blended Climate Finance Unit) or channelled funding to externally managed investment funds.

Project preparation facilities have been used for more than a decade to strengthen the quality of infrastructure investment projects, facilitate the mobilisation of private investors and support governments with the design and implementation of the transaction (e.g. InfraCo Africa, DevCo or InfraVenture). Sometimes facilities also offer support for sector reforms and advice on guarantee and incentive schemes. Most focus on later stages project development. The facilities are often set up as multi-donor funds with one partner (mostly a MDB) or a third party managing the facility. Instruments can be technical assistance, grants but also loans and equity.[96] *Challenge Funds* are competitive financing facility to disburse donor funding for market driven solutions. Most only disburse grant funding but some provide loans (e.g. the African Enterprise Challenge Fund).

London-based *AgDevCo*, with offices in six African countries is an example of an early stage project developer and social investment firm set up as a private initiative. While the start-up grant funding was provided by three large US based foundations, it recently attracted considerable earmarked funding from DFID and the Dutch Directorate General for International Cooperation (DGIS), and is now in discussion with DFIs and impact investors for certain parts of its portfolio. AgDevCo effectively mimics an early-stage venture capital approach with active ownership and engagement and result measurement, while accepting financial returns below competitive market rates. The company invests patient capital in the form of debt and equity into early stage agribusinesses, and acts as promoter or co-promoter of greenfield agriculture opportunities, until ventures are able to attract investment from local and international private investors.

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[95] African Development Bank Group (AfDB). Annual Development Effectiveness Review 2013: Towards sustainable growth for Africa, 2013.

[96] Environment and Climate Change Canada. Canadian Environmental Protection Act (CEPA), 1999 Annual Report for April 2012 to March 2013, 2013.

Similarly, the new *Electrification Financing Initiative (ElectriFI)* promoted by individual experts from development financing institutions including FMO and EDFI and grant funded by the European Commission aims to address the lack of early stage risk capital, lack of attractiveness due to small size as well as capacity constraints and lack of investment readiness/bankability in the rural energy sector in Africa. The EC grant will be converted into loan subordinated debt to provide financial discipline and mobilise senior debt lenders.[97]

The French impact investment firm Investisseurs & Partenaires (I&P) raised mix of private and public investment and grant capital (including from French Development Agency AfD) for its new *IPDEV incubation fund*, a EUR 20 million fund of fund aiming to support the establishment of up to 10 African investment funds to invest in early stage African SMEs including in fragile and post conflict countries. Target companies and entrepreneurs are those with outstanding value creation, ESG performance and/or focus on the Base of the Pyramid. IPDEV would bring in 30%-50% of investment capital to the new funds with the remaining capital raised in local, regional and international markets. Initial investment started in Niger and Burkina Faso with roll out expected in other West and East African countries to follow in the next two years.

[97] ElectriFI website to be launched in 2016.

Annex I: MDB and IFI poverty oriented private sector investment programmes

Many MDB and IFIs have launched financing mechanism that explicitly target investment in sustainable, inclusive and social enterprises as well as eco-innovation and bio-diversity initiatives.

Table 1: MDB and IFI poverty oriented private sector investment envelopes

Development Agency/Fund Manager	**Programme**	**Description**
ADB/n.a.	Inclusive Business at ADB	ADB private sector arm invests in IBs, provides TA for project preparation, due diligence and impact assessments. The programme also works with governments establishing IB accreditation system and building IB eco-system and financing government IB investments through its public sector arm. USD 16 billion committed in 2013.
EIB	ACP-Impact Financing Envelope (IFE)	The EUR 500 million Impact Financing Envelope (IFE) is a dedicated window of the ACP Investment Facility, and targets projects with a higher developmental impact, but also higher risks, than traditional IF activities. Instruments are a fund of fund, debt to financial intermediaries, risk sharing facilities targeting commercial banks as well as direct financing (e.g. EUR 40 million investment in Currency Exchange Fund TCX). EUR 500 million have been committed to this envelope.
IDB / IDB*	Opportunities for the Majority	Promotes and finances market-based, sustainable business models that engage private sector companies, local governments and communities in the development and delivery of quality products and services for the Base of the Pyramid in Latin America and the Caribbean. Provides loans, guarantees and technical assistance, makes fund investments and co-lends with impact investors.
IDB / SDC / Roots of Impact	SIINC	Outcome based hybrid finance approach that seeks to mobilise private investors by monetizing impact of social entrepreneurs through an IDB managed and SDC funded Impact facility. Size of facility TBC.
IFC	Inclusive Business	400 companies are defined as inclusive business investments: commercially viable and replicable business models, which include low income consumers, retailers, suppliers or distributer in core operations.
DFID/ CDC*	DFID Impact Programme	The DFID Impact Fund is focused on investments in low income and lower-middle income countries in sub-Saharan Africa and South Asia. It makes investments in funds and other vehicles that have a clear strategy to invest in businesses that achieve positive impact on the BoP (Bottom of the Pyramid) population as well as the capacity to mobilise additional private and public capital. The programme also strengthens impact measurement. Fund size GBP 75 million.
Proparco	FISEA – Investment Support fund for Business in Africa	ISEA is an investment fund that makes equity investments in businesses, banks, microfinance institutions and investment funds operating in Sub-Saharan Africa. FISEA targets regions that are more unstable or emerging from crisis situations, as well as sectors traditionally bypassed by investors and vulnerable population groups. Target of EUR 250 million commitments in five years.
OPIC	Impact Investing Fund of fund Portfolio for Impact	In 2011, OPIC provided USD 285 million for six impact investment funds to catalyse USD 875 million in impact investment. The PI facilitate financing of highly developmental and innovative early stage projects between USD 1 million to USD 5 million targeting low income communities with preference given to least developed and post conflict countries.

Source: DFID 2015, Survey; www.eib.org; www.opic.com; *See fact sheet in Annex D.

Annex J: Directions in impact assessment

Introduction

The theory and practice of impact assessment is evolving as rapidly as the theory and practice of impact investing and innovative finance. Indeed, as the chief executive of Aavishkaar, a leading impact investment fund in India, says, an honest, transparent and forthright assessment of impact that holds itself accountable is essential for the broader impact investing sector to thrive.[98] The good news is that there are serious efforts underway around the world to focus and improve the evaluation of the results of impact investment funds, programmes and individual investments. This working paper provides an overview of some of those efforts, the new directions they represent, and the promise they offer.

Measuring progress against the global goals

Over the next 15 years, the 17 Global Goals aim to achieve three main results: end poverty, fight inequality and injustice, and fix climate change. The goal for poverty, in particular, is expressed in very ambitious terms, as: 'By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than USD 1.25 a day.' Similarly, the target for the goal now known as 'zero hunger,' is: 'By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round.'[99]

These and other targets of the sustainable development goals (SDGs) carry important implications for all development actors. First, scale matters; only small-scale initiatives alone, regardless of how innovative they are, will not be capable of achieving results of this nature. Second, speed matters, as well. Fifteen years is not a long time. To even approach achieving these targets, development interventions must be multiplied and scaled with accelerated velocity. Finally, broad-based, indirect effects will not be sufficient. The more direct the impacts of interventions are on the poor themselves, the more possible will be the achievement of the goals. Many 'trickle-down' approaches routed through elites and the middle class, though valid and important, will take much longer than 15 years to effect change in the lives of poor individuals and households. Taken together, these implications are important for leaders in impact investing and innovative finance who are designing and implementing funds and other vehicles for development impact.

Furthermore, with the launch of the Global Goals in September 2015 came calls, rightly, to hold world leaders to account for their implementation. 'Targets without accountability are not worth having,' declared one non-governmental organisation leader.[100] Technical experts in statistics met to begin the process of reaching consensus on how to measure key SDG indicators across national boundaries; online discussions supplement this ongoing, collaborative project.[101] At the same time, development-evaluation experts, animated by the United Nations Development Programme and other UN agencies, met to develop a plan for building national level evaluation capacity in the public sector that would utilize systematic, ethical, participatory, rigorous and transparent evaluation strategies and methods to document progress and challenges, and promote learning and accountability, as the SDGs are implemented in the years ahead.[102]

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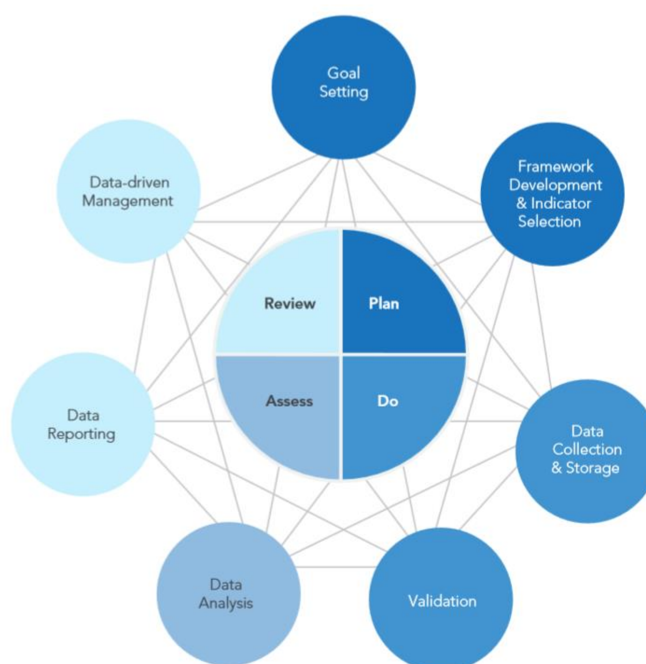
[98] Rai, V. 'CEO's Message,' *Aavishkaar Impact Report 2014*. Aavishkaar, Mumbai, 2014, p. 2.
[99] See the Global Goals' website: http://www.globalgoals.org/.
[100] Siddiqui, S. 'Global goals: Targets without accountability are not worth having,' *The Guardian*, 24 September 2015.
[101] Anderson, K., *We have SDGs now, but how do we measure them?* Brookings Institution, 3 November 2015.
[102] UNDP. Bangkok Principles on National Evaluation Capacity for the Sustainable Development Goals (SDGs) Era, New York, 2015.

Perspectives on impact assessment

The Impact Measurement Working Group of the G8 Social Impact Investment Task Force brought together the experience and advice of international experts on impact assessment in the impact investing industry.[103]

Figure 1 depicts what the Working Group identified as the basic phases of impact measurement in the industry: plan, do, assess and review.[104] The guidelines advanced by the Impact Measurement Working Group (IMWG) for doing this work are: set goals, develop framework and select metrics, collect and store data, validate data, analyse data, report data, and make ongoing data-driven investment decisions. Figure 1 provides a description of tasks to be carried out under each of the guidelines.

Figure 1: The Phases and Guidelines for Impact Measurement



Source: Impact Measurement Working Group 2014.

[103] Impact Measurement Working Group. *Measuring Impact, Subject paper of the Impact Measurement Working Group*, G8 Social Impact Investment Task Force, London, 2014.

[104] The IMWG acknowledges adapting the four phases from the UK-based Inspiring Impact program's Code of Good Practice, London, 2013. http://inspiringimpact.org/wp-content/uploads/2013/04/Code-of-Good-Impact-Practice.pdf?Downloadchecked=true

Figure 2: The Seven Guidelines

	Guideline	Description
Plan	Set goals	*Articulate the desired impact of the investments* Establish a clear investment thesis/Theory of Value Creation[11] (ToVC) to form the basis of strategic planning and ongoing decision making and to serve as a reference point for investment performance
Plan	Develop Framework & Select Metrics	*Determine metrics to be used for assessing the performance of the investments* Develop an effective impact measurement framework that integrates metrics and outlines how specific data are captured and used; utilize metrics that align with existing standards
Do	Collect & Store Data	*Capture and store data in a timely and organized fashion* Ensure that the information technology, tools, resources, human capital, and methods used to obtain and track data from investees function properly
Do	Validate Data[12]	*Validate data to ensure sufficient quality* *Verify that impact data is complete and transparent by cross-checking calculations and assumptions against known data sources, where applicable*
Assess	Analyse Data	*Distill insights from the data collected* Review and analyse data to understand how investments are progressing against impact goals
Review	Report Data	*Share progress with key stakeholders* Distribute impact data coherently, credibly, and reliably to effectively inform decisions by all stakeholders
Review	Make Data-Driven Investment Management Decisions	*Identify and implement mechanisms to strengthen the rigor of investment process and outcomes* Assess stakeholder feedback on reported data and address recommendations to make changes to the investment thesis or ToVC

Source: Impact Measurement Working Group 2014.

Another perspective on impact assessment can be found in development finance institutions like KfW. For this DFI: 'Independence is an important prerequisite for being able to assess the impact of projects in a way that is unbiased, impartial and therefore credible.'[105] To this end, the Evaluation Department of KfW that commissions evaluations is not part of the operating structure of the development bank, but instead reports directly to the Executive Board. All activities are evaluated both internally as well as externally by management consultants PriceWaterhouseCoopers (PwC) on behalf of the German government as part of a use of funds audit, and rated. These data are then reflected in KfW's annual evaluation report, which reports on the percentage of projects that were very successful to those that were unsuccessful and those in between.

Guided by the OECD/DAC's (Development Assistance Committee) standards for donor evaluations, the Department carries out ex-post evaluation studies on the relevance, effectiveness, efficiency, overarching development impact and sustainability of the projects under evaluation.[106]

Table 1 elaborates on these criteria. For KfW, effectiveness refers to 'whether a development project achieved its goals,' and is expressed in quantitative terms. Furthermore, overarching development impact is about 'the big objectives that are the reason why the decision was made to promote the project in the first place…it is necessary to check their plausibility and estimate them using circumstantial evidence.' Thus, for KfW, impact evaluation is an ambitious, complex undertaking that requires systematic methods and a critical perspective.

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[105] KfW, *Principles*, Frankfurt, 2015, Website: https://www.kfw-entwicklungsbank.de/International-financing/KfW-Development-Bank/Evaluations/
[106] KfW, *Evaluation Criteria*, Frankfurt, 2015, Website: https://www.kfw-entwicklungsbank.de/Suchergebnisse-2.jsp

Table 1: Evaluation Criteria used by KfW

Projects are analysed on the basis of five key criteria (relevance, effectiveness, efficiency, overarching developmental impact and sustainability) agreed upon by the international community of donors as represented by the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD).	
The rating is summarised using a numerical scale.	
Relevance	The criterion of relevance is used to assess whether the project fulfils an important function from a development perspective ('priority'), and whether its design was fundamentally suited to achieving the goals associated with the project ('validity of the results chain'). This means that an assessment is made of whether the project appropriately addressed an important development goal, took into account the strategic requirements of the partner country and the German Federal Government, and was coordinated with other donors.
Effectiveness	The criterion of effectiveness is used to assess whether a development project achieved its goals. In order to allow a meaningful comparison of the targeted and actual outcomes, the project's goals should be expressed in the form of quantifiable levels of production or supply. Any unintended positive or negative effects that can be observed are also included in the evaluation.
Efficiency	The criterion of efficiency is used to assess a project's cost-effectiveness. The central issue here is the economical use of resources. The evaluation is carried out on two different levels. On the one hand, an assessment is made of whether the effort required to provide goods or services was appropriate ('efficiency of production'). However, even more important is what the team calls 'allocation efficiency' – achieving an adequate ratio between the funds used and the effects achieved. This involves looking into what other methods were available that could have achieved similar results.
Overarching developmental impact	In addition to a project's direct goals, there is also the overarching developmental impact, the big objectives that are the reason why the decision was made to promote the project in the first place – for example the impact on health in the case of improving the water supply. It is often not possible to measure overarching impacts. In such cases it is necessary to check their plausibility and estimate them using circumstantial evidence.

Source: KFW 2015.

These two perspectives on impact assessment – one, a set of stages for a process, and the other a set of criteria – illustrate the different ways in which impact investors approach the assessment task.

Theory of change

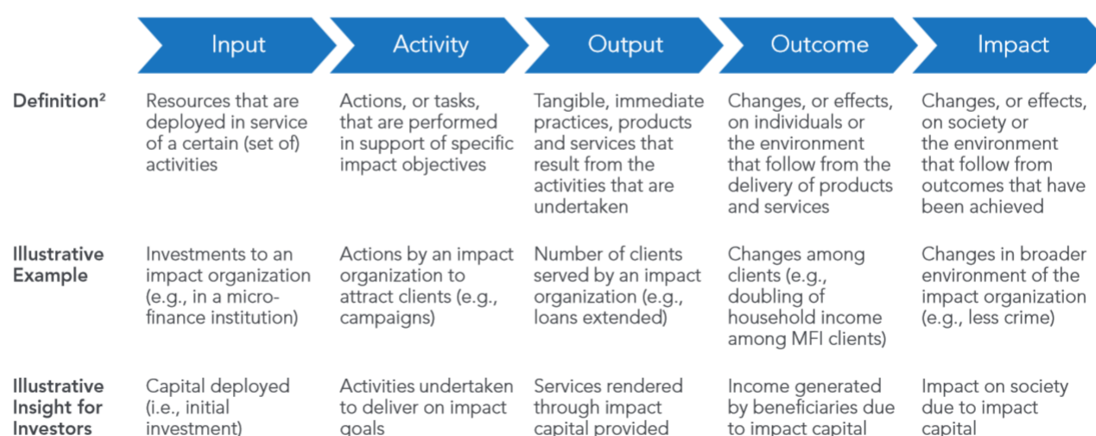
Theory of change is a tool used by many impact investment programs to evaluate and monitor their results. Adapted from the field of program evaluation, theory of change is typically a visual depiction of the results – short-term outputs, medium-term outcomes and long-term impacts– that an investment, fund or program expects to achieve and the pathways and barriers to their attainment. Well-designed theories of change can and should reflect the complexities and risks as well as the aspirations of interventions. Theories of change which are too simplistic or applied to rigidly are not of optimum use. A tool for both learning and accountability, theory of change can be used in conjunction with a variety of other evaluation strategies, including participatory, developmental, utilization-focused and gender-sensitive approaches, and combined with other tools, such as contribution analysis or most significant change.[107]

The Impact Measurement Working Group of the G8 Social Impact Investment Task Force has proposed the Impact Value Chain as a common tool for the impact investing industry to assess its performance. Based on the general flow of the investment process, the Impact Value Chain is

[107] Jackson, E.T. 'Interrogating the Theory of Change: Evaluating Impact Investing Where It Matters Most,' *Journal of Sustainable Finance and Investment*, 3(2), 95-110, 2013.

technically a results chain, but some of its elements reflect the complexity involved in achieving meaningful results through impact investing.[108]

Figure 3: Impact value chain



Source: Social Impact Investment Task Force, 2014b.

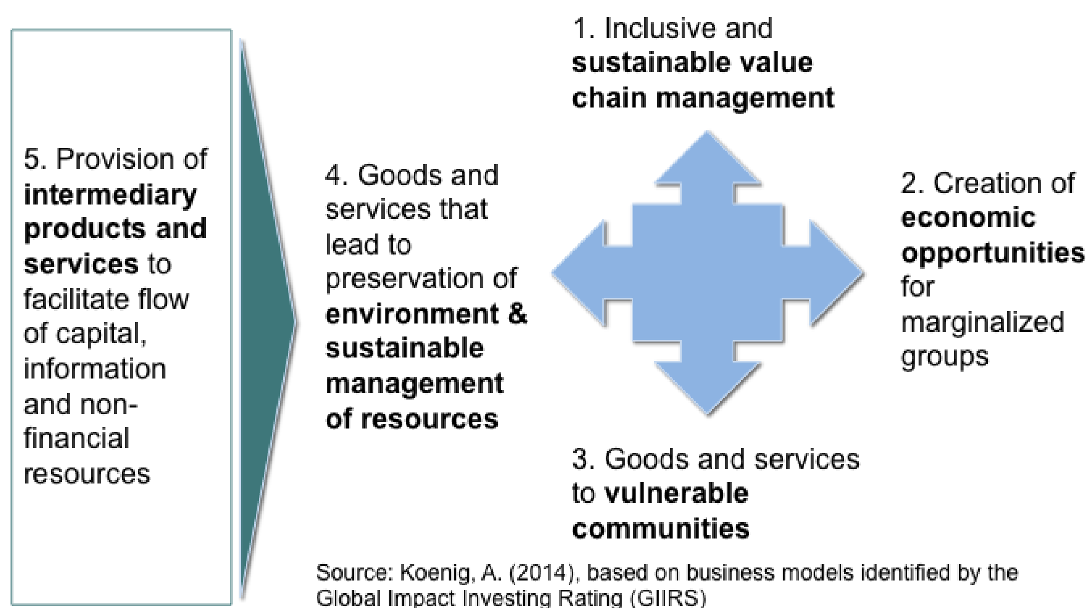
Types of Impact

The Global Impact Investing Network (GIIN) states that: 'A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance and progress of underlying investments, ensuring transparency and accountability while informing the practice of impact investing and building the field. Investors' approaches to impact measurement will vary based on their objectives and capacities, and the choice of what to measure usually reflects investor goals and, consequently, investor intention.'[109] One important decision point in the goal-setting process is for investors to choose a sector or sectors of focus. Among the priority sectors for impact investors around the world are, for example, affordable housing, agriculture, education, energy and energy efficiency, financial services, green real estate, financial services, health, information technologies, SMEs, sustainable consumer products, transportation, waste management, and water and sanitation.[110]

Koenig has developed a framework that classifies as a set of economic impacts driven by the business models of investee firms. This classification includes: inclusive and sustainable value chain management; the creation of economic opportunities for marginalized groups; goods and services to vulnerable communities; and goods and services that lead to preservation of environment and sustainable natural resources.

[108] Impact Measurement Working Group 2014.
[109] Global Impact Investing Network. *Core Characteristics of Impact Investing*, New York, 2015.
[110] Global Impact Investing Network, Knowledge Center, New York, 2015, Website: http://www.thegiin.org/knowledge-center/

Figure 4: Impacts driven by business models



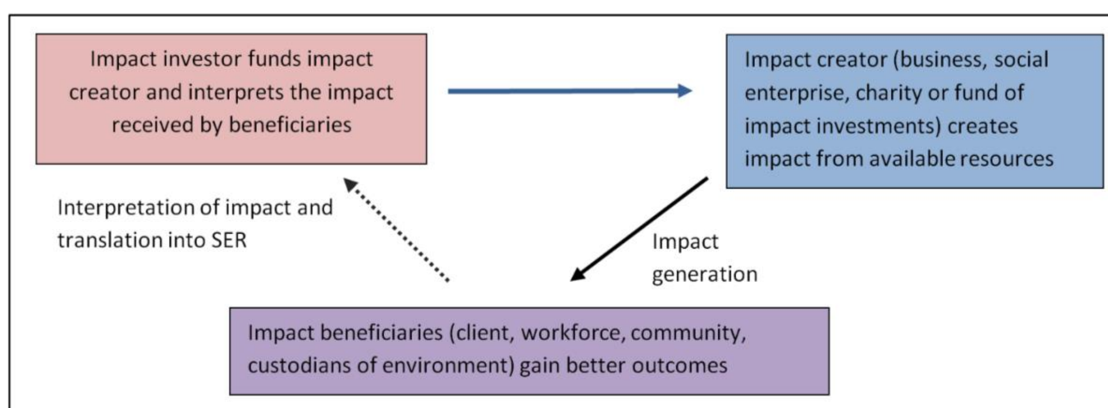
Source: Koenig 2014.

A recent investor-facing study by JP Morgan notes that: 'Most impact investors assess the impact of their portfolios to understand the effect of the organisation's work against the social or environmental goals they set, as a means of holding themselves accountable towards those goals' and, increasingly, 'to drive value creation at the level of the investee, the investor and/or the broader market.'[111] Indeed, the study points out, assessing impact is part of the entire investment process, including: setting organisational goals (developing the impact thesis or theory of change, with links to the relevant metrics), screening and carrying out due diligence on investment opportunities (assessing management's commitment to impact, using scorecards to rank opportunities, assessing risk and return), confirming terms and investing (planning to learn from impact data and use it, considering what is in the investee's control and what is not), standardizing core metrics and overlaying individualized metrics for more detail), setting targets to benchmark performance, documenting the terms of impact targets with investees), using data to manage investments (sharing learning with investees, addressing poor performance) and assessing organisation-level performance (calculating attribution, assessing additionality, aggregating impact across the portfolio).[112]

There have been criticisms of the practice of impact assessment in the impact investing industry. For example, one analysis has, first, distinguished among inputs, activities, outputs, outcomes and impacts in the 'impact value chain.'[113] Second, this report presents a model showing three distinct roles in the impact creation assessment process that, the authors argue, must be recognized: impact investors that fund impact creators and interpret social and environmental results; impact creators that generate outcomes with financial and other resources; and impact beneficiaries that, ideally, gain better outcomes. Figure 5 depicts the relationship among these actors.

[111] Saltuk Y. and A.E. Idrissi. Impact Assessment in Practice: Experience from Leading Impact Investors, JP Morgan, New York, 2015.
[112] Saltuk and Idrissi 2015.
[113] Reeder, N. and A. Colantonio. Measuring impact and non-financial returns in impact investing: A critical overview of concepts and practice, London School of Economics and Political Science, London, 2013.

Figure 5: Three Main Roles within Impact Investing



Source: Reeder and Colantonio 2013.

Moreover, the authors argue that each of these actors has different perspectives on and preferences for approaches and methods for social impact assessment. In general, in their view, impact investors have more interest in standardized, quantifiable methods, whereas impact creators are more open to both qualitative and quantitative tools and participatory processes that engage beneficiaries. Currently, the paper finds, impact assessment in the impact investing field 'has a diffuse set of terminology, tools and techniques, driven by very different mind-sets as to the purpose of SER [social and environmental results] measurement and its long-term goals.'[114] They conclude that more peer learning and dialogue, as well as a commitment to independent audit and review, will help strengthen this important area of practice.

A more recent iteration of this perspective by Reeder makes that case that, when investors have a bias toward simple, standardized and quantifiable indicators, but have limited budgets for monitoring and evaluation (M&E), this can drive investors away from investments that generate intangible, harder-to-measure, but perhaps much more meaningful results. In fact, the biases in this decision process can impel investors to move to what they perceive as less risky opportunities because those opportunities offer simpler, clearer and more cost-effective metrics. And this further 'compounds social investors' aversion to risk' and reinforces incentives to focus on quantity rather than quality. One solution, Reeder argues, is to increase the budgets of impact assessments. Without 'an increase in resources for the development of impact measurement, investors will continue to under-rate the achievements of programmes that take a more holistic view of social and environmental improvements.'[115]

Even more pointed is the perspective of Brest and Born, who have introduced three parameters of impact into the discourse on social impact assessment in impact investing: '*Enterprise impact* is the social value of the goods, services, or other benefits provided by the investee enterprise. *Investment impact* is a particular investor's financial contribution to the social value created by an enterprise. *Non-monetary impact* reflects the various contributions, besides dollars, that investors, fund managers, and others may make to the enterprise's social value.'[116]

Significantly, these authors make a case 'that a particular investment has impact only if it *increases the quantity or quality of the enterprise's social outcomes beyond what would have otherwise occurred*' (Italics in the original).[117] Further: 'The enterprise itself has impact only if it produces social outcomes that

[114] Reeder and Colantonio 2013, p. 11.
[115] Reeder, N. 'When What's Counted Doesn't Count,' *Stanford Social Innovation Review*, 2 November 2015. Reeder also cites the work of John Gargani in making this argument.
[116] Brest and Born 2013, p. 1. Here, non-monetary impact is also relevant, manifesting in increased operational resilience and increased organisational capacity to deliver returns and impact.
[117] Brest and Born 2013, p. 2.

would not otherwise have occurred. And for an investment or non-monetary activity to have impact, it must provide additionality.'[118] In this sense, argue Brest and Born, all three types of impact – enterprise, investment and non-monetary – must be validated by a demonstrable counterfactual, involving an impact neutral investor. Additionality is especially hard to demonstrate, they point out, when investments are made at market rates of financial return to the investor.

In terms of enterprise impact, Brest and Born go on to make a distinction between outputs and outcomes. Tracking and reporting outputs (e.g. the number of anti-malarial bed nets distributed; the number of persons employed by social business) is relatively straightforward, they write. However, determining the extent to which a reduction in malaria is attributable to the work of the bed net programme, or the extent to which a new job gives an unemployed worker greater access to health care, for example, requires more detailed study and analysis.[119] The evaluation of these outcomes requires granular, systematic analysis, which can be done on an experimental basis, through randomized controlled trials for example, or on a theory-based basis, through the use of theory of change, contribution analysis and other tools.

Industry-wide systems and tools

One of the noteworthy features of the impact investing industry is its effort to create industry-wide systems for assessing impact. There have been two major initiatives in this regard. The first is IRIS – the Impact Reporting and Investment Standards system – which is both a taxonomy of standardized terms and a catalogue of standardized metrics, aimed at serving the impact assessment needs of investors, fund managers and entrepreneurs. Housed within the Global Impact Investing Network, IRIS is offered as 'a free public good to support transparency, credibility, and accountability in impact measurement practices across the impact investment industry.'[120] Key supporters of the development of the IRIS system have included the Rockefeller Foundation, USAID, DFID, the Omidyar Network and the MacArthur Foundation.

IRIS users are encouraged to create a metrics framework that includes both IRIS metrics and also customized metrics specific to the user's needs.[121] Most IRIS metrics focus on the organisation level. For example, two metrics relevant to renewable energy are: the energy capacity of products sold, in terms of the number of KWhs; and greenhouse gas reductions due to products sold, as measured by the number of metric tons of $C0^2$ equivalent. In both cases, the catalogue advises users to clearly specify the type of energy source or product and their underlying cost assumptions, and the reporting period. An example of an IRIS metric in the agriculture sector is the number of hectares directly controlled by the organisation under sustainable management or stewardship. A related metric tracks the number of hectares indirectly controlled by the organisation that are sustainably managed.[122]

IRIS also offers a searchable database of its more than 170 registered users, which include banks, foundations, private equity funds, and non-profit funds. Among the registered IRIS users that invest in funds, make Sub-Saharan Africa a priority and focus to some degree on agriculture, are, for example, the DFID Impact Fund, the Ford Foundation programme-related investments (PRI) Fund, Lundin Foundation, Rockefeller Foundation (via PRIs) and the Unicef (US) Bridge Fund. Many other IRIS users are engaged in impact investing in agriculture in Africa, including Acumen, Credit Suisse, Gray Ghost Ventures, the Inter-American Development Bank, LGT Venture Philanthropy, RegCharles Finance, Sarona, Shared Interest and Triodos Investment Management.

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[118] Brest and Born 2013, p. 4.
[119] Brest and Born 2013, p. 6.
[120] Impact Reporting and Investment Standards (IRIS), New York, 2015, Website: https://iris.thegiin.org/about-iris
[121] IRIS, New York, Website: https://iris.thegiin.org/metrics
[122] See, IRIS, *Getting Started Guide*, New York, 2015, Website: https://iris.thegiin.org/guide/getting-started-guide

The second major industry-wide system is the Global Impact Investing Rating System, or GIIRS.[123] The industry's analogue to Morningstar ratings in the mainstream investment market, GIIRS provides detailed and comparable ratings of the social or environmental impact of investment funds and investee companies or non-profits. To be eligible for a GIIRS rating, an investment fund must have deployed 25% of its capital, and 75% of its portfolio companies must complete the rating process.

Overall, for a fund, the rating process includes: a rating of the fund's impact intent, including an assessment of the investment targeting and criteria used; a rating of the fund's capacity to recognize business models that are designed to solve social or environmental problems, through their products or services, targeting underserved beneficiaries, or using innovative governance and management approaches; and, at the individual company level, measures of the 'impactful policies, practices and achievements' of the investees with respect to governance, employees, communities and the environment.[124]

Funded by fees and grants, GIIRS is operated by the US non-profit B Lab, which also certifies B Corporations (for profit commercial companies committed to meet social and environmental standards and practices), and has successfully advocated for the introduction of Benefit Corporation legislation in 20 American states.[125] Among the supporters of the design and rollout of the GIIRS system have been the Rockefeller and Skoll foundations, the Halloran Philanthropies, Prudential Insurance, and USAID.

Customized systems and tools

Most impact investors use a customized system for impact assessment that incorporates and blends IRIS metrics or GIIRS metrics with metrics and data collection procedures that are more specific to the needs of individual investors. This is true of many investees, as well.

One specific tool which a number of impact investing actors have adopted is the Social Return on Investment (SROI) approach, which aims to calculate in monetary terms the social value of an organisation, programme or individual investment. With roots in both social accounting and cost-benefit analysis, the practice of SROI is informed by seven principles: involving stakeholders, understanding what changes, valuing the things that matter, only including what is material, not over-claiming, being transparent, and verifying the result. In general, SROI is undertaken in six basic stages: establishing scope and identifying key stakeholders; mapping outcomes; finding data on outcomes and monetizing them; establishing impact (eliminate results that would have occurred without the intervention); calculating the SROI by adding up all the benefits, subtracting any negative results, and comparing the net amount to the cost of the investment; and reporting, using and embedding the findings in the organisation and the next phases of the intervention.[126] There are networks of SROI practitioners in the UK, US, Canada, Australia and South Africa.

Another tool that has been taken up by some impact investors – particularly microfinance institutions and agricultural value-chain programmes – is the Progress out of Poverty Index or PPI. The PPI for each country is constructed by gathering data for a national scorecard from ten questions that are highly correlated with poverty, are inexpensive to collect, and are liable to change as the definition of poverty changes over time. Examples of such core questions are: What is the level of education attained by the head of the household? Of what material is the

[123] Global Impact Investing Rating System (GIIRS), New York, 2015, Website: http://b-analytics.net/products/giirs-ratings/fund-ratings-methodology
[124] GIIRS 2015.
[125] B-Lab, BCorporation, Wayne, PA, 2015, Website: https://www.bcorporation.net/. To date, B Lab has certified some 1,500 B Corporations in more than 40 countries.
[126] Social Value UK. *The Guide to Social Return on Investment*, published by Social Value UK (formerly the SROI Network): London 2012.

roof of the residence made? Does the household own a motorbike or car? Because the PPI does not attempt to measure causality, it is not be used to evaluate impact in the strictest sense of that term. However, nonetheless, it is used to efficiently document the poverty status of a household being served by an organisation or programme over time. Since its inception in 2005, the PPI has been managed by the Grameen Foundation; it is currently supported by the Ford Foundation, Cisco and the Moody's Foundation.[127]

In the case of investments or projects that are of larger scale and whose prime mission is sustainability, the customized system may be shaped significantly by the guidelines of the Global Reporting Initiative (GRI).[128] These guidelines call for standard disclosures by sector and specific disclosures for particular initiatives. The aspects chosen for disclosure must be material to the core business of the reporting organisation. To illustrate, for investors or investments in the electricity sector, aspects that may be selected for disclosure are categorized as economic (e.g. indirect economic impacts, market presence), environmental (e.g. materials, biodiversity, emissions, water, effluent and waste, environmental assessment), and social (e.g. labour practices and decent work, human rights, relationship with society, product responsibility).[129] Significant time and resources are required to complete such disclosures.

Even more directly applicable to innovative finance and impact investing are the United Nations Principles for Responsible Investment. Over the past decade, this initiative has attracted more than 1,300 signatory investors managing assets of almost USD 60 trillion. Mostly large institutions, the signatories include banks, pension funds, sovereign wealth funds, and universities. The principles oblige signatories to integrate environmental, social and governance issues into their investment decision-making, ownership practices and reporting. They also commit to seek disclosure on ESG issues on the part of the entities in which they invest.[130]

Moreover, as investors and investees further develop their impact assessment systems, they are making greater use of mobile connectivity and web-enabled platforms. A report by UNDP highlights a number of technology-based innovations in the M&E process, including: crowdsourcing; real-time, simple reporting; participatory statistics; mobile data collection; micro-narratives; data exhaust; intelligent infrastructure; data visualization; multi-level mixed evaluation method; and outcome harvesting.[131] The Progress Out of Poverty Index (PPI), for example, has developed a mobile tool for data collection and analysis. Through experimentation and refinement, these and other techniques are advancing the impact assessment functions of the impact investing industry.

The contribution of development evaluation

There is an ongoing, though uneven, interaction occurring between, on the one hand, impact investing practitioners and those who assess impact in the industry, and, on the other hand, the development evaluation community.[132] While the field of development evaluation has evolved

[127] Progress out of Poverty, *About the PPI: A Poverty Measurement Tool*, Grameen Foundation, Washington, DC, 2015.
[128] Global Reporting Initiative, Standards and Reporting, Amsterdam, 2015. https://www.globalreporting.org/standards/Pages/default.aspx
[129] GRI, *G4 Sector Disclosures-Electric Utilities*, Global Reporting Initiative: Amsterdam, 2015.
[130] United Nations Principles for Responsible Investment, Website: http://www.unpri.org/
[131] UNDP, Innovations in Monitoring and Evaluating Results, New York, 2013.
[132] In 2015 alone, these encounters between impact investing leaders and impact assessment analysts, and development evaluation leaders, have taken place in four countries at least: One involved a meeting at Wilton Park, in the United Kingdom, with the support of DFID (Department for International Development), the Rockefeller Foundation, and the Centre for Development Impact. This gathering produced a report entitled: New frontiers for evaluation in an era of market-oriented development https://www.wiltonpark.org.uk/wp-content/uploads/WP1411-Report.pdf. Other meetings in 2015, also supported by the Rockefeller Foundation, brought together impact investing experts with development evaluators in Ghana and South Africa, as well as at the annual conference of the American Evaluation Association in Chicago

from a particular and different institutional context – it has been driven and paid for largely by the public sector and donor agencies – it nonetheless brings a number of valuable assets to the impact investing industry. Among others, these assets include a proven set of professional ethics and standards, the value of independence and critical stance, programmatic sophistication, systematic assessment strategies and methods, and a broad network of professional associations.

There are many good reasons to facilitate an exchange of knowledge and tools between development evaluation and social impact assessment. To be sure, the professionalism and systematized knowledge of development evaluation add value to impact assessment. But the innovation, technology and speed of social impact assessment can enliven and energize development evaluation, which is sometimes constrained by bureaucracy and its own internal debates. Indeed, some practitioners in development evaluation have realized that their field must find new ways of evaluating market-based approaches to development more generally – approaches that will be integral to the implementation of Agenda 2030. One commentator, Picciotto, has gone so far as to refer to this moment in history, in an 'interconnected, market-driven operating environment', as a new age – a Fifth Wave, as he calls it – for the evaluation profession.[133] Others have underscored the importance of moving more quickly to build practical bridges with social impact assessment and in doing so, helping development evaluation chart its own new pathways forward.[134]

In terms of strategies, methods and tools, some of development evaluation's contributions are well-known to the development community if not to the field of impact investing. Theory-driven evaluation – making use of theory of change and contribution analysis – is a prominent approach.[135] So are qualitative, utilization-focused and participatory approaches.[136] At the same time, development evaluation also encompasses quantitative, experimental ad quasi-experimental approaches, notably randomized-controlled trials.[137] Other strategies employ mixed methods – integrating both qualitative and quantitative tools – under real-world conditions.[138] And, in recent years, methods and tools have been created to support innovation-oriented, developmental evaluation; technology-enabled monitoring and evaluation; and dealing with the many forms of complexity that confront development evaluation on the ground.[139]

It is important to note that there is already some methodological cross-over between the evaluation profession and social impact assessment in impact investing. One area is that of collective impact, a strategy that involves a coalition of local organisations agreeing on a

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[133] Picciotto, R. *The 5th wave: social impact evaluation*, Working Paper, Evaluation Office, Rockefeller Foundation, New York, 2015.

[134] Reisman J. et al. Streams of social impact work: building bridges in a new evaluation era with market-oriented players at the table, Working Paper, Evaluation Office, Rockefeller Foundation, New York, 2015.

[135] See, in particular, Funnell S.C. and P.J. Rogers. *Purposeful Program Theory: Effective Uses of Theories of Change and Logic Models*, Jossey-Bass, San Francisco, 2011.

[136] Among the leading thinkers in these areas are, for example, Michael Quinn Patton, Bradley Cousins, Elizabeth Whitmore, Sulley Gariba and Rajesh Tandon.

[137] With backing from the Gates Foundation, DFID and others, the International Initiative for Impact Evaluation has been a consistently strong voice and source of support for experimental design and RCTs in impact evaluation. http://www.3ieimpact.org/

[138] A good basic text which entails a mix of methods, and which is used in the Carleton University-World Bank International Program for Development Evaluation Training, is Morra-Imas L. and R.C. Rist. *The Road to Results: Designing and Conducting Effective Development Evaluations*, World Bank, Washington, DC, 2009.

[139] Relevant works here include: Patton, M.Q. Developmental Evaluation: *Applying Complexity Concepts to Enhance Innovation and Use*, Guilford Press, New York, 2010; Raftree L. and M. Bamberger. Emerging Opportunities: Monitoring and Evaluation in a Tech-Enabled World, Discussion Paper, Itad and Evaluation Office, Rockefeller Foundation, New York, 2014.; and Bamberger, M., J. Vaessen and E. Raimondo. (eds). Dealing with Complexity in Development Evaluation: A Practical Approach, Sage, Los Angeles, 2016.

common set of outcomes and indicators, supported by a grant-funded 'backbone' organisation.[140] A second common focus of interest is that of social return on investment, mentioned earlier. SROI is a way of doing cost-benefit analysis that engages stakeholders in defining the values used to monetize the value of non-tangible results.[141]

Moreover, some of the same basic methodological choices and debates that have shaped and sometimes divided development evaluation – essentially, theory-driven and qualitative versus quasi-experimental and quantitative – already have parallels in impact assessment in impact investing and innovative finance. For instance, some champions of social impact bonds have strongly advocated quasi-experimental methods to evaluate the performance of social impact bonds.[142] In contrast, many in the broader impact investing industry, such as that of the G8 Impact Measurement Working Group, promote a more methodologically pluralistic framework for assessing impact.[143]

Gender lens

One of the areas of expertise that development evaluation brings to impact investing is evaluation through a gender lens. Over the past quarter-century, there have been major gains in applying the frame and tools of gender equality to the evaluation and monitoring of microfinance, financial-inclusion and sustainable agriculture projects in the developing world.[144] Now, as Agenda 2030 gears up, a coalition of multilateral agencies and evaluation associations has launched a new effort to promote the demand, supply and use of equity-focused and gender-responsive evaluations.[145]

Applying a gender lens to impact investing has begun to gain more visibility, though it has not generally been a prominent part of the industry's discourse.[146] One non-profit fund active in this area is Root Capital, a US-based founding member of the GIIN, which since 1999 has loaned nearly USD 800 million to more than 500 farmer's associations, cooperatives and private businesses engaged in sustainable agriculture in Africa, Asia and the Americas. Focusing on what it calls the 'missing middle' of development finance – working capital facilities that are too large to be considered by microfinance institutions but too small, and perceived to be too risky, to be provided by commercial banks – Root Capital often secures its loans with its borrowers' inventories. Through its Women in Agriculture Initiative, this impact investor has placed a

[140] The first major article on collective impact that drew the attention of impact investing and evaluation practitioners alike was Kania and Kramer 2011. This piece was the springboard for much experimentation across North America, and a series of other articles and debates on collective impact in SSIR.

[141] See, especially, *The Guide to Social Return on Investment*, published by Social Value UK 2012.

[142] A review of the experience of 25 SIBs on three continents over past five years, a number were found to compare administrative performance data to historical baselines, but nearly one-quarter used some form of experimental design: 'Concurrent control or comparison groups were used for comparison in eight SIBs, of which four used matched comparison groups – a quasi-experimental evaluation method – and four used a randomized control trial (RCT)' report Gustafsson-Wright, E., S. Gardiner and V. Putcha. *The Potential and Limitations of Impact Bonds: Lessons from the First Five Years of Experience Worldwide*, Global Economy and Development, Brookings Institution, Washington, DC, 2015, p. 20.

[143] Impact Measurement Working Group 2014.

[144] See for example, Napier, M., C. Melamed, G. Taylor and T. Jaeggi. *Promoting women's financial inclusion: A toolkit*, DFID, GIZ, 2013.

[145] Led by UN Women, EvalPartners and the International Organization for Cooperation in Evaluation, and more than 30 other participating UN agencies, development banks and professional associations, EvalGender was launched in 2015. http://www.mymande.org/evalgender

[146] Hull, K. 'Investing in Women,' *Stanford Social Innovation Review*, 7 October 2015. In recent years, some popular books, like Half the Sky, have also given even more profile to the value of supporting women's development organizations in poor countries and regions. See Kristof, N. and S. WuDunn. *Half the Sky: Turning Oppression into Opportunity for Women Worldwide*, Vintage, New York, 2009.

gender lens over its entire portfolio and now tracks a set of gender-inclusive indicators.[147] Table 2 presents year-over-year data on these indicators.

Table 2: Root Capital Gender Outcome Metrics

	2010	2011	2012	2013
# of gender-inclusive clients	50	89	107	80
% gender-inclusive clients of total number of clients	29%	46%	52%	31%
Amount disbursed to gender-inclusive clients	USD 24M	USD59M	USD 59M	USD 42M
% amount disbursed to gender-inclusive clients of total amount disbursed	30%	53%	49%	35%
number of female producers reached	5K	58K	71K	114K
% female producers of total producers	3%	28%	33%	28%

Source: Root Capital 2014.

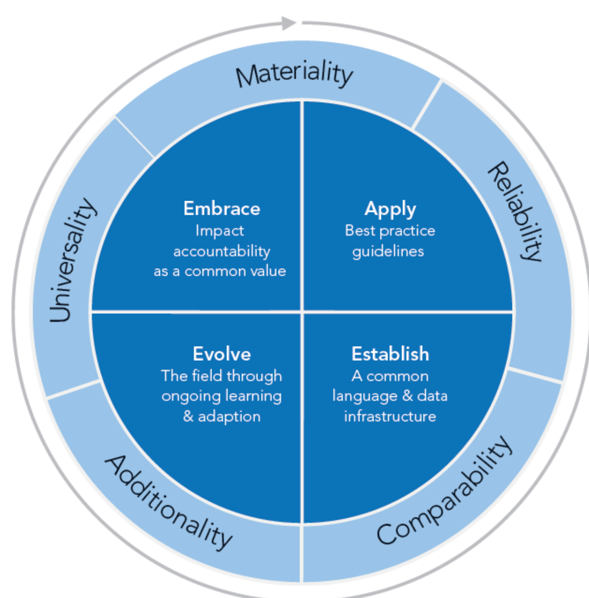
Moreover, through this effort, Root Capital has become very interested in understanding the distinct roles that women play in agricultural enterprises, as leaders and entrepreneurs, middle level managers and farmers and agro-processing employees. The organisation's action research on this subject suggests that women who work as middle-level managers, accountants, agronomists, field officers and lead farmers can also play the role of 'hidden influencers' as they provide advice and knowledge and encourage better farming and management practices. Root Capital intends to carry out further research in this area, particularly on the influence of women agro-dealers and lead farmers on agricultural value chains and farming practices.[148] Such learning-in-process suggests future directions in evaluating impact investing with a gender lens in the sustainable agriculture sector.

Capacity development

Looking ahead, as the Impact Measurement Working Group has recommended, all the key actors in the impact investing industry – asset owners, asset managers, investees and service providers – must work together on a common agenda in order to advance this important area of practice. As Figure 6 shows, the IMWG proposes a roadmap into the future focused on four priorities: embracing impact accountability as a common goal; applying best practice guidelines; establishing a common language and data infrastructure; and evolving the field through ongoing learning and adaptation. Further, in this collective effort, IMWG stresses that special attention must be paid to addressing five critical issues: additionality, universality, materiality, reliability and comparability.[149]

[147] Root Capital, *Applying a Gender Lens in Agriculture*, Root Capital, Cambridge, Mass, 2014.
[148] Root Capital 2014.
[149] Impact Measurement Working Group 2014.

Figure 6: Roadmap Priorities Framework



Source: Impact Measurement Working Group 2014.

There will be obstacles to overcome along the way. As Harji has cautioned, measurement is still too often seen to be too expensive, onerous, disconnected and undervalued. Investor activity is typically focused on due diligence and reporting on outputs (at the fund- or enterprise-levels). And, while global standards have driven adoption and coordination, they also pose some limitations, including their time-consuming reporting requirements. At the same time, however, Harji also points out that an array of new approaches, tools and platforms is being tested. There are ongoing discussions among practitioners across and within investment sectors. And there seems to be an emerging appreciation of investee needs and capacity, and in the inherent value of impact data as well.[150]

Here it is important to emphasize that social impact assessment will benefit from an ongoing dialogue and knowledge exchange with the development evaluation field. Both fields can enrich and make each other better. Using instructors from both fields for training programmes, and drawing on strategies and tools from each field, may well lead to new ways of working that will enhance the possibilities for not only tracking progress toward the Global Goals, but actually achieving them.

Given the asymmetries of power and influence in impact investing and innovative finance between the Global North and the Global South, it is crucial that capacity building efforts in impact assessment be focused on, and ideally based in, developing emerging economies. There are two lines of action that should be pursued: First, a programme of training should be launched to build a cadre of practitioners who are skilled and knowledgeable in the best practices of impact assessment. Some of this training is underway in South Africa. For example, the Bertha Centre at the University of Cape Town is working with the GIIN to offer courses to fund and asset managers on impact investing, including impact assessment.

At the same time, the CLEAR Centre on evaluation for Anglophone Africa, based at the University of the Witwatersrand, with the support of the Rockefeller Foundation, is developing an executive course on evaluating impact investing, aimed at DFIs, local development banks,

[150] Harji, K. *Social Impact Assessment: Experience and Tools from the Impact Investing Industry*, Presented to the Executive Workshop on Impact Investing: Building the Field, Measuring Success, sponsored by the School of Governance and the CLEAR Centre for Anglophone Africa at the University of the Witwatersrand, Johannesburg, 2015.

policymakers, non-governmental organisations (NGOs), foundations, donor agencies and private investment funds. A similar course is being piloted in Ghana, in concert with the Ghana Venture Capital Trust Fund, the Ghana Institute of Management and Public Administration, and the CLEAR Centre, also with support from the Rockefeller Foundation.

The second line of action for capacity development is the establishment of an innovation or challenge fund to test new evaluation and monitoring strategies and methods in impact investing an innovative finance. Donor agencies, DFIs, foundations and governments could join forces and set up such funds on a regional basis. A call for proposals could be put out to leading organisations in impact investing, impact assessment and evaluation, and applications could be assessed and selected by an independent advisory committee. Each regional fund could be managed under contract by a regional office of either one of the main funders or by a contracted entity. Funded projects should be monitored carefully and invited to present their findings and innovations widely, as well as to recommend ways and means of disseminating and scaling them.

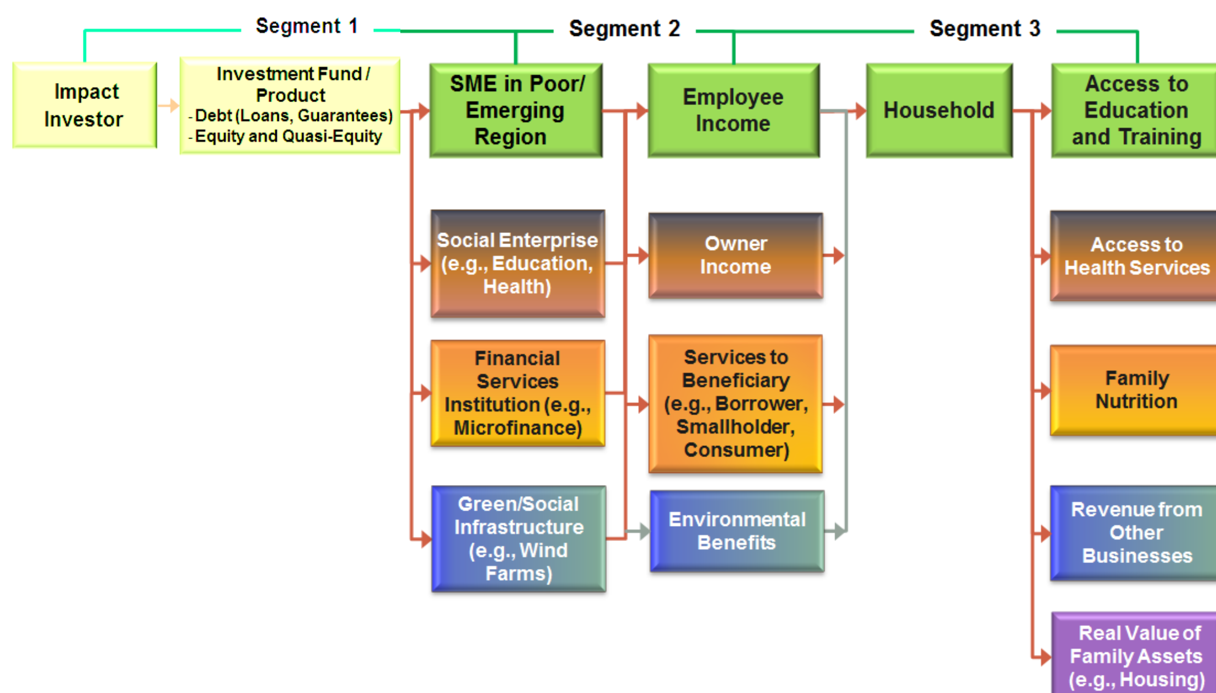
Who pays?

In general, most development evaluation has been a public-sector endeavour, paid for mainly by governments, official development agencies, foundations and sometimes NGOs. Indeed, paradoxically, while the budgets of some development evaluations are still too lean, other M&E activities in development cooperation have been expensive and too often over-built, products of bureaucratic over-reach and professional enthusiasm. However, the fact is, there has been a reliable and significant pool of funding for performance assessment work in this field. There has also been an organised market of evaluation commissioners in aid agencies and private-sector evaluation consultants and firms that has evolved over 25 years.

Perhaps not surprisingly, the practices of evaluation associated with the Northern-based development finance institutions are closer to this tradition. Yet, in the broader impact investing industry, the question of who pays for the monitoring and evaluation of funds, portfolios, individual investments and investee firms is not so straightforward. For one thing, there is no organised market, at least to date, of supply and demand for evaluations in impact investing. For another, and more importantly, there is no organised pool of funding for this work.

Returning to the results chain, it is common practice for impact investors themselves to track a limited number of social or environmental metrics, and to collect some stories, and to pay for these through the business revenues of their fund or programme. For their part, investees are also often asked to collect and report on key indicators of their social or environmental performance. And, though they have real constraints to how much of this they can actually do, investee SMEs and social enterprises in the impact investing space generally try to satisfy the needs of their investors for this information, also paying for it as much as possible through their own business revenues. In an important exception, large-scale green energy projects have a more fulsome capacity, because of economies of scale, to analyse, and report in more detail on, social or environmental results.

Figure 7: Impact Investment Results Chain: Segments 2 and 3



Source: E.T. Jackson and Associates Ltd. 2015.

In the results chain depiction, the evaluation of the performance of investors and investees is referred to as 'Segment 1.' While these arrangements are probably not sufficient for extensive M&E of investors or investees, there is great value in the discipline of business revenue covering these basic performance assessment costs. To the extent that funds, portfolios and enterprises are viable and even prosperous, the M&E function is sustainable – a situation that is rarely achieved when solely grant-funded projects come to an end. The same can be said for 'Segment 2' in the chain: investees can, indeed, track certain indicators relating to, say, the income gains of owners and of employees, or the volume of products or services provided to customers. However, relying only on the internal budgets of the businesses themselves will likely result in only a few core output indicators being tracked and reported.

For both Segments 1 and 2, questions of *why* certain results are being achieved (or not achieved) are seldom illuminated with more systematic and independent qualitative or quantitative evaluation research. Instead, managers are obliged to use their own informal analysis and direct experience to interpret these results-on-the-run. This is not problematic in itself, but it isn't optimal. Generally, more detailed evaluation studies are capable of generating insights on positive dynamics or serious challenges with more depth and nuance and on-the-ground direct knowledge, adding much more value and insight for all stakeholders.

This is even more pertinent in the case of 'Segment 3.' Most impact investors claim to be deploying capital to change the lives of the poor or excluded for the better. Sometimes their front-end rhetoric is even more excessive than that. But the real test of whether the lives of the poor are changed for the better – whether they can escape poverty, or are no longer hungry – can only be determined at the levels of individuals and households. That is to say, the measures that matter most in the framework of the Global Goals must be measured and understood at the most micro-level of development. And the fact is, conducting systematic and usable M&E work at this level cannot be paid for only by the business revenue of investors and investees. This work must be subsidized by grants from foundations, donor agencies or governments.

Figure 7 highlights Segments 2 and 3.

However, such ground-level M&E does not need to be conducted quarterly or even annually. Nor does it need to be undertaken individually by all impact investors. 'Segment 3' studies need only to be carried out on a periodic basis and for a sample of investment programmes. They are, in these respects, very suitable for collaborations or consortia of funders, investors, investees and communities. Cost-sharing by these various actors would make it feasible to carry out this work and generate shared, actionable knowledge to improve the practice of impact investing. Organising such cooperation can be done efficiently in countries where sufficiently developed national networks or eco-systems for impact investing exist.

Annex K: Field building: the cases of Ghana and South Africa

The task of field-building

The complex, front-end work of structuring deals and mobilizing capital, and then deploying that capital, takes place at the level of individual investments or investment funds. These tasks are challenging enough and require much expertise, resilience and effort. However, it is also essential to build strong eco-systems for impact investing at the national level, including working for an enabling policy environment.

The field-building process in impact investing is not simple or easy in the developing world, in particular. Indeed, there are challenging North-South asymmetries of power and influence among the key players. And, while dynamic and innovative, Southern impact investing eco-systems remain fragmented and under-developed. What is required, in fact, is long-term accompaniment – building the impact investing industry is a long-term project, not a short-term one; a marathon, not a sprint. Multi-year grant funding for local networks, research and policy advocacy by foundations, governments and donor agencies has the capacity to provide this long-term accompaniment. Investment funds can contribute, but must devote the bulk of their resources to constructing and maintaining a successful portfolio.

Looking in some detail at the status of impact investing in specific countries is useful. Here this study profiles two examples: South Africa and Ghana. In South Africa, there appears to be the basis of an impact investing field that has some momentum and critical mass. However, the problems there include fragmentation, competition, and a weakly supported network. In Ghana, a fundamental challenge is lack of critical mass; the numbers of actors in the impact investing field are relatively small, as are the funds themselves. In both countries, government is less connected to the industry than it could, or should, be.

Nonetheless, in both Ghana and South Africa, there are remarkable champions, dynamic funds, and innovative tools for deal structuring and impact assessment. There are committed service providers, such as consultants and universities. And, although both countries face a serious issue of income inequality, they also have wealthy elites and a solid middle class to fund solutions to this problem, through taxes, business growth and other means. In short, there is much to build on for donor agencies, foundations and other actors seeking to contribute to national field-building efforts.

The Case of South Africa

With Africa's most fully development financial sector, widespread and volatile inequality, and stubbornly low commodity prices, South Africa is the site of impact investing efforts that must deliver real impact or risk irrelevance and even social backlash. Yet in spite, or because, of these challenging conditions, there is a diverse and vibrant impact investing industry in the country.

One important component involves private equity funds, particularly those investing in black-owned small businesses and environmental enterprises. Business Partners Limited, well-known in some international circles, is a longstanding, efficient investor in such SMEs. Another leading player is Cadiz Asset Management, which runs the Cadiz High Impact Bond Fund that invests in services such as transport, telecommunications, water and waste, as well as social infrastructure such as health, education and municipal services. Newer funds, like the Vumela Social Venture Capital fund – run by enterprise and supplier development firm Edge Growth, and targeting Black Economic Empowerment (BEE) businesses – add to the innovation in this component of the industry.

A significant event related to impact investing generally was the introduction, in 2011, of the Code for Responsible Investing in South Africa (CRISA). This code provides voluntary guidelines on environmental, social, and governance (ESG) issues for institutional investors like pension funds and insurance companies.[151] The first principle of the Code reads as follows: 'An institutional investor should incorporate sustainability considerations, including environmental, social and governance, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.' The Code is supported by the Johannesburg Stock Exchange and country's Financial Services Board, and is aligned with the United Nations Principles on Responsible Investing (UNPRI). The Institute of Directors in Southern Africa offers a one-day course for 'all key role players in the investment value chain,' including asset managers and retirement fund trustees, on responsible investing, CRISA, UNPRI, Regulation 28 and other ESG-related topics.[152]

Also in 2011, Regulation 28 was promulgated by the Minister of Finance of South Africa, establishing limits on the percentage of certain asset classes in the holdings of institutional investors, with an emphasis on building investment portfolios that advance the nation's economic growth.[153] In its preamble, Regulation 28 states that: 'Prudent investing should give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a fund's assets, including factors of an environmental, social and governance character. This concept applies across all assets and categories of assets and should promote the interests of a fund in a stable and transparent environment.' Among many other asset classes, the regulation makes special reference to Islamic debt instruments, considered in many circles as a form of responsible investment.

There are other components of the impact investing industry. In particular, there are many microfinance institutions (MFIs) operating across South Africa and providing small loans, often on a peer-group basis, to low-income borrowers seeking to start or expand their micro-businesses. Further, a good number of MFIs in South Africa use a gender lens and target their products to women borrowers. In 2012, the MixMarket database listed 18 MFIs with USD 3.5 billion in loans outstanding to 1.6 million borrowers. However, a review of the sector the following year identified only 14 MFIs, and noted a decline in the assets and loans outstanding in 2013.[154] Moreover, there has been a substantive debate in the country on the overall effectiveness of borrowers using microcredit for consumption and informal micro-businesses.[155]

South Africa is also home to a number of specialized trusts that raise and deploy capital for social purposes and financial return. One such trust is TUHF, which provides mortgages at favourable rates to property entrepreneurs providing reasonably priced rental housing in South Africa's inner cities. Aiming to achieve both commercial and urban-regeneration objectives, and overseen by a board of senior experts in the housing field from the public and private sectors, TUHF offers ten to 15-year flexible loans at market-related rates on interest and fees.[156] A different model is the Kagiso Trust, which finances its social programmes with a network of investment companies and portfolio firms in a variety of sectors. Funded during the apartheid era by grants from the European Union and other donors, the Trust uses its investment revenue

[151] Institute of Directors in Southern Africa. *Code for Responsible Investing in South Africa*, IDSA, Johannesburg, 2011.
[152] Institute of Directors in Southern Africa. *Closing the governance circle-Responsible Investing*, CRISA, Sandton: Johannesburg, 2015.
[153] National Treasury, Regulation 28, Pretoria, 2011, Website: http://content.momentum.co.za/Content/regulation-28/reg-28-budget-2011.pdf
[154] Centre for Inclusive Banking. *The Microfinance Review 2013: From Microfinance to Financial Inclusion*, University of Pretoria, Pretoria, 2013.
[155] Bateman, M. South Africa's post-apartheid microcredit-driven calamity: Comparing 'developmental' to 'anti-developmental' local financial models, Working Paper, Austrian Foundation for Development Research, Vienna, 2014.
[156] TUHF, 2015, Website: http://www.tuhf.co.za/index.php/home

to sustain programmes that support scholarships for Black students, rural school improvement, and rural enterprise development.[157]

Working at a larger scale is the Development Bank of Southern Africa (DBSA), originally created to finance development in the segregated Homelands, but now working 'to improve people's lives, boost economic growth and promote regional integration' through large-scale investments in infrastructure, especially for water, roads, electricity, education and health.[158] Across all sectors, the Bank disbursed a record USD 1 billion last year. It has a duty to balance high financial returns with meaningful development outcomes, and like other state-owned enterprises in South Africa, is coping with budget cuts and revenue gaps. DBSA is an active investor in green energy, including wind and solar farms as well as hydropower projects. Through 2015, the Bank had committed USD 400 million to independent power projects that will contribute to the development of 975 MW of renewable energy. The Bank also finances housing construction. For example, in a recent project in the Eastern Cape, some 1,130 houses were completed with another 2,400 under construction, nearly 700 temporary jobs and training positions were generated, and 20 local small businesses provided goods and services for the project. In the broader Southern Africa region, the DBSA provides investors in member countries of the Southern Africa Development Community project preparation support for major infrastructure initiatives.

At the same time, South Africa hosts nearly a dozen foreign DFIs, including multilateral institutions like the IFC, AfDB and EIB, and bilateral DFIs such as the Germany's KfW, the Netherlands' FMO, Denmark's IFU and Norway's Norfund, as well as the France's Proparco and America's OPIC. For its part, the KfW development bank works with other DFIs, commercial banks and the Government of South Africa to expand the availability of renewable energy.[159] For example, KfW has supported the country's first solar power tower which is capable of contributing to base load electricity, storing energy through technology that actually uses liquid salt. KfW also promotes the use of special solar-powered batteries to provide electricity to remote rural villages off the main national grid. At the same time, KfW supports the construction of local facilities, like football pitches and community centres, to help reduce violence and crime in the townships, as well as new information and testing programmes aimed lessening the spread of HIV/AIDS.

The Southern African Impact Investing Network (SAIIN), hosted by Cape Town based consulting firm Greater Capital, is Africa's first regional level industry network. SAIIN was started in 2009 by Greater Capital with the support of Cadiz Asset Management. It has since attracted an active following along with a broader base of sponsors. The main purposes of its 2015 conference were: to introduce impact investing to a broader audience and build the market further; to update the industry on international developments, models and best practice through presentations by top international speakers; to promote learning and understanding of the global best practice in impact investing and its relevance and application to Southern Africa; to provide useful networking opportunities; and to broker sources of capital to investment opportunities. At its 2015 conference, for the first time, SAIIN provided time for African social entrepreneurs to pitch their ideas to impact investors.

Perhaps the most dynamic key player in the impact investing eco-system in South Africa currently is the Bertha Centre for Social Innovation at the Graduate School of Business at the

[157] Kagiso Trust, 2015, Website: http://kagiso.co.za/
[158] Development Bank of Southern Africa, Johannesburg, 2015, Website: http://www.dbsa.org/EN/Pages/default.aspx
[159] KfW Development Bank, 2015, Website: https://www.kfw.de/KfW-Group/

University of Cape Town (UCT).[160] In fact, the Centre, established in 2011 with the support of the Bertha Foundation, has a pan-African mission: 'We work to uncover, connect, pioneer and advance social innovators and entrepreneurs who share our passion for generating inclusive opportunities and achieving social justice in Africa.' As part of this mission, the Bertha Centre carries out a range of research and teaching activities relating to responsible investing. Its current focus is on innovation in education, health and finance, including social impact bonds and other forms of impact investing. The Centre recently launched a new short course aimed for investment professionals in the region, on impact investing in Africa for wealth managers. It also cooperates with the Global Impact Investing Network on training for investment professionals in social impact metrics.

An innovative project of the UCT Business School that runs alongside the Bertha Centre is the annual Africa Investing for Impact Barometer, which reports a range of ESG, responsible and Sharia compliant investment funds listed on the stock exchange, as well as unlisted private equity and venture impact investment funds (although it doesn't track corporate social investment or DFI activity) in South Africa, Kenya and Nigeria. For South Africa for 2014, this project surveyed just over 220 investment funds with assets under management of ZAR 1.1 billion, and found that 13% of asset managers and 28% of private equity funds indicate that they use one or more methods of Socially Responsible Investment (SRI) or impact investing.[161] Combined, these funds manage about ZAR 680 million, or more than half of the assets of the funds being tracked. The Barometer research team concluded that, defined this way, 'impact for investing' is a 'rising and significant part of the investment industry' and its momentum should be acknowledged. Further, the team called for 'growing transparency of investment strategies and portfolios' and underscored the need for advanced and refined metrics 'in order to assess how these practices positively impact society and the environment at large.'[162]

A third, newer actor in the eco-system is the CLEAR Centre on evaluation for Anglophone Africa, based at the University of the Witwatersrand, which, with Rockefeller Foundation support, is testing and refining an open-source executive course on evaluating impact investing for investment professionals, entrepreneurs, policy makers and researchers, and exploring ways of embedding elements of the course curriculum in the credit-programme courses in the School of Governance and Business at Wits University, and in the Business School of GIMPA in Ghana, among other institutions.

These eco-system champions, especially SAIIN and the Bertha Centre, are proceeding with their activities. The challenge is to create a big-tent approach to building the impact investing industry that would welcome and engage all of the major elements of the field. But, as the student and political protests of late 2015 showed, poor and unemployed South Africans are losing patience. More than two decades after the fall of apartheid, and despite important progress, racialized inequalities not only persist, but appear to be further entrenched. If there is anywhere in the world where impact investing must be accelerated, and must deliver real, meaningful results, very soon, it is South Africa.

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[160] Bertha Centre for Social Innovation, Graduate School of Business, University of Cape Town, Cape Town, 2015. http://www.gsb.uct.ac.za/s.asp?p=389

[161] Giamporcaro, S. *The African Investing for Impact Barometer 2014*, Presented to the workshop entitled Impact Investing: Building the Field, Measuring Success, sponsored by the CLEAR Centre for Anglophone Africa, the School of Governance at the University of the Witwatersrand, and the Rockefeller Foundation, Johannesburg, 2015. See also Giamporcaro, S. and S. Viviers. *SRI in South Africa: A Melting Pot of Local and Global Influences*. In C. Louche and T. Hebb (eds). Socially Responsible Investing in the 21st Century: Does it Make a Difference for Society? Bingley: Emerald Books, 2014, 215-246.

[162] Giamporcaro 2014, p. 16.

The Case of Ghana

Ghana's mainstream finance and investment sector is not large. Recent research indicates that there are some 140 rural banks across the country, there are only 35 companies listed on Ghana's sole stock exchange, 25 depository banks, less than 20 insurance companies, just under 50 investment advisors, and only 15 trustees of pension schemes. Accordingly, impact investing currently constitutes a small but vibrant cluster in Ghana. Despite this small scale, there have been multiple sites of activity and innovation in impact investing in Ghana, including MFIs, DFIs, non-profit investment funds, as well as venture capital and private equity funds:

- Ghana has developed a diverse field of nearly 250 registered MFIs that provide small loans and other financial services to borrowers in urban and rural communities across the country.
- Ghana is also the focus of multilateral DFIs such as the IFC and AfDB, as well as bilateral DFIs, including IFU (Denmark), AFD/Proparco (France), KfW/DEG (Germany), OPIC (United States) and Sifem (Switzerland). For example, OPIC has recently provided guarantees to American investors in Ghana's National Water System Modernization Project, a major infrastructure initiative, and in the country's National Medical Equipment Modernization Project.
- Among non-profit impact investment intermediaries, US-based Root Capital has maintained its investment in the Savannah Fruits Company, a shea nut buyer and shea butter processor in northern Ghana, for nearly a decade. Root Capital is also an investor, along with the Acumen Fund, another American non-profit, in GADCO, an organic farming company supporting smallholder livelihoods in Volta Region. The African Agricultural Investment Fund (AAIF) also co-invests in GADCO; AAIF was founded by KfW and receives technical support from the International Labour Organisation.
- An example of a venture capital manager that invests in SMEs in Ghana and tracks their employment and consumer impacts is Oasis Capital, which focuses on the manufacturing, housing, health and education sectors, and co-invests with Sovec, a Dutch venture firm and Ghana's Venture Capital Trust Fund, and other partners. Vital Capital is another venture fund engaged in impact investing in Ghana.
- Nearly ten years old, the Fidelity Private Equity Fund II takes positions in unlisted Ghanaian SMEs with turnover of less than USD 10 million. Among the investors in this USD 23 million fund are Finnfund, FMO, Oikocredit, Sifem and SECO (Swiss agencies), Sovec and the Ghana Venture Capital Trust Fund.

Among national public sector actors, the Bank of Ghana, Ministry of Finance, Export Development and Agriculture Investment Fund and Ghana Investment Promotion Centre have all shown interest in better understanding how they can use a variety of policies and instruments to mobilize and deploy more capital for impact. Some policies are already in place to attract capital for environmental and social purposes. These include, notably, the *Renewable Energy Act* (2011) and *Energy Efficiency Standards* (2009). However, many policies suffer from implementation problems, including the *Export Development and Agricultural Investment Fund Act* (2000) and the *Home Mortgages Finance Act* (2004).[163]

As with many African economies, infrastructure is a priority for Ghana. The Government estimates that USD 1.5 billion will be required annually to address the country's shortfall in infrastructure for water, power, roads and rail. In the areas of green energy, the company Tropical Energy plans to build a major biogas-solar plant by 2017. And the Social Security and

[163] Venture Capital Trust Fund and Bridges Capital, *Impact Investing Policy Research in Ghana*, Accra, 2013.

National Insurance Trust, already a major investor in real estate and infrastructure, is waiting in the wings.[164]

To date, the key champion of the impact industry in Ghana has been the Venture Capital Trust Fund, a public-private vehicle created by enabling legislation in 2004. Locally, the Trust Fund supports an angel investor network for SMEs. Africa-wide, it is an active member of the African Private Equity and Venture Capital Association. The Trust Fund channels its investments in SMEs through Venture Capital Financing Companies (VCFCs) authorized under Ghanaian law. Currently, it manages its investments in five VCFCs, including the Fidelity Equity Fund II, its oldest sub-fund.

A recipient of grant support from both the Rockefeller Foundation and the Nigeria-based Tony Elumelu Foundation, the Trust Fund works with the Global Impact Investing Network to train West African fund managers in impact assessment, and has carried out a major policy research project, consulting with a wide range of Ghanaian stakeholders. In 2013, the Trust Fund set up the GIMPA Centre for Impact Investing in the Business School of the Ghana Institute of Management and Public Administration, an accredited university. The nascent Centre has a mandate to organise an industry-wide network in Ghana as well as to conduct specialized industry and policy research.

The prime challenge facing proponents of impact investing in Ghana is the industry's general lack of critical mass, both within and across asset owners and asset managers. Second, and related to this, is the underdeveloped nature of the impact investing eco-system. The third main challenge stems from a debate around the definition of impact. In particular, some actors argue that any investment in SMEs or infrastructure generates meaningful development impact, while others make the case for seeking deeper impact which targets poor and marginalized entrepreneurs, farmers and workers, especially women and youth, and the poorer geographic areas of the country.

At the same time, there are important opportunities. For one thing, there is strong interest in and an enabling policy environment for, increasing foreign and domestic investment in renewable energy, with the DFIs in particular being open to animating blended finance deals to facilitate this flow of new capital. For another, the Ghana Government's central agencies – notably the Bank of Ghana and the Ministry of Finance – are actively exploring roles to more effectively promote impact investments.

Finally, and perhaps most importantly, there are other sectors with pressing needs for private capital, particularly agriculture, housing, education, health and water and sanitation. And, with the with the launching of the Sustainable Development Goals and growing awareness of impact investing in both the private and public sectors, industry proponents see an opening for a new round of growth.

The Venture Capital Trust Fund and its allies are taking some key next steps. First, they continue to try to engage a broader range of potential players in the industry. This includes finding ways of encouraging the Social Security and National Insurance Trust, a public pension fund with long experience in real estate and infrastructure investment, to become a co-investor in larger new deals. The Trust Fund will continue to work with the GIIN and other partners to support additional impact training for fund managers and training for policymakers and development professionals, as well. Finally, there will be renewed efforts to seek grant funds from foundations, donor agencies and government ministries to intensify research and networking in support of the industry's growth and eco-system completion.[165]

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[164] Fox, B. 'Can biogas be an energy resource for the many?' *African Business*, October 2015, p. 46, 48.
[165] Andoh, D. 'SSNIT offers investors long-term cash', *Business and Financial Times*, 22 October 2015, p. 3.