

Accelerating Impact

Achievements, Challenges and What's Next in Building the Impact Investing Industry

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Impact investing involves “investors seeking to generate both financial return and social and/or environmental value—while at a minimum returning capital, and, in many cases, offering market rate returns or better.”

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This report was written by Karim Harji and Edward T. Jackson.

PREFACE

The concept and the practice of Impact Investing—or the placement of capital with intent to generate positive social impact beyond financial return—have grown and matured significantly over the past five years. In 2008, the Monitor Institute took stock of the emerging industry and characterized it as being on the precipice of passing from a stage of “uncoordinated innovation” into one of “marketplace building.” Since 2008, the Rockefeller Foundation has sought to help build that marketplace as well as hold it accountable for its social and environmental impact goals. We have helped to build networks, develop social impact ratings and reporting standards, cultivate new and larger intermediaries and contribute to research and enabling policy environments. “Industry building” is not often the remit of foundations, but our rationale for doing so was clear: a functioning impact investing industry has the potential to complement government and philanthropy by unlocking significant resources to address the world’s most pressing problems and to improve the lives of poor and vulnerable people.

Four years later, and as part of our commitment to learning and accountability within the Foundation and to our partners and stakeholders, we undertook an independent evaluation of our work in this arena. In March 2012, we presented to our Board the results of this evaluation, undertaken by E.T. Jackson and Associates. It highlighted a number of early successes and remaining challenges, many of which will shape our activities in the months and years to come. As part of its evaluation, E.T. Jackson also undertook a global scan of impact investing activity over the past four years so that we could assess our progress in relation to the evolution of the broader field. We believe the results of the scan will also be informative for a number of other current and future industry participants, and we are proud to contribute it to the growing body of evaluative knowledge and research in this field.

It is clear from our evaluation and scan, and from the growing body of research on impact investing, that there exists great momentum and inspiring leadership in this dynamic field. More significantly, there are promising signs here that together we can play an important role in bringing about a more sustainable, resilient and equitable future for humankind. We are honored to work with all of you on this journey.

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TABLE OF CONTENTS

Acknowledgments	ii
Preface	iii
Table of Contents	iv
Acronyms	vii
Executive Summary	viii
PART I: CONTEXT	
1 Introduction	1
1.1 Background	1
1.2 Methodology	2
1.3 Economic Context	3
2 Impact Investing: What It Is and Why It Matters	4
2.1 Origins and Drivers of Impact Investing	4
2.2 Fragmented Landscape	5
2.3 Constructing an Agenda for Market Building	6
2.4 Defining Impact Investing	7
2.5 The Spectrum of Impact Investors	9
2.6 Mapping the Impact Investment Industry	11
2.7 Why Does Impact Investing Matter?	13
PART II: BUILDING THE IMPACT INVESTING MARKET	
3 Achievements and Challenges: What’s Happened So Far, and What Hasn’t	15
3.1 Unlocking Capital	15
3.1.1 More Investors	15
3.1.2 A Broader Range of Capital	17
3.1.3 Continued Interest and Activity	18
3.1.4 Challenges in Unlocking Capital	19
3.2 Placing and Managing Capital	21
3.2.1 Several Sectors and Asset Classes	21
3.2.2 Key Intermediaries	22
3.2.3 Growth of Innovative Products and Platforms	22
3.2.4 Models of Risk Assessment	24
3.2.5 Challenges in Intermediation	26

3.3	Demand for Capital	27
3.3.1	Scalable Business Models	27
3.3.2	Investment Readiness	29
3.3.3	The Talent Pipeline	29
3.3.4	Challenges in Demand for Capital	30
3.4	Assessing Impact	31
3.4.1	Impact Reporting and Investment Standards (IRIS)	31
3.4.2	Global Impact Investing Rating System (GIIRS)	31
3.4.3	Growth in Approaches and Capacity	32
3.4.4	Theory of Change	33
3.4.5	Challenges in Assessing Impact	33
3.5	Creating an Enabling Environment	34
3.5.1	Progress in Multiple Jurisdictions	35
3.5.2	A Range of Policy Options	36
3.5.3	Challenges Relating to the Enabling Environment	37
3.6	Building Leadership	38
3.6.1	Global Impact Investing Network (GIIN)	38
3.6.2	An Array of Complementary Networks	39
3.6.3	Impact-First Foundations	40
3.6.4	Challenges in Leadership	40
PART III: ACCELERATING IMPACT INVESTING		
4	Opportunities and Directions: What's Next?	43
4.1	Recommendations for Accelerating Impact Investing	43
4.1.1	Unlocking Capital	43
4.1.2	Placing and Managing More Capital	44
4.1.3	Strengthening Demand for Capital	46
4.1.4	Assessing Impact More Effectively	47
4.1.5	Improving the Enabling Environment	48
4.1.6	Renewing and Broadening Industry Leadership	49
5	Conclusion	51
APPENDICES		
	Appendix A: Coordination/Capitalization Matrix, 2008	53
	Appendix B: Coordination/Capitalization Matrix, 2012	54
	Appendix C: Recommendations from the Final Report of the Strategic Assessment of The Rockefeller Foundation's Impact Investing Initiative	55
ENDNOTES		57

TABLE OF CONTENTS

LIST OF TABLES, FIGURES AND BOXES

Executive Summary

Figures

Figure 1: Phases of Industry Evolution	x
Figure 2: Actors in the Impact Investing Industry	xi
Figure 3: Mapping the Impact Investing Industry	xii
Figure 4: Number and Type of Reported Impact Investments, 2010 and 2011	xiii
Figure 5: Value of Reported Investments, by Region, 2011	xiv
Figure 6: Policy Framework	xvii

Parts I–III

Tables

Table 1: Four Impact Investing Funds	20
Table 2: Challenges and Risks for Impact Investors	21

Figures

Figure 1: Phases of Industry Evolution	6
Figure 2: Describing Impact Investing Around the World	8
Figure 3: Core Definitional Elements of Impact Investing	9
Figure 4: Actors in the Impact Investing Industry	9
Figure 5: Mapping the Impact Investing Industry	12
Figure 6: Selected Examples of Unlocking Capital	16
Figure 7: Mean Number and Value of Impact Investments	18
Figure 8: Value of Reported Investments, by Region, 2011	19
Figure 9: Number and Type of Reported Impact Investments, 2010 and 2011	21
Figure 10: Value and Type of Reported Impact Investments, 2010 and 2011	22
Figure 11: Selected Examples of Demand	28
Figure 12: Selected Examples of Assessing Impact	32
Figure 13: Policy Framework	35
Figure 14: Selected Examples of Creating an Enabling Environment	36
Figure 15: Selected Examples of Leadership	38

Boxes

Box 1: Examples of Impact Investors	10
Box 2: Social Impact Bonds	23
Box 3: Vaccine Bonds	23
Box 4: Green Bonds	23
Box 5: Yin Yang Deals	24
Box 6: Toniic: Investor-Led Due Diligence	25
Box 7: Village Capital: Entrepreneur-Led Due Diligence	25
Box 8: Developing the Blended Capital Curve	27
Box 9: Successful Business Models in Asia and Africa	29
Box 10: Ways Government Can Engage	37
Box 11: Six Influential Networks	39

ACRONYMS

AAC African Agricultural Capital	SIB Social Impact Bond
AGRA Alliance for a Green Revolution in Africa	SME Small and Medium-Sized Enterprise
ANDE Aspen Network of Development Entrepreneurs	SRI Socially Responsible Investing
BoP Base of the Pyramid	SROI Social Return on Investment
BRIC Brazil, Russia, India, China	SVN Social Venture Network
CD Community Development	SWF Sovereign Wealth Fund
CDC Commonwealth Development Corporation	TA Technical Assistance
CDFI Community Development Finance Institution	TIAA-CREF Teachers Insurance and Annuity Association and College Retirement Equities Fund
CGAP Consultative Group to Assist the Poor	UK United Kingdom
CRA Community Reinvestment Act (United States)	UNPRI United Nations Principles for Responsible Investment
CSR Corporate Social Responsibility	US United States
DFIs Development Finance Institutions	USAID United States Agency for International Development
ESG Environmental, Social and Governance	USSBA United States Small Business Administration
FMO Development Finance Institutions	VC Venture Capital
G-20 Group of 20 Countries	
GIIN Global Impact Investing Network	
GIIPP Global Impact Investing Policy Project	
GIIRS Global Impact Investing Rating System	
HNW High Net Worth	
IFC International Finance Corporation	
IFFIm International Finance Facility for Immunization	
II Impact Investing	
III Impact Investing Initiative	
IIPC Impact Investing Policy Collaborative (formerly GIIPP)	
ILO International Labour Organization	
IRI Initiative for Responsible Investment	
IRIS Impact Reporting and Investment Standards	
IRR Internal Rate of Return	
MBSs Market-Based Solutions	
NGOs Non-Governmental Organizations	
OECD Organisation for Economic Cooperation and Development	
OPIC Overseas Private Investment Corporation	
PCV Pacific Community Ventures	
PE Private Equity	
PRI Program-Related Investment	
RI Responsible Investing	
SBICs Small Business Investment Companies	
SGB Small and Growing Business	

EXECUTIVE SUMMARY

There is both a need and an opportunity for industry leaders to join together to catalyze a powerful further acceleration—a surge in the rate of growth—across a wider range of dimensions, in order for the field to reach maturity, scale and sustainability.

INTRODUCTION

This report assesses the progress made over the past four years in building the global impact investing industry. It is divided into three parts: first, context, which introduces the structure of and key actors in the impact investing field; next, an examination of the recent achievements and challenges in building the impact investing marketplace; and finally, presentation of a set of recommendations for accelerating the rate of growth of the field.

Accelerating impact is the organizing theme of this report. Looking back, the past four years have certainly seen accelerated growth in, among other things, the number of organizations in the field, the quantum of capital mobilized, the variety of financial products offered, the number of participants in key networks, the number and depth of research outputs by the industry, and the range of methods and tools for measuring impact. In spite of this impressive progress, however, global impact investing still faces a range of challenges and complexities. Looking ahead, there is both a need and an opportunity for industry leaders to join together to catalyze a powerful further acceleration—a *surge* in the rate of growth—across a wider range of dimensions, in order for the field to reach maturity, scale and sustainability.

EVALUATION OVERVIEW

Background

In 2007 and again in 2008, the Rockefeller Foundation convened meetings at its Bellagio Center in Italy to explore with leaders in finance, philanthropy and development the need for, and ways and means of, building a worldwide industry for investing for social and environmental impact. The 2007 meeting coined the term and concept of “impact investing” itself, and, in 2008, the Rockefeller Foundation’s Board of Trustees approved \$38 million toward its new *Impact Investing Initiative*, which sought to use grants, program-related investments (PRIs) and non-grant activities to implement the industry-building plans created through the Bellagio convenings. The Initiative has run from 2008 through 2012, and was recently extended by the Rockefeller Foundation’s Board through 2013.

In 2011, the Rockefeller Foundation commissioned a [strategic assessment](#) of its Impact Investing Initiative. To inform the assessment by locating the Initiative’s work within the broader context of the field as a whole, the Foundation requested the preparation of a scan of the evolution of the industry worldwide. This report summarizes the findings and recommendations of that scan, which is directed to leaders in the impact investing field as well as to the Rockefeller Foundation. The overall assessment report is entitled *Unlocking Capital, Activating a Movement: Final Report of the Strategic Assessment of The Rockefeller Foundation’s Impact Investing Initiative*. Although it is a stand-alone document, the present report should also be seen as complementary to the main report.

In carrying out this scan of the industry’s evolution over the past four years, our starting point was the conceptual framework and baseline analysis provided by the 2009 Monitor Institute

This report assesses progress made over the past four years in building the global impact investing industry.

report entitled *Investing for Social and Environmental Impact*, which was the product of a collective of leaders who built upon the discussions at Bellagio. Data for the present study were collected primarily through online and hardcopy documents. This was supplemented by insights from interviews with more than 100 impact investing leaders from 11 countries that were carried out for the broader strategic assessment. While most of the [documents and interviews](#) we drew upon originated in the Global North, especially in the United States and United Kingdom, nearly one-third of the leaders we consulted are based in the Global South.¹

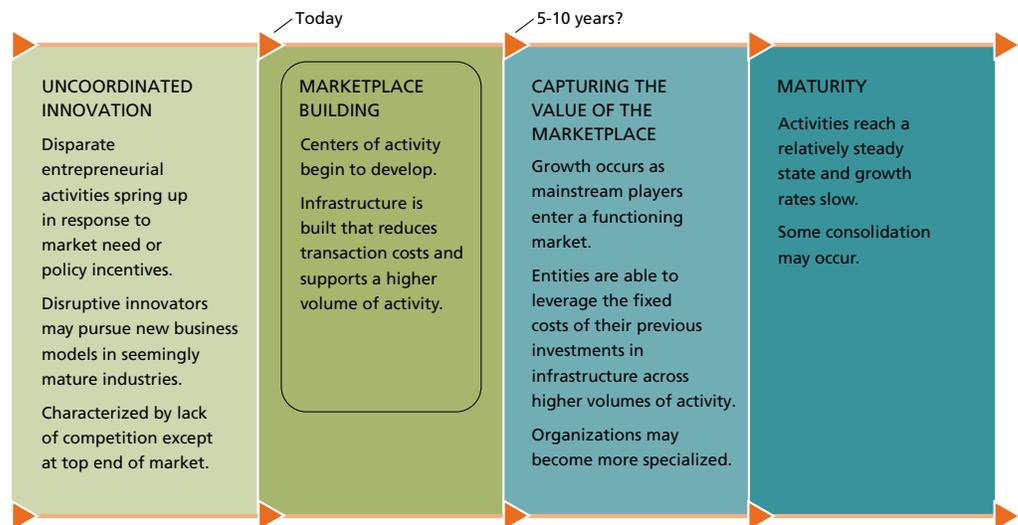
Impact Investing: What It Is and Where It Stands Today

While investing for a mix of financial and social or environmental returns is not new, [four factors](#) identified in the Monitor Report have converged in recent years to generate new interest and activity in what has come to be known as impact investing:

- Broader considerations of risk in investment decisions, triggered by the 2008–2009 financial crisis;
- Growing recognition that existing resources are insufficient to address severe poverty, inequality, environmental destruction and other complex, global issues, especially among Western nations that are already reducing their aid budgets and domestic social spending;
- An emerging set of activities demonstrating that it is possible to finance scalable business models that create social and environmental value; and
- The transfer of wealth in industrialized countries to a generation of high net worth individuals seeking to embed their values in the allocation of their capital.

These factors have sparked considerable growth in the impact investing industry over the past four years. And, while the field remains in what the Monitor Report called the “marketplace-building” phase, the evidence reviewed for the present study suggests that if leaders can sustain and further scale this growth, the industry could evolve to the next phase—capturing the value of the marketplace and benefiting from the entrance and energy of new, mainstream players. Figure 1 shows this sequencing.

Figure 1: Phases of Industry Evolution



Source: Freireich and Fulton, *Investing for Social and Environmental Impact*, 2009

Impact investing remains in the market-building phase, but could evolve to the next phase in which stakeholders fully capture the value of the marketplace.

The **definition of impact investing** remains a work in progress and is subject to debate across investor groups and regions of the world. Over the past four years, leading players in this emerging field have attempted to provide more rigor to this definition. To this end, a 2010 report, co-authored by J.P. Morgan, the Global Impact Investing Network (GIIN) and the Rockefeller Foundation, proposes perhaps the most pointed definition to date: “investments intended to create positive impact beyond financial returns,” not only noting the blend of financial and social returns, but also clearly articulating the requirement for investors to be *intentional* in their efforts to generate both. In addition to intent, argue some industry players, there should also be tangible, measurable *evidence* of social or environmental impact at the level of individuals and households facing poverty, marginalization or other forms of distress. Furthermore, in our view, the notion and tool of **theory of change** could be useful to the field in better understanding both investor intent and downstream investment impacts.²

Over the past four years, the number and diversity of **actors in the impact investing industry** have grown impressively. Among asset owners, high net worth individuals and families have played prominent roles in this effort, as have private foundations, impact investing funds that function as intermediaries for the field, together with a select number of large financial institutions, including banks, pension funds and development finance institutions. In addition to these and other asset owners and asset managers, the industry includes demand-side actors that receive and utilize impact investments; these include companies, small and growing businesses, social enterprises and cooperatives. The final group of actors in the industry involves service providers, intermediaries and government, particularly networks and standards-setting bodies. In a global sense, there is a perception that most of the asset owners and managers have been based in the Global North, particularly the United States, while most of the demand-side actors have been based in the Global South. Changing this state of affairs should be a priority for the impact investing movement, especially in light of the ongoing shift in global economic power to the BRIC (Brazil, Russia, India, China) countries and in global governance from a Group of Seven (G-7) or NATO model to a Group of Twenty (G-20) model.

There is a perception that most of the asset owners and managers have been based in the Global North, particularly the United States, while most of the demand-side actors have been based in the Global South.

Figure 2: Actors in the Impact Investing Industry

ASSET OWNERS	ASSET MANAGERS	DEMAND-SIDE ACTORS	SERVICE PROVIDERS
<ul style="list-style-type: none"> • High net worth individuals/families • Corporations • Governments • Employees • Retail investors • Foundations 	<ul style="list-style-type: none"> • Investment advisors • Fund managers • Family offices • Foundations • Banks • Corporations • Venture funds • Impact investment funds/intermediaries • Pension funds • Sovereign wealth funds • Development finance institutions • Government investment programs 	<ul style="list-style-type: none"> • Corporations • Small and growing businesses • Social enterprises • Cooperatives • Microfinance institutions • Community development finance institutions 	<ul style="list-style-type: none"> • Networks • Standards-setting bodies • Consulting firms • Non-governmental organizations • Universities • Capacity development providers • Government programs

ACHIEVEMENTS AND CHALLENGES

What's Happened So Far, and What Hasn't

The past four years of industry building in impact investing have been dynamic, creative and, above all, productive. There have been **tangible gains** in the mobilizing of capital for impact investments by a growing number of players. The quantum of capital has risen steadily, key intermediaries have emerged, and there has been significant growth in innovative products and platforms for investors. However, while there is also evidence of gains on the demand side of the sector, there are still too few investment-ready projects and enterprises to enable the optimum placement of this new capital. The good early-stage work of building initial global standards and rating systems for the industry still requires more time and better articulation, given the proliferation of methods and tools and the brand confusion among several measurement initiatives addressing the impact of investments. While very strong progress has been made in establishing a global network on impact investing, here too there is much more yet to be done, especially in facilitating the building of platforms and partnerships in the developing world.

Figure 3: Mapping the Impact Investing Industry



In conducting our scan of the field, we have found it useful to examine progress over the past four years in terms of **six dimensions** crucial to building the impact investing industry: unlocking capital, placing and managing capital, demand for capital, assessing impact, creating an enabling environment and building leadership. A closer look at each of these areas provides a clearer assessment of the achievements and challenges in the field-building process. Further, this more granular review is also instructive as to what should come next in the industry-building process

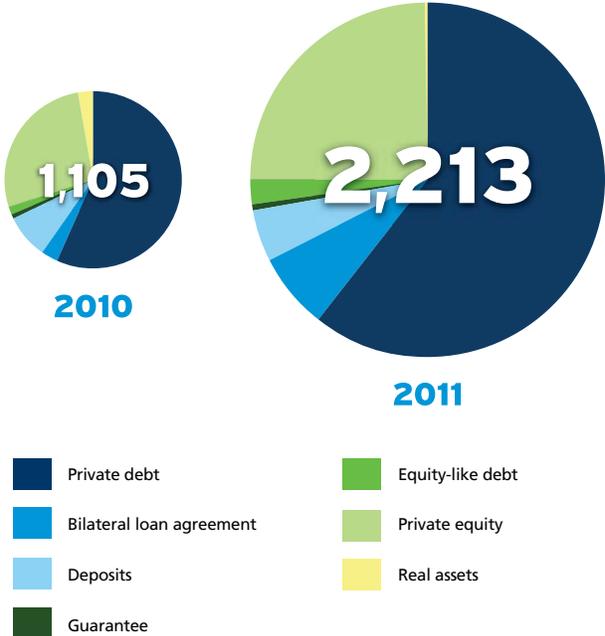
and what key factors, in the years ahead, will affect the necessary accelerating action toward the maturation, scale and sustainability of the field.

Unlocking Capital

Overall, there has been a significant acceleration of capital commitments toward impact investing. In addition to an increase in the variety of investors engaged, larger volumes and more types of capital are being deployed globally. Industry research suggests that approximately 2,200 impact investments worth \$4.4 billion were made in 2011. This represents a significant achievement. And there are positive signs to suggest even greater interest and activity in the short term. Despite this tangible progress, though, our interviews indicated that there is large variation in where capital is deployed relative to where it is needed, a mismatch between the type of capital being offered and the demand for this capital, and a large pool of financial assets that has yet to be tapped for impact investing.

Overall, there has been a significant acceleration of capital commitments toward impact investing.

Figure 4: Number and Type of Reported Impact Investments, 2010 and 2011



Source: Saltuk, Bouri and Leung, *Insight into the Impact Investment Market*, 2011

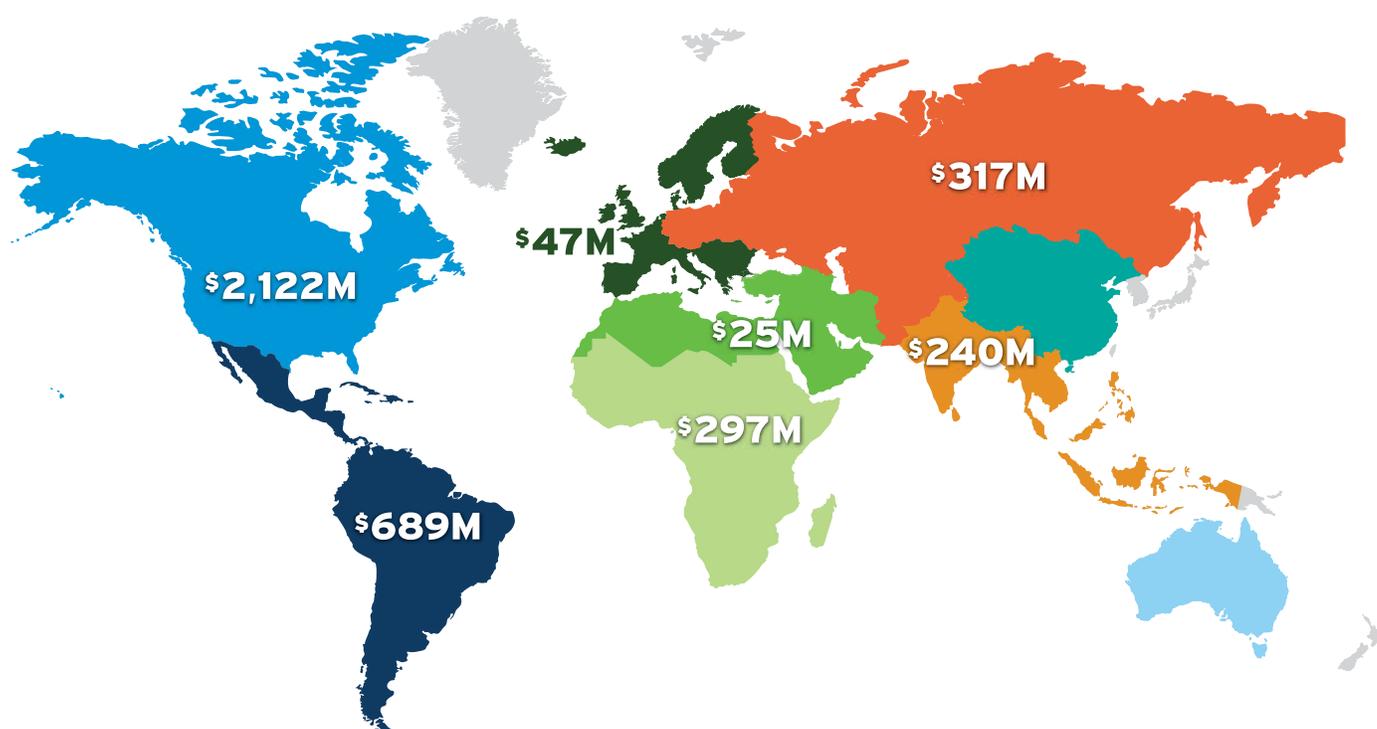
The period saw foundations, financial institutions and impact investment funds play leading roles in unlocking capital. The growing number of investors that have coalesced around the concept and practice of impact investing also brings a variety of motivations and ways of working to the industry. For example, among some prominent impact investment funds, expectations regarding risk-adjusted rates of financial return can range from 0% to 25%. Such impact investing funds have had important modeling and inspirational effects on the growing field, as have a number of foundations that are deploying both their endowment capital and their program funds in a variety of types of impact investing. In the Global North, high net worth individuals and family offices have also emerged as key actors in impact investing. However, the engagement of institutional investors—pension funds, sovereign wealth funds and major corporations—has proceeded more slowly. The exceptions are the aid-funded international development financial institutions, which have begun to play a more robust role in the impact investing marketplace in the Global South.

Going forward, there are important **challenges** that must be met in unlocking capital. One such challenge is clarifying investor expectations, especially for those investing in emerging markets. A second challenge is to better align capital with demand on the ground. One need that is not being met fully, for instance, is debt financing for early-stage social businesses. A third challenge is the lack of track record of existing products. A related task to reassess asset class-specific benchmarks that some argue are based on unsustainable expectations of risk-adjusted market returns. Finally, the challenges of illiquidity and exit continue to persist for many investors.

Placing and Managing Capital

Placing and managing capital have proven to be more difficult than raising capital. Barriers here have included investor concerns with a lack of exit opportunities, an insufficient menu of products designed for large investors, models of risk assessment that force a trade-off between impact and risk-adjusted financial returns and high transaction costs associated with structuring and executing innovative and untested investments. On the positive side, however, there has been steady, though uneven, progress in the global development of intermediation in impact investing. A cohort of specialist intermediaries has emerged over the past few years, though they are still limited to certain regions and sectors. Prominent among these intermediaries are values-based impact investing funds. As well, there has been growth in promising boutique impact investing banking services, which, while still insufficient, are crucial to the development of the field.

Figure 5: Value of Reported Investments, by Region, 2011



Source: Saltuk, Bouri and Leung, *Insight into the Impact Investment Market*, 2011

These developments have given rise to a new tranche of **innovative products** that have facilitated the placement and management of capital across a range of sectors and regions, and across asset classes. By far the most prevalent form of impact investment has involved debt instruments, which offer a relatively safe way for investors in the Global North to invest in the Global South. In 2011, as industry data indicate, this was the form taken by three-quarters of all impact investments worldwide. Indeed, some of the period's most compelling products were debt instruments, notably vaccine bonds, green bonds and microfinance bonds—all examples of innovative products that have attracted significant amounts of private and public capital. At the same time, new online products, including crowd-sourced financing models, have also appeared over the past four years.

So far, though, there are relatively few products that enable **institutional investors** to place and manage capital at scale. The main exceptions to these are the areas of affordable housing and, more recently, microfinance and clean technology. New products and vehicles are needed in this regard, especially, as our interviewees told us, those that focus on infrastructure and green real estate, in particular. Creating and marketing impact investing products that pension funds and sovereign wealth funds can buy easily, at scale, should be priorities for the industry in the years ahead. Another important task is to nurture and strengthen the group of projects aiming to establish social stock exchanges as secondary markets to attract retail and institutional investors in settings as diverse as the United Kingdom, Brazil, South Africa, Singapore and Kenya. In addition, efforts to test new ways of investors collaborating to carry out due diligence and risk assessment, as well as structuring joint investment deals, should be actively encouraged. Finally, further work is required to create more yin yang deals—collaborative investments that generate both concessionary and commercial rates of financial return while seeking a common set of social impacts.

Demand for Capital

While the impact investing industry has, understandably, been focused largely on its supply-side efforts to mobilize and place capital, its leading organizations have done relatively less work on actively developing the capacity of ventures to effectively prepare for capital infusion and to use it effectively. This has meant that the field has not been able to move the needle as far as it would like to increase the number of **investment-ready opportunities** in its target regions and sectors. One important task on the demand side is finding scalable business models that are ready to receive investment. Recent studies have identified nearly 20 such models in Asia and Africa, including, for example, smallholder farmer aggregators and mobile-enabled financial and non-financial services.

Building the investment readiness of these and other business models, especially for seed and early-stage ventures, can take a variety of forms, ranging from the active-owner approach of venture capitalists to grant-funded technical assistance, and a host of hybrid methods. There are interesting models under experimentation that involve market pricing for **capacity building** for which enterprises at least share the cost. Providing the appropriate combination of business and sector expertise is a crucial factor across all models.

There has been steady, though uneven, progress in the global development of intermediation in impact investing.

In the years ahead, [challenges](#) relating to demand for capital should be met by broadening the set of subsectors and themes beyond microfinance in the Global South and affordable housing in the US; achieving models of capacity building for investment readiness that themselves are scalable; and creating incentives for industry networks on the demand side to collect, analyze, vet and distribute good, timely information on specific market opportunities to establish and grow specific businesses.

Assessing Impact

Social measurement continues to be one of the most active areas in the field of impact investing. Efforts on impact assessment have accelerated over the past four years, though there is still much more work to be done. A number of global projects have gained visibility and momentum in recent years with the shared goal of providing a [common set of tools on social measurement](#) for investors, in particular. At the same time, a host of smaller, decentralized initiatives in impact assessment continues to exist, and even to proliferate at the sector and organizational levels. Leaders in the field must find new ways of integrating and achieving synergies across the two levels of activity.

Social measurement continues to be one of the most active areas in the field of impact investing.

Led by a collaboration of the Rockefeller Foundation, Acumen Fund and B Lab, the [Impact Reporting and Investment Standards \(IRIS\)](#) project has sought to provide a standardized taxonomy and a set of consistent definitions for social, environmental and financial performance. Now based at the Global Impact Investing Network (GIIN) and with financial support from the Rockefeller Foundation and supported by the United States Agency for International Development (USAID), IRIS has refined its standards and also manages a data repository that permits the aggregation of performance data from funds and industry networks. Co-existing with and complementary to IRIS is the [Global Impact Investing Rating System \(GIIRS\)](#), which conducts third-party assessments of the social and environmental impact of companies and funds. To date, some 40 investment funds with nearly \$1.8 billion under management, together with 15 investors that manage \$1.5 billion in total assets, have committed to working with GIIRS to implement and refine the system. A related and complementary management information software is Pulse, a data management platform. These three tools have featured most prominently in industry initiatives, but others, such as social return on investment (SROI) and randomized control trials (RCTs), have also gained in popularity.

A number of [challenges](#) must be addressed in impact assessment work in the years ahead. First, different investors express very different levels and types of demand for third-party impact measurement tools. Second, more candid conversations are required between those actors in the field who are building measurement systems as public goods, on the one hand, with those who carry out impact assessment for proprietary revenue for their organizations, on the other hand. At this stage of its evolution, the impact investing industry needs both approaches to co-exist and to succeed together. The major initiatives must navigate a course between what the market is currently demanding and what it needs in the long run. Early adopters, who are generally the most committed to impact performance measurement, are often the players least in need of it. Yet the players who would most benefit from industry performance standards are likely to require greater persuasion to adopt them. Third, the two main global initiatives—IRIS and GIIRS—require more time and resources to refine their systems and build sustainable business models. Funders must step forward to support this important work. Practitioners express some confusion over the mandates of these two projects, and greater clarity should be brought to this issue. We

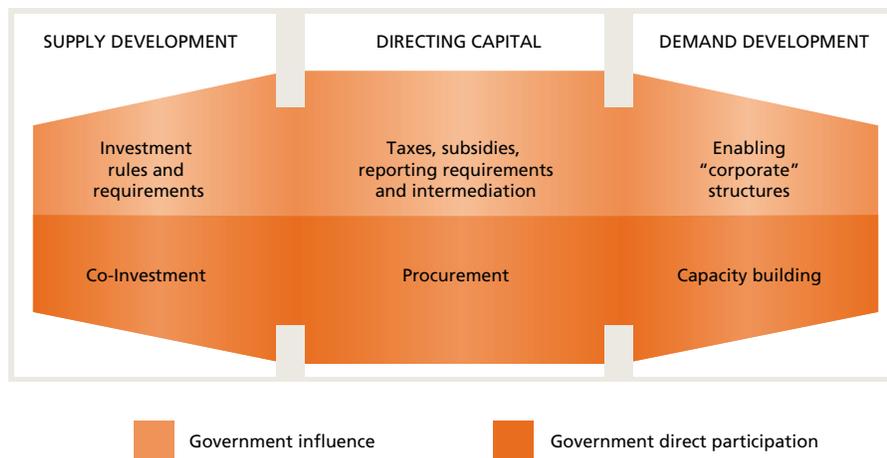
note that the experience of the microfinance industry is that its prime public-goods standards and ratings instrument, the Consultative Group to Assist the Poor (CGAP), has been subsidized by donor grants for two decades. Finally, in addition to strengthening measurement systems per se, it also makes sense for the field to devote more attention to better integrating a social dimension across a wider range of scalable businesses. Improving the capacity of enterprises to generate meaningful social impacts and to collect and utilize data for opportunities and decision-making is an important task in its own right.

Creating an Enabling Environment

Governments can play important **direct and indirect roles** in creating a policy environment that fosters, rather than hinders, the growth of impact investing. Governments can encourage impact investing through appropriate investment rules, targeted co-investment, taxation, subsidies and procurement, as well as corporate legislation and capacity development that enable the efforts of investors, intermediaries and enterprises in this space. The last two years, in particular, have seen research and networking by the industry to connect policy experience and actors around the world, and to jointly produce new knowledge and tools to support governments. The prime vehicle for this work is the Impact Investing Policy Collaborative (IIPC), whose policy framework is gaining wider usage.

Governments can encourage impact investing through appropriate investment rules, targeted co-investment, taxation, subsidies and procurement, as well as corporate legislation and capacity development.

Figure 6: Policy Framework



Source: Thornley, Wood, Grace and Sullivant, *Impact Investing: A Framework*, 2011

Several countries of the **Global North** offer useful examples of policies that have helped impact investing to grow. In the United States, the pivotal and long-standing Community Reinvestment Act (CRA) and the New Markets Tax Credit (NMTC) were supplemented by a major commitment from the United States Small Business Administration (USSBA) to set up an impact investing fund, as well as by a number of American states adopting Benefit Corporation legislation. In the United Kingdom, the new social investment vehicle of Big Society Capital, the innovative social impact bond product, and the Community Interest Company legal structure, all have gained popularity since 2008. Policy initiatives inside government in Australia have resulted in substantial national government funding of two social enterprise investment funds, as well as demand-side capacity building support. In addition, measures by the state that facilitate impact investing are also evident in the **Global South**, including Brazil's Clean Development Mechanism, Kenya's Microfinance Act,

Regulation 28 in South Africa and Malaysia's Corporate Social Responsibility (CSR) Disclosure Rule, though a number of policies, like several in the US and UK, also predated the period under review here.

Going forward, several challenges remain in this area. One is the importance of impact investing leaders [engaging government strategically](#), but yet not permitting impact investing to be used as a justification for dismantling necessary social programs. In fact, leaders in the field should prepare to work with other sectors and movements to establish such safety nets where they do not exist. A second challenge involves policy coherence. For example, tax incentives for oil production can draw investment away from renewable energy. Directives from the highest levels of government are necessary to ensure that ministries work together and that their policies do not conflict or cancel each other out. A third challenge is the need to balance, on the one hand, the importance of making policy dynamic so that it can meet the needs of a rapidly evolving market with, on the other hand, the imperative of making policy and regulation predictable, to enable efficient investor decision-making. In general, the Impact Investing Policy Collaborative has recommended that policies aimed at enabling the growth of impact investing should be designed and assessed on the basis of six essential criteria: targeting, transparency, coordination, engagement, commitment and implementation.

By the end of 2011, most impact investing leaders agreed that good progress had been made in organizing their new field, and that the collective effort must now move to focus on the execution of investments.

Building Leadership

Over the past four years, a [growing number of organizations](#) have come to play key leadership roles in the building of the impact investing field. In particular, the Rockefeller Foundation provided grants and PRIs to a group of some 30 core allies, including the GIIN, IRIS and GIIRS, to help build collective action platforms, create standards and rating systems, scale up intermediaries, and engage in research and action. Leadership activity was undertaken in parallel in other fields as well, including socially responsible investing, community development finance and clean technology.

By the end of 2011, most impact investing leaders agreed that good progress had been made in organizing their new field, and that the collective effort must move to focus now on the execution of investments and the implementation of models, policies and tools.

With its growing research and education capabilities, and support from the Rockefeller Foundation, J.P. Morgan, USAID and others, the Global Impact Investing Network has become the leading international coordinating body for the impact investing industry. Its Investors' Council serves 50 foundations, institutions, firms and funds. However, a majority of its members are based in the United States. The GIIN now needs to support the construction of collective action platforms in the regions and countries of the Global South and to engage with and support Southern investors. The network has already begun to build links with partners in Europe. The GIIN could identify such new members through the initial impact industry networks and forums that have appeared in South Africa, Kenya, India, Singapore, Hong Kong and Brazil, among other countries.

The role of [foundations](#) will be doubly important in the years ahead. This is true, first, because such foundations can and should more thoroughly align their investment policies and practices with their mission—and do more impact investing, on their own and with other investors, using and testing the tools for investors emerging in this industry-building process. Second, foundations also understand the importance of, and can make grants to support, public-goods initiatives that elaborate the impact investing marketplace and ecosystem. Other stakeholders that could support the public-goods agenda are development finance institutions and aid agencies.

To become a fully functioning and sustainable industry, impact investing leaders must make it possible for individuals to build full and rewarding careers in this field. Creating [viable career paths](#) for young professionals entering the industry and enabling mid-career fund managers seeking to improve their skills represents an opportunity for innovative formal and informal training programs as well as thoughtful, progressive human resources policies and, in particular, benefits packages.

Finally, another important leadership function over the next decade and beyond will be to [manage the expectations](#) of the field and the general public. Recent experience in the microfinance field indicates that bad things can happen to good industries. There will be failures and negative media stories. In addition to holding industry players to high standards of performance, leaders in the field need to prepare to respond effectively to all the dynamics and challenges that are sure to come with the status of a growing, permanent industry.

RECOMMENDATIONS

Opportunities and Directions: What's Next?

Overall, our scan of the impact investing sector's progress over the past four years has shown that the field has moved decisively from the "uncoordinated innovation" phase in the Monitor Report schema to a sustained "marketplace-building" phase. Within this phase, it is also clear that the industry is shifting from a period focused on organizing itself and establishing initial infrastructure to one much more clearly focused on implementation. Indeed, leaders whom we interviewed and other champions of the field more frequently speak of the need to move into an "era of execution."

This is entirely appropriate. To this, however, we would add: an era of [acceleration](#) and execution. There are some very concrete steps that can, and should, be taken in order to make such an era a reality. We have had the privilege of learning from the experience and insights of over 100 leaders in impact investing from 11 countries. Based on these interviews and our own overall analysis of the state of the field, we believe that there are 15 important lines of action that should be taken to realize, in practical terms, the twin aspirations of acceleration and execution.

Recommendations

These 15 recommendations are directed to the leadership of the impact investing industry worldwide. Specifically, it is recommended that leaders in the field take steps to

Unlocking More Capital

1. Strengthen the business case for large institutional investors, both public and private, to integrate non-financial factors into their investment decision-making, particularly to enhance risk mitigation.
2. Use education and research to encourage a move from individual deals to multi-investment portfolios, in which investors can hold both impact-first and financial-first investments.
3. Encourage foundations to continue to innovate by making the strategic and cultural shifts necessary to devote the full range of their assets to their mission.

Placing and Managing More Capital

4. Create new intermediaries, and strengthen existing ones, that can effectively facilitate investments in businesses in underdeveloped markets, as well as those that can enable larger deals suitable for institutional investors.

We believe that there are 15 lines of action that should be taken to realize, in practical terms, the twin aspirations of acceleration and execution.

5. Increase the variety of products that address the risk/return profile of a wide range of investors, that are provided through easily accessible distribution systems, and that offer reasonable evidence of track record or comparable product performance.
6. Create new options by matching investor risk/return profiles with investee businesses that can generate measurable returns on both the financial and impact dimensions, as well as by supporting investor collaboration and deal syndication.

Strengthening Demand for Capital

7. Co-sponsor new action research on emerging hybrid, scalable enterprise models in both the very poor and the new-power economies of the Global South, as well as in industrialized economies.
8. Identify and support successful and cost-effective approaches to improving the management capacity of social entrepreneurs, while nurturing a range of enterprise supports throughout the life cycle of growing ventures.

Assessing Impact More Effectively

9. Strengthen investor understanding of the various dimensions of performance management, and address any confusion concerning the relationship between key impact assessment initiatives.

Improving the Enabling Environment

10. Accelerate the production and application of practical knowledge products, including research and tools, aimed at governments engaged in or considering support for impact investing through policies that develop the supply of capital, policies that direct capital, and policies that strengthen demand.
11. Facilitate a continuous and open exchange of experience among governments engaged in supporting impact investing, across the Organisation for Economic Cooperation and Development (OECD) countries, the BRIC (Brazil, Russia, India, China) nations and other emerging economies, and low income countries.
12. Establish publicly funded safety nets that can address the consequences of failed or inadequate impact investments, and resist pressure for markets to displace states in addressing the basic needs of populations that are vulnerable and in distress.

Renewing and Broadening Industry Leadership

13. Mobilize multi-year grant funds to expand and deepen the public-goods infrastructure necessary for a fuller industry ecosystem, especially in the Global South, while setting out clear, realistic results expectations and timelines.
14. Work with educational institutions to design and launch professional development and graduate programs for current fund managers, for new entrants to the investor and intermediary segments of the sector, and for social entrepreneurs seeking investment.
15. Actively manage the brand integrity of the impact investing field through renewed media engagement and storytelling of both successes and failures, managing stakeholder and public expectations, and strengthening, testing and policing the definition of impact investing.

CONCLUSION

Leadership was pivotal five years ago, when the term “impact investing” was coined at those first Bellagio convenings that set off such a remarkable chain of events. As this review has shown, much progress has been made in building the field of impact investing globally. Many tangible gains have been achieved. And there is still much to be done. To be sure, building an effective global industry is a long-term, complex and difficult task. However, this is precisely the time for the leaders of the impact investing field to recommit to building a fully developed marketplace. It is especially important now for those leaders to expand their partnerships with peer champions in every corner of the globe, to create compelling new financial products for institutional investors, to strengthen the investment readiness of enterprises on the ground, and to demonstrate social impact where it matters most: for individuals, households and communities.

Acceleration is a vector, a transformative agent in its own right. It is now time for the leadership of the global impact investing industry to do everything in its power to increase the rate of change in the field—to catalyze an unprecedented surge forward toward maturation, scale and sustainability. It is time to accelerate.

It is now time for the leadership of the global impact investing industry to do everything in its power to increase the rate of change in the field.

1

PART I: CONTEXT

This report assesses the progress made over the past four years in building the global impact investing industry. It is divided into three parts: first, **context**, which introduces the structure of and key actors in the impact investing field; next, an examination of the recent **achievements and challenges** in building the impact investing marketplace; and finally, presentation of a set of **recommendations** for accelerating the rate of growth of the field.

1 INTRODUCTION

Accelerating impact is the organizing theme of this report. Looking back, the past four years have seen an **acceleration** in the growth of the number of organizations in the field, the quantum of capital mobilized, the variety of financial products offered, the number of participants in key networks, the number and depth of research outputs on, and by, the industry, and the range of methods and tools for measuring impact. Looking ahead, there is both a need and an opportunity for the leaders in the global impact investing industry to catalyze a powerful further acceleration—a **surge in the rate of growth**—across a wider range of dimensions, in order for the field to reach maturity, scale and sustainability.

1.1 BACKGROUND

In 2007 and again in 2008, the Rockefeller Foundation convened meetings at its Bellagio Center in Italy to explore with leaders in finance, philanthropy and development the need for, and ways and means of, building a worldwide industry for investing for social and environmental impact. The 2007 meeting coined the term and the concept of “impact investing” itself, and in 2008, the Rockefeller Foundation’s Board of Trustees approved \$38 million toward its new Impact Investing Initiative, which sought to use grants, program-related investments (PRIs) and non-grant activities to implement the field-building plans created through the Bellagio convenings. The Initiative has run from 2008 through 2012, and was recently extended by the Rockefeller Foundation’s Board through 2013.¹

In 2011, the Rockefeller Foundation commissioned a strategic assessment of its Impact Investing Initiative.² To inform the assessment by locating the Initiative’s work within the broader context of the field as a whole, the Foundation requested the preparation of a scan of the evolution of the industry worldwide. This report summarizes the findings and recommendations of that scan, which is directed to leaders in the impact investing field as well as to the Rockefeller Foundation. The overall assessment report is entitled *Unlocking Capital, Activating a Movement: Final Report of the Strategic Assessment of The Rockefeller Foundation’s Impact Investing Initiative*. Although it is a stand-alone document, the present report should also be seen as complementary to the main assessment report.

Some five years after the first Bellagio meeting on impact investing, many leaders have indicated that it is an appropriate time to take stock of what gains have been made, what barriers persist and what’s next in the industry-building process. The core question which the present report aims to answer was originally posed by the Monitor Institute on behalf of the 2008 Bellagio participants, as follows:

The pressing question is whether impact investing will remain a small, disorganized, underleveraged niche for years or even decades to come—or whether leaders will come together to fulfill the industry’s clear promise, making the new domain a major complementary force for providing the capital, talent and creativity needed to address pressing social and environmental challenges.³

It is an appropriate time to take stock of gains, barriers and what’s next in the industry-building process.

Our short answer to this question is this: The leaders in this dynamic field have begun the journey of fulfilling the promise of impact investing. The field is off to a strong start. There have been impressive gains made that are worthy of much celebration and there are key challenges that still must be addressed, with purpose and energy. Above all, what is needed now is an **acceleration** of the industry-building process. It is time for impact investing leaders to step forward and make this happen.

1.2 METHODOLOGY

This scan is based on extensive document review and interviews with more than 100 industry leaders.

The starting point for this global scan, and its conceptual framework, was the Coordination/Capitalization Matrix presented in the influential 2009 report, *Investing for Social and Environmental Impact*. This matrix is presented in Appendix A. While it was facilitated and published by the Monitor Institute, this document was actually the product of the deliberations of a collectivity of leaders who built upon the discussions at Bellagio. Among a list of 15 recommendations intended to build the impact investing marketplace worldwide, the matrix highlighted five immediate priorities:

- Create industry-defining funds that can serve as beacons for how to address social or environmental issues;
- Place substantial, risk-taking capital into catalytic finance structures;
- Set industry standards for social measurement;
- Lobby for specific policy/regulatory change; and
- Develop an impact investing network.

These priorities directly informed the design and focus of the Rockefeller Foundation's Impact Investing Initiative and set the framework for the subsequent activities of a host of other organizations aiming to build the field.⁴

Accordingly, the present study sought to examine progress on these and other lines of action during the period 2008 through 2011. Through an extensive review of hardcopy and online books, reports, articles, case studies, tools, blogs, discussion groups and other sources, our team gathered relevant information in late 2011 and early 2012. This document review was supplemented by the perspectives of more than 100 leaders in the impact investing industry in 11 countries whom we interviewed for the evaluation of the Impact Investing Initiative, as well as by participant observation at key impact investing conferences in Mexico, the United Kingdom (UK) and the United States (US) in 2011. While most of the documents and interviews we drew upon for this scan originated in the Global North, especially in the US and the UK, nearly one-third of the leaders we consulted are based in the Global South.⁵

There are four limitations to the methodology of the present review. First, time and resources permitted us to look closely at only 11 countries, and only a sample of actors and activities within those nations. Second, we focused almost entirely on English-language knowledge products and did not do an extensive review of documents in French, Spanish or Portuguese, or in other major languages. Third, we did not have the time to examine in detail the activities of multilateral and bilateral agencies engaged in forms of investing that are not labeled as impact investing but nonetheless may have meaningful social or environmental impact. Finally, in assessing an emergent and fragmented field that is metrics rich but still largely data poor, we elected to use generally available secondary sources, which also primarily have origins in the Global North. However, notwithstanding these and other limitations, we believe that the findings and recommendations presented in this report are accurate, relevant and appropriate.

1.3 ECONOMIC CONTEXT

To say the least, the period under review here—2008 through 2011—was one of both economic turbulence and continuing structural change in the global economy. The period began with the 2008–2009 global financial crisis that triggered the bailout of major banks and large-scale stimulus programs in the industrialized nations, and ended with those same nations still mired in stagnant growth, high unemployment, and rising inequality, as well as a continuing debt crisis in a growing number of European countries.⁶ These and other factors put pressure on and created new needs for philanthropic giving. And, by the end of the period, the US and Europe initiated what is likely to be a series of domestic austerity measures and cuts to their aid programs overseas.

By contrast, the new economic powers continued to grow in impressive fashion, slowing only somewhat by late 2011, but still steadily gaining ground on the older industrial economies. So robust was this continuing shift in the structure of the world economy that it prompted widespread speculation that China will likely overtake the US as the world's largest economy within 10 to 15 years. For its part, the World Bank projected that, by 2025, six countries—China, India, Brazil, Russia, South Korea and Indonesia—will account for 60% of world growth.⁷ Not only has the impact investing industry been growing amid turbulence and change, but also, in terms of the global economic context, it faces even more change ahead. Our view is that the most effective response to such contextual factors is for leaders in the field to accelerate their efforts to grow the impact investing industry—and to intentionally shape their industry, in light of expected further changes to the global economic environment.

The period reviewed here was one of economic turbulence and continued structural change in the global economy.

2 IMPACT INVESTING: WHAT IT IS AND WHY IT MATTERS

Impact investing is, at its essence, a way to unlock capital and place it in businesses and projects that generate real social and environmental benefits for the people who need those benefits the most—more and better jobs and income, affordable housing, clean water, greater access to education, and other individual, household and community gains—while also generating a financial return to the investor. The concept of intentionally deploying capital to produce both financial and non-financial returns is not new. In fact, some would argue that the earliest human economic exchanges sought, in the interest of the common good, to do both, and that doing both was seen as natural. However, over the centuries, with the rise of industrial economies, and the ultimate ascendance of capitalism as the dominant mode of organizing markets, investing came to be seen as a means of creating individual wealth first, with any improvement in the common good as a collateral outcome. At the same time, most societies have nonetheless maintained alternative economic organizations and systems—for example, the Mondragon network of industrial cooperatives in Spain's Basque region, or the well-developed microfinance institutions of Bangladesh and Peru—that have explicitly pursued a blend of social and economic objectives.

2.1 ORIGINS AND DRIVERS OF IMPACT INVESTING

Prior to 2008, there had certainly been considerable innovation in the practice of investing for a mix of financial and social or environmental returns. The International Finance Corporation (IFC), for example, played a leadership role in some developing countries through lending to small businesses as a strategy to achieve broader development outcomes on the ground. For its part, the Grameen Bank became a world leader in scaling up microfinance programs for the poor in Bangladesh, and its approach was adapted and applied in dozens of other countries. In 2006, Grameen founder Muhammad Yunus won a Nobel Peace Prize for his efforts. In another line of action, the nonprofit Acumen Fund was established in 2001 to mobilize capital for investment in social enterprises in Asia and Africa. These and many other examples constituted the platform on which recent efforts to construct the impact investing industry have been based.

The past four years, however, have seen a convergence of a number of factors that have pushed the concept and practice of impact investing forward. Four such drivers that have generated new interest and activity in impact investing are as follows:

- The financial crisis has exposed the limitations of traditional models of investment decision-making and risk assessment and has provided the impetus to integrate a broader consideration of risk (considering environmental, social and governance (ESG) factors, for example) into investment decisions.
- As the scale of social and environmental challenges continues to grow, there is increasing recognition that the existing set of resources allocated toward addressing these issues is insufficient. Consequently, there is a stronger desire to supplement both philanthropy and public dollars in addressing these challenges.

A convergence of factors has pushed impact investing forward in recent years.

- An emerging set of activities and investments is demonstrating the sustainable and scalable returns of business models deliberately generating “blended value.”⁸ Some investors who are already investing responsibly are keen to be even more proactive in managing their assets.
- Significant wealth has been transferred to new generations that are eager to embed their values into their investing activities and to play leadership roles in impact investing. There is a new set of young professionals starting off their careers seeking both money and meaning.⁹

The cumulative effect of these factors has given a significant boost to the organization and growth of the impact investing industry.

2.2 FRAGMENTED LANDSCAPE

In conducting our scan of the evolution of the impact investing industry, we found evidence of impressive gains, sometimes through innovative coalescing of important actors. At the same time, however, we also found evidence of obstacles and fragmentation constraining the further growth of the field. The co-existence of such different findings is, of course, not surprising for a field that, in its present form, is less than half a decade old.

As we proceeded with our own work, we came to appreciate the value of six dimensions, or lenses, through which the impact investing industry can be examined. They are the following:

- **Unlocking capital:** This refers to the process of a variety of asset owners and managers mobilizing new pools of capital, in the form of both debt and equity (beyond grants), to create positive social and environmental impacts that are scalable, and also to form a productive bridge to mainstream finance.
- **Placing and managing capital:** Intermediation between the supply of and the demand for impact capital must reduce the costs of due diligence, transactions and monitoring and also respond to the full range of investor expectations regarding risks and returns—all in ways that match the need for capital on the ground.
- **Demand for capital:** Another important task for the industry is to build a pipeline full of investment-ready projects that match the available capital, and in the process strengthen the demand-side capacity of entrepreneurs and other actors that are investees of impact investors.
- **Assessing impact:** Finding cost-effective ways and means of defining, measuring and [understanding](#) impact indicators is another important element of field-building, both at the centralized level (for common standards and ratings) and at the institutional level (to meet institutional mandates and operating procedures).
- **The enabling environment:** What governments do in the sphere of policy—through regulations, laws, fiscal measures, direct program spending—can create either an enabling or disabling environment for the growth of impact investing in any country, rich or poor.
- **Leadership and coordination:** Visible leadership and industry-wide coordination and integration are also prerequisites for building the industry to a scalable and sustainable level.

For all of these dimensions, the important gains made to date in building the impact investing field should not only be protected and sustained; they should be expanded and deepened. At the same time, the specific obstacles and fragmentation constraining progress in each of these dimensions must be addressed directly by leaders of the field. Moreover, the leadership of the industry must ensure—through networking, standards, learning and mutual support—that efforts across the six dimensions are coordinated and integrated.

We found evidence of impressive gains and of obstacles to growth.

2.3 CONSTRUCTING AN AGENDA FOR MARKET BUILDING

At the height of the financial crisis, there was a cluster of activity that indicated a substantial interest in finding new ways for capital to generate more than a financial return. These activities were not simply about mitigating risk, but instead were premised on a fundamental belief that capital could be harnessed to generate positive social and environmental outcomes in a responsible and prudent manner. A set of institutions and investors began to explore the possibility of strengthening the various pockets of interest and activity in this area. Since that time, three key actions have planted the seeds for the impact investing industry as we know it today: the Bellagio convenings; the creation and funding of the Rockefeller Foundation's Impact Investing Initiative; and the Monitor Institute's report, *Investing for Social and Environmental Impact*.

Investing for Social and Environmental Impact provided a blueprint for building the marketplace.

The Rockefeller Foundation's Impact Investing Initiative—established for the period of 2008–2012 and later extended to 2013—has focused on four priority areas: catalyzing leadership platforms that enable investors to work together more effectively; developing industry infrastructure; supporting the scaling of intermediaries; and contributing to fundamental research and advocacy.

Drawing on a collective effort in 2008 by industry leaders, the 2009 Monitor Report provided a blueprint for how the marketplace for impact investment could evolve, based on extensive interviews across multiple sectors. The final report contained a list of 15 recommendations, including five priority recommendations, as well as potential initiatives to activate these recommendations. The process of generating the report, as well as the final product itself, has proven to be influential in articulating and prioritizing industry-building efforts.

At the time, the Monitor Report noted that, “this emerging industry has reached a transitional moment in its evolution. It is poised to exit its initial phase of uncoordinated innovation and build the marketplace required for broad impact.”¹⁰ As the evidence set out in the present report shows, the industry is currently firmly entrenched in the “marketplace-building” phase. In this phase, clusters of activity are still emerging in a semi-coordinated fashion, and infrastructure is being built to support the growth of the industry globally. It is clear, however, that there are now important markers of achievement that enable us to trace the evolution of the industry, and to examine how it could further evolve to the next phase—that of capturing the value of the marketplace, in which mainstream players have entered and are driving substantial growth (see Figure 1).

Figure 1: Phases of Industry Evolution



Source: Freireich and Fulton, *Investing for Social and Environmental Impact*, 2009

It is useful to refer to the Monitor blueprint in order to assess not only where the impact investing field was four years ago, but also where it can and should go in order to substantially advance, and complete, its market-building work. To this end, Appendix A reproduces the original Monitor coordination/capitalization matrix that recommended market-building priorities as of 2008.

For its part, Appendix B then presents a 2012 version of the coordination/capitalization matrix, derived from the findings of our scan of the industry. This matrix highlights the particular mix of priorities that we believe is needed for further industry-building efforts over the next five to ten years—key tasks necessary to move the industry to the next stage of its development. In our view, this new round of activity should continue the focus on standards, policy, catalytic finance structures and financial products. However, in addition, industry leaders should place new emphasis on investor collaboration and syndication, and support to the building of demand-side ecosystem and management capacity among investee enterprises, among other lines of action. In Part II of the present report, we summarize our assessment of the achievements and challenges in the industry-building process over the past four years. That assessment provides the analytic basis for the matrix in Appendix B.

2.4 DEFINING IMPACT INVESTING

The definition of impact investing remains a work in progress, and the term itself is still used interchangeably (and sometimes incorrectly) with related terms.¹¹ At the first Bellagio meeting in 2007, leading thinkers discussed an appropriate definition of the term “impact investing,” describing it as “using profit-seeking investment to generate social and environmental good.”¹² While the boundaries of the term remain subject to debate, subsequent attempts have sought to bring more rigor to this definition. A key report co-published by J.P. Morgan, the Global Impact Investing Network (GIIN), and the Rockefeller Foundation released in 2010 proposes perhaps the most pointed definition to date—“investments intended to create positive impact beyond financial returns”—not only noting the blend of financial and social returns, but also clearly articulating the **intent** of investment to generate both.¹³ It is important to point out that, in general, the intent and spirit of the impact investing field is to focus impact investments on enterprises and projects that can result in improvements in the lives of poor, marginalized and distressed populations, as well as in meaningful improvements to the environment.

There is a widely held perception that impact investing primarily focuses on direct investments in social businesses/enterprises in developing and emerging markets by western investors. Another position is that impact investment is an asset class in its own right.¹⁴ It is our view, however, that both of these interpretations serve to limit the scope of the term. We argue that impact investment can occur across a range of regions, across asset classes, and across sectors. Our research indicates that as the scope and scale of activity have increased in sophistication, there is now a broader universe of ways in which impact investing can occur.¹⁵

Also evident is a broader range of opinions relating to how impact investing should be defined. Figure 2 provides a sample of terms used by leading organizations around the world to describe impact investing. While there is some consensus being formed in industrial countries—in particular, the United States, the United Kingdom, Australia, Canada and the Netherlands—as to what really constitutes impact investing, it is also the case that leaders in other parts of the world may see impact investing through a different lens. In consultations with leaders in Africa, Asia and the Americas, we note a voluble strain of opinion that equates *any* investment in poor areas with impact investment. In our view, though, such a definition (sometimes held by actors in Base of Pyramid (BoP) programs) is unacceptably imprecise.

Going forward, industry leaders should place new emphasis on investor collaboration and demand-side capacity building.

Figure 2: Describing Impact Investing Around the World

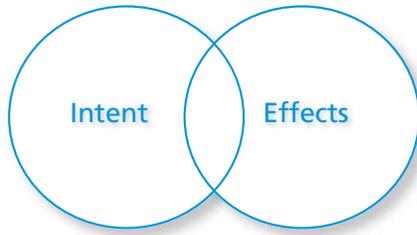


As impact investing grows, the imperative is to raise the definitional bar, not lower it.

Our assessment is that as the impact investing industry grows and becomes more truly global, working more extensively with platforms and leaders in the Global South, and in particular with institutional investors in the BRIC (Brazil, Russia, India, China) countries, the imperative is to raise the definitional bar, not lower it. To this end, we propose that the actual definition of whether an investment can be considered an authentic impact investment should be tested on two essential grounds. First, consistent with other definitions, there must be **intent to create meaningful social and environmental impact**. Second, also as with other, more rigorous definitions, there must be **evidence of tangible social and environmental impacts, or effects**, for the ultimate target populations or areas. Figure 3 highlights these two core definitional elements. In addition, we would suggest that an impact investment should also provide evidence of a specific **theory of change** that sets out how the investor envisions their capital flowing and how it will actually generate downstream results on key performance indicators.¹⁶

In any case, the definition and practice of impact investing, as one leader told us, now both need to be even more clearly located within the context of inequality and hardship at the community, sub-national and national levels. Furthermore, those who are themselves fighting through the barriers of inequality and hardship should be consulted on their views and experience of impact investing. What impact indicators matter most to them? How do they judge success? What types of capital, enterprise and benefits make the most difference to their well-being and to that of their households? Industry leaders should recognize that citizens on the margins of the economy are uniquely positioned to help shape and test the definition of impact investing and how it can deliver meaningful social and environmental results. These citizens should be invited into the process as full participants.

Figure 3: Core Definitional Elements of Impact Investing



“Investments intended to create positive impact beyond financial returns”

2.5 THE SPECTRUM OF IMPACT INVESTORS

Just as in the traditional investment universe, impact investors vary in the nature of their motivations, assets, risk and return expectations, and social impact objectives. Impact investors are heterogeneous in the sense that they vary widely across these and other dimensions.¹⁷ It is more useful, though, to locate the range of impact investors within a broader schema of all actors in the impact investing industry. Figure 4 presents such a schema. In this graphic, a distinction is made between actors that own the assets that are invested for impact, and the actors that manage those assets. While the lines sometimes blur somewhat across these two categories of actors (e.g., most corporations do some of their own asset management), this depiction provides a long list of large and small organizations that actually make impact investments. Small investors, relatively speaking, include family offices, foundations, some venture funds, and impact investing funds that serve as intermediaries¹⁸ for other, often larger investors.

Industry actors include asset owners, asset managers, demand-side actors and service providers.

Figure 4: Actors in the Impact Investing Industry

ASSET OWNERS	ASSET MANAGERS	DEMAND-SIDE ACTORS	SERVICE PROVIDERS
<ul style="list-style-type: none"> • High net worth individuals/families • Corporations • Governments • Employees • Retail investors • Foundations 	<ul style="list-style-type: none"> • Investment advisors • Fund managers • Family offices • Foundations • Banks • Corporations • Venture funds • Impact investment funds/intermediaries • Pension funds • Sovereign wealth funds • Development finance institutions • Government investment programs 	<ul style="list-style-type: none"> • Corporations • Small and growing businesses • Social enterprises • Cooperatives • Microfinance institutions • Community development finance institutions 	<ul style="list-style-type: none"> • Networks • Standards-setting bodies • Consulting firms • Non-governmental organizations • Universities • Capacity development providers • Government programs

Impact investors can be classified according to their intentions regarding risk, return and impact.

The market-building phase of the past four years has also seen the classification of impact investors according to their intentions.¹⁹ Impact-first investors are defined as those that have a specific social or environmental return expectation and also have some flexibility related to their expected financial returns. Some foundations and family offices, as well as impact investing funds themselves, are examples of impact-first investors. In contrast, financial-first investors have a financial return floor, and use impact outcomes as a secondary premise for investment decisions. Banks, pension funds, sovereign wealth funds and development finance institutions are financial-first investors. Of course, trade-offs among risk, return and impact are not straightforward. Nevertheless, the intention of investors to prioritize one set of returns over another has, at least to date, provided an important signpost for understanding the risk/reward expectations of particular investor organizations, as well as for understanding the evolution of the impact investing industry as a whole.

Box 1 presents a sample of impact investors that are a mix of impact-first (e.g., RSF Social Finance, Omidyar Network, Sterling) and financial-first (e.g., J.P. Morgan, TIAA-CREF, FMO) investors. These investing organizations are also based in a range of countries, including Brazil, Hong Kong, India, the Netherlands, Nigeria and the United States.

Box 1: Examples of Impact Investors

Arm of Major Bank – J.P. Morgan Social Finance

J.P. Morgan Social Finance was launched in 2007 and provides thought leadership to the market through reports, such as its market surveys in 2010 and 2011. It commits J.P. Morgan capital to impact investments as is seen, for example, in its recent investment in the African Agricultural Capital Fund. It also provides investment services to its clients.

Impact-First Investor – RSF Social Finance

RSF Social Finance is a US-based nonprofit financial services organization that has made over \$230 million in loans and over \$100 million in grants since 1984 to nonprofit and for-profit social enterprises in the US addressing key issues in the areas of food and agriculture, education and the arts, and ecological stewardship.

Institutional Investor – TIAA-CREF

TIAA-CREF is a leading financial services organization with over \$440 billion in combined assets under management. This American pension fund has maintained a long history of combining several strategies that incorporate impact considerations, such as social screening, shareholder advocacy and community investing.

Venture Firm and Family Foundation – Omidyar Network

The Omidyar Network operates as a philanthropic investment firm—with both a grantmaking foundation and a for-profit limited liability company—to deploy a range of capital toward impact investments across several sectors in nonprofit and for-profit ventures in Asia, Africa, the Americas, Europe and the United States.

Venture Capital Firm – IGNIA

IGNIA is an impact investing venture capital firm based in Monterrey, Mexico. The IGNIA Fund LP 1 was Latin America's first and largest impact investing fund focused on businesses at the base of the pyramid. To date, IGNIA has made 10 investments, totaling \$48 million.

Venture Capital Fund – Vox Capital

Vox Capital is a Brazilian venture capital fund that invests in high-potential businesses that serve low-income clients and whose activities contribute to reducing poverty, with a preference for the field of education, health and housing. By the end of 2012 Vox Capital expects to raise a capital commitment of US\$20 million.

Box 1: Examples of Impact Investors

Family Foundation – The Tony Elumelu Foundation

The Tony Elumelu Foundation, headquartered in Lagos, Nigeria was founded in 2010 by Nigerian businessman, Tony O. Elumelu. The Foundation is committed to the economic transformation of Africa by enhancing the competitiveness and growth of the African private sector. The Foundation supports small and mid-sized enterprises through start-up funding and business development services.

SME Investment Fund – GroFin

GroFin is a leading provider of SME finance and business development focusing on developing sustainable enterprises in Africa and the Middle East. GroFin is present in 13 countries, with an investment portfolio of 300 transactions and US\$300 million across seven funds.

Venture Fund – LeapFrog Investments

LeapFrog's \$135 million fund invests in businesses that extend and enhance security to the poor and financially excluded, partnering with local and international players to support down-market growth and expansion of insurance products and inclusive financial services.

Venture Fund – Aavishkaar

Aavishkaar includes four funds with over US\$100 million in committed capital focused on catalyzing development in rural and underserved India through the provision of risk capital to ventures operating in the micro equity and microfinance space.

Venture Fund – SONG Fund

The SONG Investment Company is funded and owned by Google, the Omidyar Network, and the Soros Economic Development Fund. Its mission is to provide early- and growth-stage capital and operational support to SMEs in sectors that can contribute significantly to economic development, as well as create sustainable social impact, in India.

Family Office – Sterling Enterprises Limited

Sterling Enterprises is a single family office for the Hong Kong-based Chen family that manages over \$100 million in funds. The family has a "wealth with a purpose" investment philosophy. Through their affiliates, Sterling Enterprises Limited also provides impact investing advisory services to other high net worth individuals.

Development Finance Institution – FMO

FMO, the Dutch development bank, supports private sector growth in developing and emerging markets. The bank focuses on sectors that they deem to have high long-term impact including financial institutions, energy, housing and agribusiness, food and water. Founded in 1970, FMO is a public-private partnership with €5 billion in assets.

2.6 MAPPING THE IMPACT INVESTMENT INDUSTRY

Over the past four years, the number and diversity of **actors in the impact investing industry** have grown impressively. Among asset owners, high net worth individuals and families have played prominent roles in this effort, as have private foundations and impact investing funds that function as intermediaries for the field, together with a few large financial institutions, particularly banks, pension funds and development finance institutions. In addition to these and other asset owners and asset managers, the industry also encompasses demand-side actors that receive and utilize impact investments; these include companies, small and growing businesses, social enterprises and cooperatives. The final group of actors in the industry involves service providers, particularly networks and standards-setting bodies.

In a global sense, however, one limitation of the experience of the past four years has been that most of the asset owners and managers have been based in the Global North, especially the United States. Yet most of the demand-side actors have been based in the Global South. This geographic concentration in the field's start-up period has not been entirely problematic. Indeed, since the impact investing industry is most fully developed in the United States, that country has been an ideal site from which to build the early structures and systems for the industry. However, to become

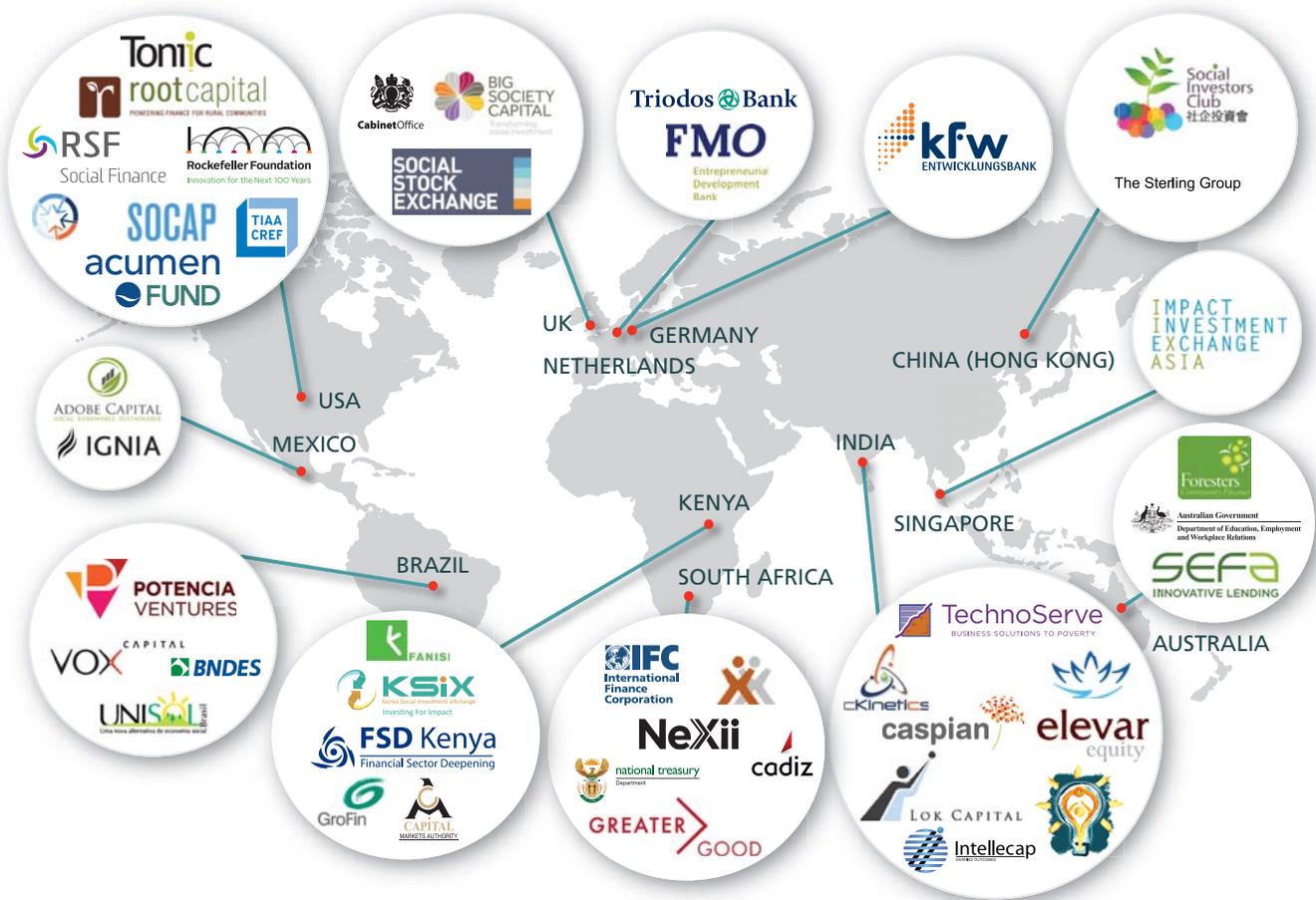
Over the past four years, the number and diversity of actors in the impact investing industry have grown impressively.

Much more must be done to engage asset owners and asset managers in the Global South.

a truly global industry, much more must be done to engage asset owners and asset managers, in particular, in the Global South, especially in light of the ongoing shift in global economic power to the BRIC countries and in global governance from Group of Seven (G-7) countries, or NATO model, to Group of Twenty (G-20) countries model.

Still, it is also true that impact investing has, in fact, begun to take hold across the world. Figure 5 highlights some of the more prominent organizations working to build the field in 11 different countries. These include funds, foundations, forums, networks, exchanges, banks, non-governmental organizations, and policy initiatives in countries as large as India and Brazil, and as small as Singapore. As the industry evolves in the years ahead, it will be important for leaders to build, share, deepen and continuously update a comprehensive, global map of all the actors in the field—and to use this map to facilitate collaboration and lever innovation to maximize and accelerate the field’s aggregate impact.

Figure 5: Mapping the Impact Investing Industry



2.7 WHY DOES IMPACT INVESTING MATTER?

Impact investing matters for many reasons. Chief among these is the fact that more than one billion people in the developing world live at poverty levels that are unacceptable.²⁰ Other complex global problems—from climate change to HIV/AIDS to lack of clean water—not only persist, but are deepening for some regions around the world.²¹ What is even more troubling is that the resources traditionally available to address these challenges are finite, and, in some cases, growing scarcer. Certainly, 2011 saw the beginning of sharp cuts to foreign aid from Western nations. Philanthropic giving was uneven and declining in some areas for both domestic and international projects. For their part, the BRIC countries and other new economic powers are only beginning to play major roles in targeted poverty reduction, other than through trade and investment, and their performances on human development and the environment range from promising to abysmal. Yet there is capital in these new powers that can and should be unlocked for impact investing. Engaging with the new powers and the Global South more generally, therefore, is doubly important: that is where most of the poverty in the world is located, and in some cases, where wealth is growing the fastest. Impact investing leaders must accelerate their collaborative efforts to support new platforms for collective action on impact investing in the BRIC countries and also in poor economies more generally.²²

Going forward, innovations in development finance will be crucial and potentially transformative. For the past decade the United Nations and prominent finance specialists, such as George Soros, have been working hard to create a set of new financial mechanisms to address such pressing global issues as HIV/AIDS and climate change. Efforts have been made to ensure that these new vehicles and tools adhere to four key principles: scaling up, additionality, complementarity and sustainability. Impact investing is an industry and a movement that brings to this broader search for innovative finance its own distinct and increasing capacity on both the supply and demand sides, as well as in intermediation. In this sense, impact investing's success really does matter to the world.²³

For now, efforts to build the impact investing marketplace continue. What is also required, however, is a commitment to the long-term cooperation by the champions of the field around the world. Dr. Judith Rodin, President of the Rockefeller Foundation, reminds us that

Product building is a five-year task. Movement building, on the other hand, is a generation-long challenge that requires much bolder vision, patience, and ambition. What this moment of inflection demands is exactly such a movement—a movement that creates a fundamental mindset shift in how society mobilizes resources to address our social and environmental challenges.²⁴

Our review indicates that impact investing leaders are, in fact, taking actions that confirm their long-term commitments to build a movement as they develop new ways of proceeding forward together.

“Product building is a five-year task. Movement building, on the other hand, is a generation-long challenge.”

2

PART II: BUILDING THE IMPACT INVESTING MARKET

In conducting our scan of the impact investing field, we have found it useful to examine progress in terms of six dimensions: unlocking capital, placing and managing capital, determining the demand for capital, assessing impact, creating an enabling environment and building leadership.

3 ACHIEVEMENTS AND CHALLENGES: WHAT'S HAPPENED SO FAR, AND WHAT HASN'T

The past four years of industry building in impact investing have been dynamic, creative and, above all, productive. Tangible gains have been made in the mobilizing of capital for impact investments by a growing number of players. The quantum of capital has risen steadily, key intermediaries have emerged, and there has been significant growth in innovative products and platforms for investors. However, while there is also evidence of gains on the demand side of the sector, there are still too few investment-ready projects and enterprises to enable the optimum placement of this new capital. The good early-stage work of building initial global standards and rating systems for the industry still requires more time and better articulation, given the proliferation of decentralized methods used to measure the impact of investments. And, while very good progress has been made in establishing a global network on impact investing, here too, there is much more yet to be done, especially in facilitating the building of platforms and partnerships in the developing world.

In conducting our scan of the field, we have found it useful to examine progress over the past four years in terms of six dimensions crucial to building the impact investing industry: unlocking capital, placing and managing capital, demand for capital, assessing impact, creating an enabling environment and building leadership. A closer look at each of these areas provides a clearer assessment of the achievements and challenges in the field-building process. Further, this more granular review is also instructive as to what should come next in the industry-building process and, especially, the priorities necessary for accelerating action toward the maturation, scale and sustainability of the field.

3.1 UNLOCKING CAPITAL

Overall, there has been a significant acceleration of capital mobilization toward impact investing. In addition to an increase in the variety of investors engaged, larger volumes and more types of capital are being deployed globally. There are positive signs to suggest even greater interest and activity in the short term. Despite this tangible progress, though, there is a significant variation between where capital is deployed and where it is needed, a mismatch between the type of capital being offered and the demand for this capital, and a large pool of financial assets that has yet to be tapped for impact investing.

3.1.1 More Investors

Much productive activity in the past four years has focused on mobilizing and coalescing influential investors to deploy additional capital toward impact. This has included foundations, financial institutions, and impact investment funds, among others. The principal motivations and drivers for each of these actors, in addition to a shared desire for enhanced social or environmental outcomes, vary considerably. Indeed, more foundations are keen to deploy the full range of their endowments in the service of their missions. Financial institutions are seeking innovative ways to fulfill their community obligations by using their core assets and expertise. In general, impact investors welcome the opportunity to collaborate with a broad spectrum of investors to deploy more capital, more quickly, and in innovative ways, to address pressing social issues.

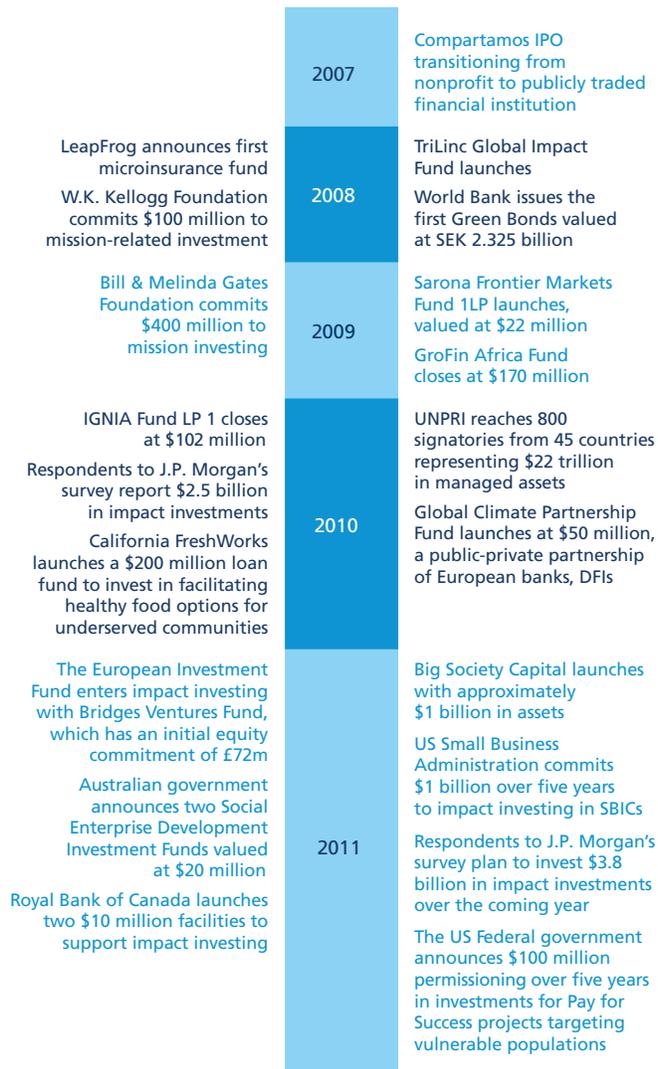
There has been a significant acceleration of capital mobilization toward impact investing.

Both impact-first and financial-first investors have unlocked capital for impact.

Current impact investors, such as the F.B. Heron Foundation in the United States, have scaled up their activities. Though impact-first investors such as RSF Social Finance continue to be prominent in the field, a growing number of financial-first investors are actively interested and willing to be engaged, including J.P. Morgan Social Finance. High net worth individuals and family offices have also emerged as key actors in directing capital toward impact and building impact-oriented portfolios. The Omidyar Network is a leader in this regard.

Over the past four years, impact investing has seen broader, though slow, engagement of institutional investors—pension funds, sovereign wealth funds and major corporations. The stewards of this type of capital are increasingly aware of the merits of embedding non-financial considerations within their investment decision-making frameworks. Many of the world’s largest institutional investors are signatories to the United Nations Principles of Responsible Investing (UNPRI). While a few notable institutional investors are engaged in impact investing, such as the TIAA-CREF (Teachers Insurance and Annuity Association and College Retirement Equities Fund) pension fund in the US, a large proportion of them still do not yet practice it, favoring negative or positive screening of investments using environmental and social criteria instead of positive impact investments.

Figure 6: Selected Examples of Unlocking Capital



Notwithstanding the slow engagement of the large financial institutions, overall investor activity in impact investing continues to grow. A 2011 study surveyed investors representing over 2,200 private transactions totaling more than \$4 billion of investment, up from 1,000 transactions and almost \$2.5 billion in the previous year.²⁵ Nonetheless, the industry is still perceived to be relatively young: three-quarters of active impact investors in the same survey describe the current impact investing market as “in its infancy and growing.”²⁶

3.1.2 A Broader Range of Capital

More capital is being directed toward impact investing. The exact magnitude and nature of the influx is under debate, but the Monitor Report estimated that the industry could grow to \$500 billion within five to ten years, representing an estimated 1% of global assets under management in 2008.²⁷ In late 2010, a survey by J.P. Morgan and the Rockefeller Foundation projected a market size of profit potential ranging from \$183 billion to \$667 billion, and invested capital in the range of \$400 billion to nearly \$1 trillion.²⁸ To date, this capital has largely originated from industrialized countries, particularly the United States, the United Kingdom and selected European countries.

The amount of impact-oriented capital has steadily increased. This has given rise to a larger number of impact-oriented funds targeting a wider range of regions and themes. One concrete expression of these trends involves ImpactBase, the database of funds housed on the GIIN’s website. At the end of 2011, 128 funds were listed on ImpactBase, representing a major increase from earlier years.²⁹ The funds and other investors also channel impact capital through a greater variety of asset classes.³⁰ Finally, there is broader regional coverage, with impact capital now flowing to enterprises and projects in all regions of the world, and to many more countries than ever before.

While these gains have indeed been impressive, there are limits to this effort, too. First, an overwhelming proportion of capital for impact investing continues to originate in the Global North. Second, microfinance and housing continue to dominate as the leading targets of impact investment activity. The field must thus work to diversify both the sources of its capital and the targets of its investments.

There is a third issue, as well: there is a lack of clear data on investment returns, both financial and social. Much of this is owing to the general early-stage nature of the impact investing industry as a whole. Many, if not most, impact investments simply have not had enough time to mature and realize their downstream results. In some cases, where outcome data could be available, the systems for collecting and making such results available to others remain underdeveloped—as do the incentives for actually sharing the data.³¹ Tracking accurate, real-time information on impact investments has proven difficult for the industry with respect to funds domiciled in emerging and frontier markets, as well as impact capital deployed by sovereign wealth funds. Adding to this set of challenges is the fact that much investment activity that may have a real social and environmental impact—such as commitments to SME investment by multilateral and bilateral agencies, and investments in renewable energy and clean technology—may not, in fact, use the label “impact investing” per se.

The field must work to diversify both the sources of its capital and the target of its investments, and to build bigger data sets on investment returns.

Figure 7: Mean Number and Value of Impact Investments



Source: Saltuk, Bouri and Leung, *Insight into the Impact Investment Market*, 2011

3.1.3 Continued Interest and Activity

The level of interest and activity in deploying capital toward impact is very encouraging. The prime challenge, and opportunity, is to build on this momentum. Raising capital in the midst of the prolonged financial downturn in the West appears to have led to less capital being secured than might have otherwise been the case. Despite this, though, there is evidence to suggest that current impact investors plan to increase the scope and scale of their activities in the coming year, even amidst the sluggish global recovery.³² Interestingly, there seems to be a continued enthusiasm on the part of new entrants to the industry to raise still more private equity funds. Supported by an emerging track record for impact investing, there is a good chance that 2012 will see even more activity than in previous years, including the emergence of new funds, new investments by existing funds, and exits by well-established funds.

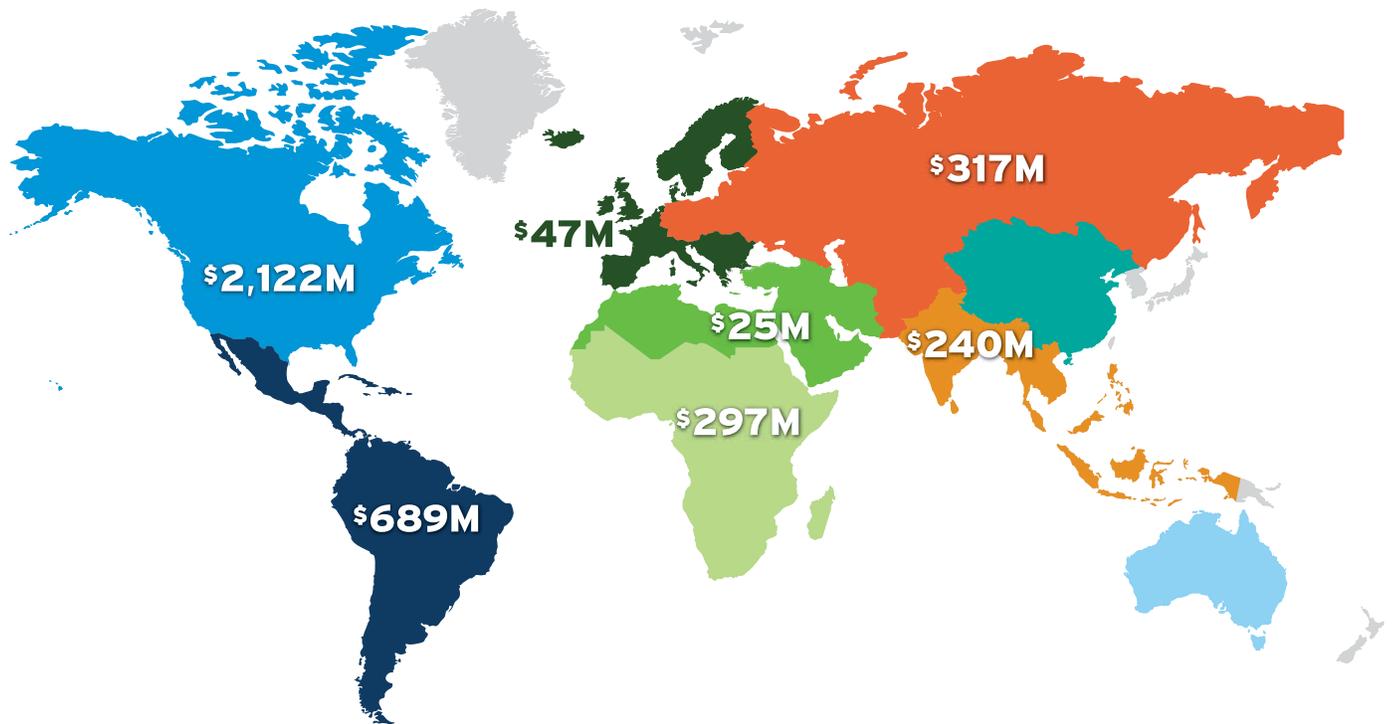
A growing number of investors are worth following closely in the years ahead, particularly with regard to their experience in deal sourcing, the nature of the investments they make, and the financial and social returns they ultimately will realize. For example:

- The Overseas Private Investment Corporation (OPIC) has committed to providing up to \$285 million in equity funds in order to leverage more than \$875 million in additional capital in emerging markets. In addition to amplifying the impact of its capital through a fund of funds approach, OPIC has been encouraged by interest in this initiative and is expected to increase its capital commitments in impact investing in 2012.
- Regional funds established by IGNIA (Latin America), GroFin (Africa) and Bridges (UK) have all attracted significant capital, and are led by teams of experienced leaders in impact investing in their respective regions. For example, IGNIA Fund LP 1 closed in 2010 at \$102 million as the largest impact investing fund in Latin America, capitalized by both financial-first and impact-first limited partnerships.
- Big Society Capital will capitalize social finance intermediaries through a £600 million fund, using the assets of dormant bank accounts to leverage £200 million from the UK's leading commercial banks. This initiative will provide important lessons on how to mobilize new sources of capital from public and private investors, and how to deploy them in a sustainable manner.
- The US Small Business Administration (USSBA) Impact Investing initiative aims to unlock \$1 billion in financing for Small Business Investment Companies (SBICs) that will have positive impacts on distressed economic regions in the US. The potential of the initiative is substantial, with \$1 billion to be deployed over five years. This case represents an important example of how governments can harness impact investing for job creation efforts.

There is a good chance that 2012 will see even more impact investing activity than in previous years.

- The \$25 million African Agricultural Capital (AAC) Fund was capitalized with an \$8 million commercial loan from J.P. Morgan (50% of which is guaranteed by United States Agency for International Development's (USAID's) Development Credit Authority) and by \$17 million in equity investment from the Bill & Melinda Gates Foundation, the Gatsby Charitable Foundation, and the Rockefeller Foundation. This example demonstrates how impact-first and financial-first investors can collaborate on deals in specific sectors through a variety of financial vehicles.

Figure 8: Value of Reported Investments, by Region, 2011



Source: Saltuk, Bouri and Leung, *Insight into the Impact Investment Market*, 2011

3.1.4 Challenges in Unlocking Capital

Clarifying investor expectations: As capital has been unlocked, the segmentation of impact-first and financial-first investors has proven to be a useful way of classifying investors. However, this notion is not always linear. For example, the distinction between financial and social returns is less clear for impact investors that have a range of types of capital to deploy. Moreover, the spectrum of possible combinations of financial and impact returns is compounded by a relative paucity of benchmark data on realized returns. Expectations for impact investing in emerging markets seem to be competitive with (or higher than) benchmarked realized returns. In contrast, there is evidence of lower return expectations for impact investments in developed markets.³³

Defining a reasonable rate of return: The past four years have seen impact investors launch funds and engage in deals with expectations of financial returns that vary considerably. For example, risk-adjusted financial return expectations for the impact funds profiled in Table 1 range from zero to 25%, and vary across asset class. A recent analysis of the field as a whole by the GIIN and J.P. Morgan for debt-related investments found that expected gross annual yields ranged, on average, from three to four percent for nonprofits and from seven to eight percent for for-profit impact investors.³⁴

Challenges in unlocking capital include clarifying investor expectations and defining a reasonable rate of return.

Table 1: Four Impact Investing Funds

Fund	Year Founded	Focus	Assets Under Management/ Investments Made	Expected Rate of Return*
Acumen Fund	2001	Loans and equity investments in Africa and Asia in businesses focusing on health, housing, water and energy	\$70 million in 65 enterprises	6%
Calvert Foundation	1988	Loans to community-based financial institutions in 100 countries	\$200 million	0–2%
IGNIA	2008	Venture capital firm placing long-term investments in companies providing products and services to BoP populations in Latin America	\$102 million	25%
Root Capital	1999	Loans to farmers' cooperatives in Africa and the Americas	\$120 million in loans between 1999 and 2011	2.5–3.0%

* Rates of return are not risk-adjusted

Sources: Acumen Fund, Calvert Foundation, IGNIA, Root Capital, 2011–2012

Existing capital is not provided frequently enough in a form that matches the fullest demand for these funds.

Aligning capital with demand: There is evidence to suggest that while the sector could benefit from more capital, existing capital is not provided frequently enough in a form that matches the fullest demand for these funds.³⁵ In particular, there is much interest in the concept of patient capital,³⁶ financing offered over longer time frames and on softer terms than traditional investments³⁷ (though it can be argued that a large segment of financing currently on offer is not very patient or tolerant of risk). A recent survey found that a majority of impact investors in developing markets experienced longer than expected holding periods for their investments.³⁸ Unlike in the private sector, there is an absence of a well-functioning “capital curve” for social businesses that matches the right kind of capital to the best prospects for profitability (see Box 8: Developing the Blended Capital Curve).³⁹ For direct investments in social businesses, there is a lack of early-stage funding. And equity financing is more readily available than debt financing. Part of the reason for this is that the lender usually requires a track record in order to assess the borrowing enterprise’s ability to repay the loan requested, as well as the ability of the enterprise to generate consistent cash flow. Many early-stage ventures do not have such track records and so must opt for equity financing, if it is available. These and other factors contribute to what some call the “missing middle” finance challenge for SMEs.⁴⁰

Allocating more toward mission: Foundations continue to catalyze developments in the sector, and the grantmaking of the Rockefeller Foundation’s Impact Investing Initiative to the field is particularly notable. Foundations and other grantmakers can mobilize grant capital to help build the impact investing ecosystem. Some of these program funds are deployed as PRIs that support the scaling of asset-managing intermediaries. In the process, this accelerates the ability of the industry to carry out individual transactions. At the same time, there remains much to be done to overcome the dichotomy that persists in most quarters between traditional grantmaking and investments in the philanthropic sector. Nonetheless, in both the US and Europe, there are more cases of foundations that are directing a broader range of their assets, notably their endowments, toward mission.⁴¹ The philanthropic sector has issued several valuable publications that provide guidance on the strategies and implementation of mission-related investments.⁴² But, questions are still raised by trustees and management regarding fiduciary responsibility, even though these have been widely examined and addressed.⁴³ Smaller private and family foundations, such as the KL Felicitas Foundation and Hull Foundation in the US, are leading the way in many jurisdictions, though somewhat larger foundations, such as F.B. Heron, are also proving to be leaders in both mission-related investing and in program-related investments.

Table 2: Challenges and Risks for Impact Investors

Challenges to Industry Growth (Top 5)	Biggest Risks Investors Face (Top 5)
a) Lack of track record of successful investments	a) Illiquidity or long tenors of investments
b) Shortage of quality investment opportunities	b) Uncertainty regarding achievement of stated impact objectives
c) Inadequate impact measurement practice	c) Backing a management team without an established track record
d) Lack of innovative deal/fund structures to accommodate portfolio	d) Uncertainty regarding achievement of stated financial returns
e) Lack of common vernacular for talking about impact investing	e) Political/macroeconomic risk associated with targeted regions

Source: Saltuk, Bouri and Leung, *Insight into the Impact Investment Market*, 2011

3.2 PLACING AND MANAGING CAPITAL

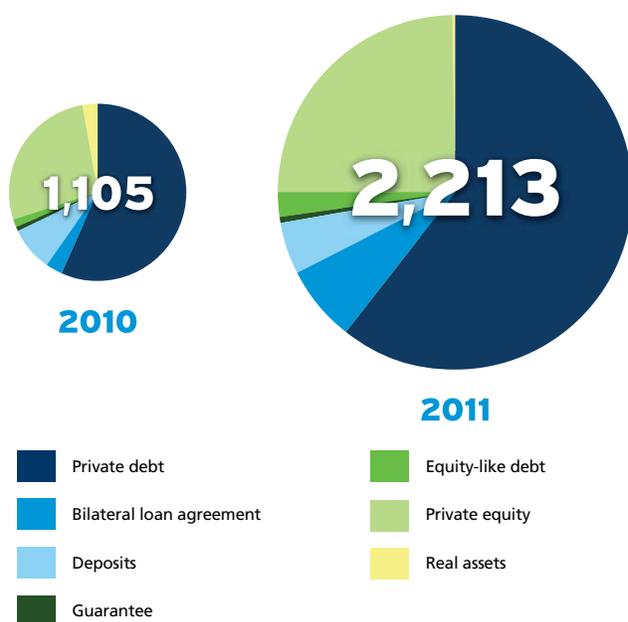
Placing and managing capital have proven more difficult than raising capital. Overall, there has been steady, yet uneven, progress in the development of intermediation globally. A cohort of specialist intermediaries has emerged over the past few years, though they are still limited to certain regions and sectors. Furthermore, mainstream players are increasingly interested and engaged in impact investing. These developments have given rise to the creation of innovative products that can place capital across a range of sectors and regions, and across various asset classes. In addition, there are many more examples now of deals that combine different types of capital and investors.

3.2.1 Several Sectors and Asset Classes

Examining some 2,200 impact investments across the Global North and Global South worth nearly \$4.4 billion, the GIIN and J.P. Morgan found that fully 75% of these investments took the form of debt instruments, especially private debt. The same study found that, in terms of sectoral targeting, these investments were concentrated in microfinance, housing and cross-sectoral projects.⁴⁴

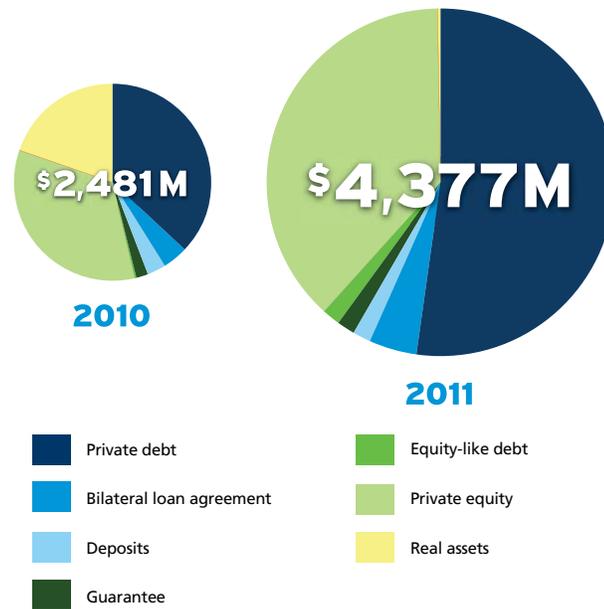
There has been steady, yet uneven, progress in the development of intermediation globally.

Figure 9: Number and Type of Reported Impact Investments, 2010 and 2011



Source: Saltuk, Bouri and Leung, *Insight into the Impact Investment Market*, 2011

Figure 10: Value and Type of Reported Impact Investments, 2010 and 2011



Source: Saltuk, Bouri and Leung, *Insight into the Impact Investment Market*, 2011

3.2.2 Key Intermediaries

A number of firms have repeatedly surfaced as the key specialists for deal origination, deal structuring and portfolio structuring and management.

During the period under review, a number of firms have repeatedly surfaced as the key specialists for deal origination, deal structuring, and portfolio structuring and management. These include companies that manage funds, such as Blue Orchard, Sarona Asset Management and ResponsAbility, and those that don't, such as financial services firm Imprint Capital. Other smaller firms are also beginning to play important roles in pushing the frontiers of impact investing, such as Social Finance, ImpactAssets, Total Impact Advisors, Lion's Head and Open Capital—again, a mix of intermediaries that manage money and those that don't. Some mainstream financial institutions have also established departments focusing on social enterprise and impact investment. Notable examples here are J.P. Morgan Social Finance, UBS and Barclays UK. It is perhaps telling that all of these companies are headquartered in the Global North.

In the absence of sophisticated intermediaries, many early impact investors, such as TIAA-CREF in the US, have played an intermediation role themselves by building in-house expertise. There has recently been more interest and activity to deliberately strengthen the capacity of existing intermediaries and to create new ones, such as the establishment of Big Society Capital in the UK. In addition, development finance institutions (DFIs)—which are government-sponsored institutions that invest aid funds to achieve poverty reduction as well as financial returns—have spurred fund management activity in impact investing, notably the recent initiative by OPIC. Other DFIs involved in impact investing include Norfund (Norway), FMO (Netherlands) and the Commonwealth Development Corporation (CDC) (the UK).

3.2.3 Growth of Innovative Products and Platforms

Financial products and platforms are the vehicles by which investments are channeled to opportunities on the ground. The increasing sophistication of intermediaries has been paralleled by a growing number of innovative financial products and deal structures. Indeed, there has

been a wide range in the type of products that have been developed to match diverse investor preferences. In particular, social impact bonds constitute one of the key examples in this regard and are garnering significant interest globally. Other examples include green bonds and vaccine bonds, both of which have demonstrated impressive ability to raise and deploy capital at scale. For their part, “yin yang” deals present exciting opportunities to creatively combine capital. Impact-first investors tend to anchor these structures through investments by foundations made through program-related investments of their grant funds. Foundations may also tap their endowments to place mission-related investments in such yin yang deals.

Box 2: Social Impact Bonds

Pioneered by Social Finance UK in 2009, the social impact bond (SIB) is a financial contract with the public sector that rewards private investors for the achievement of specific, pre-defined social outcomes.[†] The first SIB was launched in Peterborough in late 2010 and targeted the issue of prisoner recidivism. The uniqueness of this vehicle spans several areas: financial structuring, payment by outcomes, service provision contracts and social impact measurement. Developing the building blocks for a successful SIB requires significant time, effort and money.[‡] The initial investors have been primarily foundations (some of which invested through their PRIs) and high net worth individuals, and significant grant support has underwritten the research and development for the social impact bond. The popularity of the SIBs has expanded activity in the UK and the US (through a \$100 million commitment for “Pay For Success” bonds). There are additional proposals for SIBs in several other countries, including Canada and Australia. This is an exciting, but very young, innovation in impact investing. It remains to be seen whether the actual results that will be achieved will live up to the high expectations currently being placed on SIBs.

[†] E. Bolton and L. Savel, *Towards a new social economy: Blended value creation through Social Impact Bonds* (London: Social Finance Ltd., 2010).

[‡] J. Loder, G. Mulgan, N. Reeder and A. Shelupanov, *Financing Social Value: Implementing Social Impact Bonds* (London: Young Foundation, 2010).

Box 3: Vaccine Bonds

Vaccine bonds are a vehicle through which impact investors provide upfront capital to stimulate the development of vaccine research and development. Without this type of incentive, there is an under-investment in research and development to address deadly diseases faced by the Global South. The long-term benefits of vaccines have been shown to be significant. Thus these investments have also tended to be backed by international aid commitments. In late 2011, the International Finance Facility for Immunization (IFFIm) announced the issuance of \$170 million equivalent of AAA-rated vaccine bonds in Japan, following the success of bonds issued in 2008, which raised the equivalent of over \$1 billion.

Box 4: Green Bonds

Championed by the World Bank, green bonds allow investors to support projects that mitigate climate change while generating a financial return. Since the inaugural issue in 2008, the Bank has issued approximately \$3 billion in green bonds through 44 transactions and 16 currencies. The proceeds of the bonds support World Bank-funded projects that are designed to tackle the causes and consequences of climate change in the developing world.

In spite of these and other innovative products and vehicles, there are still relatively few products for institutional investors to place capital at scale. The exceptions are affordable housing and, more recently, microfinance and clean technology. These sectors require longer track records of performance and a more sophisticated set of intermediaries that can aggregate capital at scale, and deploy it in an efficient manner. The importance of engaging large institutional investors is stressed by many impact investing leaders around the world. These large institutions include big banks, pension funds, sovereign wealth funds, development finance institutions and major corporations. There is no question that this task must be a priority for the industry in the years ahead.

In spite of much innovation, there are still relatively few products for institutional investors to place capital at scale.

In contrast, retail impact investing, which involves investments made by **individual investors** on their own behalf, has proven to be an area of growth. A plethora of crowd funding platforms have surfaced and are providing opportunities for micro-philanthropy and investments in small enterprises. Of these, Kiva is arguably the most prominent. Some products, such as the Calvert Community Investment Note and socially responsible mutual funds, are providing broad accessibility across multiple investor segments, including, especially, retail investors.

Box 5: Yin Yang Deals

As described in the 2009 Monitor Report, “yin yang” deals mobilize both impact-first and financial-first investors within the same deal structure, using a symbiotic relationship that allows each to achieve their social and financial objectives, respectively. These structures allow for the participation of investors that may be socially motivated but face fiduciary-duty constraints to seek certain thresholds of financial return (such as pension funds), while allowing impact-oriented investors with greater flexibility in their desired financial returns but a higher bar for social returns the opportunity to engage in deals that otherwise might not happen. A publication in 2010 by the Parthenon Group and Bridges Ventures provided several case studies of yin yang deals across asset classes.[†] Yin yang deals that have set important precedents include

- The African Agricultural Capital (AAC) Fund, which combined commercial capital from J.P. Morgan with a loan guarantee and PRIs and demonstrated one model for mitigating the risk of investing in agriculture;
- Mtanga Farms, which represents another intriguing example of impact-first and financial-first investors collaborating in the same sector;[‡] and
- The Alliance for a Green Revolution in Africa (AGRA), which provides a model of how anchor government funding can lever commercial commitments.

[†] T. Palandjian, *Investing for Impact: Case Studies Across Asset Classes* (Washington, DC: Bridges Ventures, The Parthenon Group, Global Impact Investing Network, 2010).

[‡] GIIN, *Improving Livelihoods, Removing Barriers: Investing for Impact in Mtanga Farms* (New York: Global Impact Investing Network, 2011).

Investors must address these key issues: access to information, liquidity and options for exit.

Secondary markets are important avenues for investors to address three key issues: access to information, liquidity, and options for exit. Social stock exchanges are emerging in several countries, including the UK, Brazil, South Africa, Singapore and Canada. While many are still under development or have only recently been launched, these exchanges have signaled their potential to reduce transaction costs for investors while also strengthening the investment readiness of social ventures through well-defined listing criteria. In addition to the social stock exchanges, several other impact investment platforms, such as GATE and Mission Markets, have also garnered interest. GATE is a pilot impact investing platform that enables investors to research, trade and manage their portfolios in a secure, online environment. For its part, Mission Markets operates a financial marketplace that supports social entrepreneurs to raise capital and promote their products while assisting impact investors to discover investment opportunities and gain access to social and financial data.⁴⁵

3.2.4 Models of Risk Assessment

Risk assessment remains an underdeveloped but improving area of impact investing. In many cases, the uncertainty of operating in complex contexts does not lend impact investing to traditional quantitative risk-analysis approaches.⁴⁶ Several global efforts aimed at building and consolidating information for enhancing risk assessment have gained prominence over the last few years. In particular, the Global Impact Investing Rating System (GIIRS) and the Impact Reporting and Investment Standards (IRIS) are both supported by an impressive set of impact investors, and are increasingly utilized as one component of risk assessment. Both efforts, as we describe later in this report, are continuously being refined.

Discussion of risk in impact investment usually focuses on the due diligence process for assessing prospective investments. In many cases, there is a perceived trade-off between financial and social returns. It has been generally assumed that investors face a choice of optimizing on one dimension or the other, but not both. While this may have been the case in earlier years, that forced dichotomy may be changing, at least among current impact investors. According to a recent survey, 60% of impact investors do not believe that a trade-off between impact and financial returns is generally necessary.⁴⁷ Nonetheless, understanding the interplay between risk and return remains an area with which investors continue to grapple. In the same survey, investors identified the second biggest risk they face as “uncertainty regarding achievement of stated financial returns.” Despite the fact that respondents highlighted significant risks to making impact investments, 60% indicated that risk is “similar” to that of comparable non-impact investments.⁴⁸

Risk assessment also goes beyond due diligence. For example, many investors are recognizing the limitations of their financial return models when they fail to take into account longer-term drivers of economic and societal value creation. Instead, the impact-motivated practices of these investments can be seen to deliver long-term value, rendering this a source of strength, rather than of vulnerability.⁴⁹ This also applies to institutional capital whose trustees and managers are under increasing pressure to take a long-term, multi-faceted view in their investment decisions.⁵⁰

One promising model of reducing risk worthy of attention is that of Toniic, an investor-led network that carries out due diligence and syndication on behalf of the collectivity of its members. Another risk-management model, that of Village Capital, enables peer cohorts of social entrepreneurs to work together to determine the target of the investment and to support each other in the business-modeling and implementation stages. Notwithstanding these gains, models and other innovations, it must be emphasized that impact management should not be reduced to risk management. There is much more to the former, of course, that goes far beyond considerations of risk.

Box 6: Toniic: Investor-Led Due Diligence

Toniic has gained attention as an investor-led network-based model for reducing the costs and risks of investing in early stage ventures. Toniic operates as a membership fee-based network that generates deal flow through referrals from its members who may have established relationships with entrepreneurs in their own regions. Members are expected to bring forward prospective deals, and to champion due diligence efforts on behalf of the collective if the deal is of interest to the network. In this way, members benefit from the deal flow to which they may not have otherwise had access. Plus, the screening and syndication processes provide an added level of assurance, while reducing the costs of individually conducting separate due diligence processes.[†] Efforts are also made to syndicate investments through the network. Toniic staff provide support to members across a continuum of activities, from due diligence to closing deals.

[†] J. Kohler, T. Kreiner and J. Sawhney, *Coordinating Impact Capital: A New Approach to Investing in Small and Growing Businesses* (Santa Clara: Santa Clara University, 2011).

Box 7: Village Capital: Entrepreneur-Led Due Diligence

Village Capital represents a novel approach to due diligence, by placing a greater onus on entrepreneurs rather than on investors. The model harnesses the power of peer cohorts of early-stage social entrepreneurs, where peers determine the target of the investment among their cohort, while mentoring and supporting each other through the program as they refine their business models. This model has the advantage of significantly reducing the costs of due diligence and deploying capital. In addition, it empowers the entrepreneurs that form the cohort, imposes a high bar for all business models, and strengthens the incentives for investors to make commitments by lowering the costs of due diligence.[†]

[†] R. Baird, “Seed-Stage Investment and Support: Closing the Gap to Growth in Impact Investing,” *Innovations: Technology, Governance, Globalization* 6(3) (2011): 142.

Risk assessment remains an underdeveloped but improving area of impact investing.

3.2.5 Challenges in Intermediation

Creating more accessible financial products: New financial products and the industry's emerging track record are both levers for greater future activity. Today, there are encouraging trends: targeted initiatives such as green bonds have demonstrated the ability to draw in capital at scale; social impact bonds are attracting much attention; and online impact investment markets continue to demonstrate steady growth and uptake. Some products (such as negative screening for institutional investors or Kiva loans for retail investors) have proven easier to access than others. A special effort must be made to create products that are accessible to and meet the needs of large institutional and corporate investors. Overall, then, developing a greater variety of products should continue to be a priority for the impact investing industry as investors seek opportunities that match their risk/return/impact profiles.

Strengthening intermediary capacity: Beyond scattered pockets of expertise in specific niches, such as microfinance and responsible investment, and in particular regions (notably the US and UK), there is not yet a well-developed spectrum of intermediaries. In a recent industry survey, the lack of a track record of successful investments and a shortage of quality investment opportunities ranked as the top two challenges to industry growth.⁵¹ Correspondingly, there is a need to build the capabilities of new impact investment intermediaries, as well as to provide more incentives for existing financial intermediaries to become engaged in this sector. This is particularly an issue for institutional investors that will consider deals of a certain size only, and require products that adhere to their existing fiduciary obligations. While these requirements are challenges for smaller direct investments, microfinance and affordable housing can meet these more stringent tests. Furthermore, as some leaders in the field told us, new products in infrastructure and green real estate can be created for institutional investors, as well.

Strengthening due diligence tools: Due diligence is often a private or proprietary activity held closely within individual firms or institutions. Firms developing this intellectual property lack incentives to share these tools and processes. This has amplified the challenges of accurately assessing risk for business models that creatively deliver social and financial returns. Search costs are high, as “investment-ready” opportunities are difficult to find. Also, the costs of due diligence for early-stage investments that require relatively small amounts of capital result in high transaction costs. Many other issues are similar to those faced by venture capitalists in emerging markets, including heightened company, country, currency and legal risks.⁵² Further, impact investors may give greater weight to additional risks that are more pronounced for these business models, such as reputational and impact risks (e.g., investments that sacrifice social impact for financial returns, and aggravate existing social conditions and concerns).⁵³

Structuring more yin yang deals: As should be expected, aligning the risk, return and impact preferences across investor segments is not an easy task, even where the key actors share common motivations. There is still more appetite for yin yang deals in the industry. However, the very real costs to specialized intermediaries of bringing together investors with varying risk/return/impact preferences remain a challenge. We now have some evidence of the performance of these structures. But it is still early days for many of them, and more data and insights will become available over time. Inasmuch as they bring together concessionary oriented (below-market rates of return) capital and commercially oriented (market rates of return) capital, these innovative financial structures still tend to be driven by impact-first investors—at least, so far.

Developing liquidity mechanisms: Secondary markets can provide some assurances with regard to liquidity and exit concerns. However, accessing evidence on the nature of exits in self-identified

A greater variety of financial products, stronger intermediation capacity, better due diligence tools and more yin yang deals all must be pursued.

impact investment funds remains problematic. While the development of secondary markets has generally lagged in the impact investing industry, there are some notable steps forward, such as social stock exchanges. As the market matures, social stock exchanges can be important; they provide a useful mechanism to address key investor concerns of liquidity and exit, and to increase transparency of financial and social information. In some jurisdictions where these markets have emerged, though, adopting a notion of “if you build it, they will come” has not yet been borne out as a successful strategy. Instead, there is a need for more concerted effort to build the pipeline of “investment-ready” ventures that align with the risk/return/impact preferences of the capital on offer. The question of how to do this effectively is being tackled in different ways by various initiatives around the world.⁵⁴

Building secondary markets and a pipeline of investment-ready ventures are both necessary.

Box 8: Developing the Blended Capital Curve

Different classes of investors can layer their capital at various points in order to create a “blended capital curve,” which satisfies different risk/return/impact combinations. For example, impact-first investors, such as venture philanthropists, can provide early-stage finance that delivers low financial/high risk/high social returns. Government can provide a combination of different types of capital, such as grant-funded technical assistance and below-market debt, to scale up proven ideas. Financial-first investors can provide larger investments at even greater scale.[†] Follow-on financing in between these stages can be made more efficient through better coordination from investors, using techniques such as phased investing (“baton pass”), co-investing and internal horizontal syndication.[‡]

The example of Husk Power illustrates the use of a “ladder of capital” that corresponds to the lifecycle needs of enterprises.[§] An initial grant from the Shell Foundation provided seed funding for proof-of-concept, business plan and strategy development, partial subsidy support for experienced senior managers, research and development, and technical assistance from experts, including Shell engineers and safety managers.^{††} These components enabled Husk Power to access commercial capital, allowing the latter to leverage the full benefits of the former, so that the organization could continue to refine its infrastructure and products. Additional investment came in a pre-Series A round with several impact investors (Acumen Fund, LGT Venture Philanthropy, Oasis Fund), and a subsequent investment by the International Finance Corporation.^{‡‡} The Shell Foundation continued to provide a “smart subsidy,” after these investments, to strengthen the organization’s human resources training and capacity. Husk Power remains one of the few examples of this approach, where several investors successfully overlay and phase in grant, concessional and commercial capital at various stages.

[†] M. Bishop and M. Green, “The Capital Curve for a Better World,” *Innovations: Technology, Governance, Globalization*. Special Edition for Tech4Society: A Celebration of Ashoka-Lemelson Fellows (2010): 29.

[‡] Kohler, Kreiner and Sawhney, *Coordinating Impact Capital* (2011), 32.

[§] B. Trelstad and R. Katz, “Mission, Margin and Mandate: Multiple Paths to Scale,” *Innovations: Technology, Governance, Globalization* 6(3) (2011): 49.

^{††} S. Desjardins, “The Need for a Smarter Funding Ecosystem,” *Innovations: Technology, Governance, Globalization* 6(3) (2011): 86.

^{‡‡} Trelstad and Katz, “Mission, Margin and Mandate” (2011): 49.

3.3 DEMAND FOR CAPITAL

While raising of capital continues to gain momentum, there has been a less visibly active push on developing the capacity of ventures to effectively prepare for and use infused capital.

Three particular elements in responding to the demand dimension include identifying scalable business models, building investment readiness, and nurturing the talent pipeline.

3.3.1 Scalable Business Models

The emergence of scalable business enterprise models that balance financial and social returns has been a key driver for impact investing. It seemed to be assumed that, if more capital was searching for these business models and if that capital could be allocated in a more efficient manner, there would be an ample set of opportunities in which to place it. However, the assumption of “investment-ready” demand has proven to be more complex than originally anticipated. Indeed, even leading impact investors continue to struggle to realize deal flow at scale.

Figure 11: Selected Examples of Demand

<p>Respondents to J.P. Morgan's survey report \$2.5 billion invested in over 1,105 deals</p> <p>The Canadian Task Force on Social Finance estimates \$450 million to \$1.4 billion of demand for start-up and growth capital amongst social enterprises in Canada</p>	2010	<p>Hope Consulting expects a \$120 billion market opportunity for impact investments</p> <p>The ANDE reports that 199 funds in emerging markets are raising \$1.5 billion for investment in high-impact, high-growth businesses</p>
<p>Respondents to J.P. Morgan's survey report \$4.3 billion invested in 2,213 deals</p>	2011	<p>The Big Society Finance Fund estimates a need for £50 million to £100 million in commercial capital and £50 million to £100 million in semi-commercial capital to invest in social finance</p>
<p>West Africa's high-impact sectors will require an estimated \$65 billion in investment, reports Dalberg</p>	2011-2016	
	2011-2020	<p>Avantage Ventures projects that social enterprises in affordable housing, water and sanitation, rural energy, rural and elderly health care, primary education and agri-business will need between \$52 billion and \$74 billion to unlock market demand between \$52 billion and \$158 billion</p>

Progress is being made in identifying scalable business models in Africa and Asia.

Simply identifying scalable business models continues to pose a challenge. However, two publications by the Monitor Group on market-based solutions (MBSs) have made important contributions to this area. The first, in 2009, examined more than 270 initiatives over the course of a year, in order to analyze the business models that can and have achieved self-sufficiency by focusing on low-income markets.⁵⁵ The second study, in 2011, placed a similar lens on MBSs in Sub-Saharan Africa, through an analysis of nearly 440 initiatives in nine countries.⁵⁶ Both studies identified a core group of seven business models across the two regions, along with evidence of several additional, successful business models in Sub-Saharan Africa. The 2011 study also included a chapter summarizing the key challenges and opportunities for existing and prospective impact investors.

Worth noting as well is the Rockefeller Foundation's current exploratory work on impact enterprises, which is an effort to address some of the issues related to the demand side of impact investing. In particular, the Foundation is testing a range of business models in the business process outsourcing ("impact sourcing") sector in Kenya, South Africa, Ghana and India.

Box 9: Successful Business Models in Asia and Africa^{†‡}

Smallholder Farmer Aggregators	Shared Channels
Improved Informal Shop Distribution Models	Contract Production/Contract Farming
Private Vocational Training Colleges	Deep Procurement (direct to the BoP)
“Last Mile” Infrastructure	Demand-Led Training
Mobile-Enabled Non-Financial Services	Mobile Money
Distribution through Dedicated Direct Sales Force	Microcredit
Pay-Per-Use	Microsavings
No Frills Service	Microinsurance
Paraskilling	

[†] A. Karamchandani, M. Kubzansky and P. Frandano, *Emerging Markets, Emerging Models: Market-Based Solutions to the Challenges of Global Poverty* (New York: Monitor Group, 2009).

[‡] M. Kubzansky, A. Cooper and V. Barbary, *Promise and Progress: Market-Based Solutions to Poverty in Africa* (Cambridge: Monitor Group, 2011).

3.3.2 Investment Readiness

Successful ventures often require a level of capacity development to achieve “investment-ready” status. Essentially, this is the ability to demonstrate that capital can be utilized effectively to grow the business, and to provide enough confidence that it can generate the returns that the owners of capital seek. Few scalable or sustainable models exist to build investment readiness for seed and early-stage ventures, where much of the activity and interest lies, particularly in the sectors and issues relevant to impact investors.⁵⁷

Building the internal infrastructure and capacity to execute these business models can take a variety of forms. This support has been delivered by investors in a traditional venture capital or private equity approach, as well as through grant-funded technical assistance, and a host of hybrid approaches that embed a combination of business and sector expertise. However, this type of support, in some countries and sectors, may not always be relevant to the enterprise’s needs. And the question of who should pay still persists. Some successful examples, which are not necessarily labeled impact investment, include programs delivered by Endeavor and the International Finance Corporation, both of which promote a strong market-driven approach.

3.3.3 The Talent Pipeline

The growth of social entrepreneurship—catalyzed by organizations such as Ashoka, the Skoll Foundation, and the Schwab Foundation—has spurred the creation of many new ventures across sectors and regions. Business-plan competitions, such as the Global Social Benefit Incubator, have encouraged aspiring students to create and test business models that address social issues, and have spawned a host of international case contests and competitions within business schools across the globe.

Popular fellowship programs have garnered widespread interest and visibility, as well. The Acumen Fund, Echoing Green, and the Unreasonable Institute all run such programs. Some fellowships provide early-stage innovators and entrepreneurs with an annual stipend, as well as access to networks and other resources in order to catalyze the development of their ideas. Other programs are designed to enable young professionals and those without prior experience in this sector to develop their talent in this field. For example, the Acumen Fund Fellows program places participants in Acumen investee social enterprises globally, while also providing its fellows with technical and leadership training. Experience shows that many of these fellows continue with their organizations at the end of the placement, or start their own social enterprises. However, such programs in general are not yet operating at the scale required to support large cohorts of entrepreneurs and ventures.

Successful ventures often require capacity development to achieve “investment-ready” status.

3.3.4 Challenges in Demand for Capital

Broadening the set of subsectors and themes: Despite the broad and inclusive definition of impact investing, a small number of subsectors have attracted a disproportionate amount of interest and activity. Microfinance is often cited as the best example of impact investing, and it attracts an inordinate amount of capital, deal flow and interest, especially in the Global South.⁵⁸ Affordable housing is another subsector where the scale at which it affords opportunities for impact investment exceeds many other subsectors, particularly in the United States.⁵⁹ Beyond these and other flourishing or established subsectors, there are large variances across the many subsectors of impact investing. Gaining a better sense of the performance of the fullest range of these subsectors is important in order to accurately portray the state of the sector as a whole, and the implications for how it could grow and evolve over time.⁶⁰

Greater engagement with other asset classes: Most impact investing activity still occurs via privately negotiated transactions that are heavily influenced by the practices of the experience and tools of venture capital and private equity. However, questions are posed now in the industry as to whether this is the appropriate model with which to balance profitability and the actual needs of these ventures. Many promising business models require a different type of capital than is available. In fact, they actually need a well-defined ladder of capital that can evolve as their needs change.⁶¹ As the market matures, we are likely to see the accelerated development of impact considerations across multiple instruments and asset classes. As well, many “traditional” firms, such as multinational corporations, are already active in this manner, employing improved business practices that have the potential to achieve social and environmental outcomes at a scale that dwarfs direct investment.⁶² There may be potential here to merge investor and corporate activity, especially in cases where there are well-defined, shared goals by the two parties.

Achieving scalable capacity development: Existing models of capacity development on the demand side have yet to achieve significant scale and reach. Many such models do not yet have a business model that has proven to be economically sustainable without an ongoing subsidy. This is especially true for capacity development for seed-stage and early-stage ventures.⁶³ The reality for many of these capacity development approaches is that in order to be effective, they must be tailored as closely as possible to the actual needs of the ventures. It is important to ground technical assistance in local realities, by, for example, translating tools into local languages, tailoring training to the specific regulatory and cultural context, and adapting supports to the different realities of each organization.⁶⁴ In fact, such technical assistance programs should be co-designed by local leaders among the target population to be served.

It is also true that the time- and resource-intensity of these efforts can be relatively high, especially for early-stage investments. In the case of many direct investments, education with respect to financial management and strategy tend to be priority areas, but the issues are often more complex. For instance, in some family-owned SMEs in developing countries, a discussion on readiness for equity infusion implies shifting the venue of the annual general meeting from the kitchen table to the boardroom, and all of the changes in dynamics, practices and transparency that such a shift entails.

Understanding market potential: In spite of many efforts over the past four years, detailed information on potential opportunities on the demand side remains difficult to find and access. There is a diversity of labels (e.g., SMEs, social enterprises, social businesses) to describe potential investment opportunities. The costs of discovering and vetting these specific opportunities must be absorbed either by the investor or the intermediary. Such front-end costs create a disincentive

Many promising business models require a well-defined ladder of capital that can evolve as their needs change.

for sharing this information widely. On the other hand, several studies have shown that there are opportunities to deliver this important market information in a manner that can provide broad-based and shared benefits.⁶⁵ The activities of industry associations, such as the Aspen Network of Development Entrepreneurs (ANDE), and certification standards, such as the Benefit Corporation initiative, are good starting points. But they must be complemented with more granular research focused on specific regions and themes.⁶⁶

3.4 ASSESSING IMPACT

Social measurement continues to be one of the most active areas in the field of impact investing. Efforts on impact assessment have accelerated over the past four years, though there is still much more work to be done. A number of global projects have gained prominence in recent years with the shared goal of providing a common set of tools on social measurement for investors, in particular. At the same time, a host of smaller, decentralized initiatives in impact assessment continue to exist, and even proliferate at the sector and organizational levels. Leaders in the field must find new ways of integrating and achieving synergies across the two levels of activity.⁶⁷

3.4.1 Impact Reporting and Investment Standards (IRIS)

Founded in early 2008 by a coalition that included the Rockefeller Foundation, the Acumen Fund and B Lab, with support from Hitachi, Deloitte, PricewaterhouseCoopers and USAID, the Impact Reporting and Investment Standards (IRIS) project has sought to provide a standardized taxonomy and a set of consistent definitions for social, environmental and financial performance. The IRIS initiative has involved the development and refinement of standards, the promotion of adoption of these standards, and the solicitation of anonymous performance data to build a data repository.⁶⁸ IRIS is intended to co-exist with other measurement initiatives, such as the Global Impact Investing Rating System (GIIRS), in order to provide industry stakeholders with a common language for output indicators (though not outcomes or impacts).

The initial version of the standards was launched in mid-2009. IRIS 2.0 was released in late 2010, after pilot testing by funds and integration of feedback from industry stakeholders. The GIIN became the institutional home for IRIS in late 2009. The IRIS data repository allows for the aggregation of data from funds and industry networks (such as ANDE and the MIX Market) to compile reports on industry growth and trends. The first IRIS data report, *Data Driven: A Performance Analysis for the Impact Investing Industry*, was released in 2011.

3.4.2 Global Impact Investing Rating System (GIIRS)

GIIRS Ratings & Analytics represents a set of third-party assessments of the social and environmental impact of both companies and funds. Using a series of key performance indicators and guided by the IRIS taxonomy of definitions, the GIIRS assesses companies as well as funds and their portfolio companies on four performance areas: governance, workers, community and environment. These assessments are intended to be comprehensive, comparable and complementary across the GIIRS Analytics platform that allows investors to compare data across sectors, regions and organizational sizes.

The beta testing period in early 2010 involved the 25 GIIRS Pioneer Funds with a combined \$1.2 billion in assets under management and invested in more than 200 high-impact companies in 30 countries.⁶⁹ GIIRS Ratings & Analytics was launched in the third quarter of 2011, with 15 GIIRS Pioneer Investors that manage approximately \$1.5 billion in total assets.⁷⁰ In late 2011, 15 new investment funds committed to GIIRS, representing over \$550 million in new capital.⁷¹

Efforts on impact assessment have accelerated over the past four years, though there is still much more work to be done.

3.4.3 Growth in Approaches and Capacity

The task of measuring outputs and outcomes at the enterprise level is an important issue, but it is one that lacks a definitive consensus on how it can be achieved. There is a variety of ways in which outputs and outcomes can be assessed; indeed, catalogues of tools and approaches currently used in the industry have been produced.⁷² Two tools are worth mentioning due to their prominence in the field. One is Pulse, a management information system originally developed from the pioneering work of the Acumen Fund; the current version of Pulse integrates the IRIS taxonomy.⁷³ Another tool is social return on investment (SROI), which is a methodology that seeks to monetize the social benefits that occur within an initiative. Still, while there are theoretical and practical linkages among all of these and other methods, systems and tools, the field of enterprise level measurement has not yet solidified into a common group of approaches that have been widely accepted and utilized.

The quest for measurement standards in impact investing is related to philanthropic initiatives, on the one hand, and ESG metrics, on the other. In the case of the former, organizations such as Charity Navigator in the US, New Philanthropy Capital in the UK and Charity Intelligence in Canada are all building business models with the aim of making charities more transparent. In the case of the latter, research and information providers such as Bloomberg and Sustainalytics have responded to market demand to ESG criteria across several sectors. Perhaps not surprisingly, the availability of comparable data for social ratings tends to be the weakest of the ESG areas.

Specifically related to impact assessment, networks such as the SROI Network, ANDE and the Social Impact Analysts Association are beginning to build in-person and virtual communities that can address issues of social impact measurement. These networks are being augmented by collaborators from the evaluation field, along with institutions that advocate experimental-design methodologies, such as randomized control trials. This robust growth in the range of actors, approaches and tools for impact assessment has increased the level of activity, but not necessarily the level of alignment or coherence among them.

Robust growth in the actors and activity in impact assessment has not necessarily increased the level of alignment or coherence among them.

Figure 12: Selected Examples of Assessing Impact

	2007	B Impact Ratings System launched
Progress out of Poverty Index developed Pulse system developed	2008	Impact Reporting & Investment Standards (IRIS) Initiative launched
LEED 2009 rating system finalized First ANDE Metrics conference held	2009	IRIS framework developed Version 1 of IRIS finalized IRIS becomes part of GIIN
Version 2.0 of the B Impact Ratings System	2010	IRIS+Pulse integration IRIS+MIX data sharing announced IRIS 2.0 publicly released
GIIRS launched Global Initiatives for Sustainability Ratings launched	2011	First IRIS data report released Principles for Investors in Inclusive Finance created
	2012	GIIRS launches inaugural Quarterly Analytics Report

3.4.4 Theory of Change

The notion and tool of theory of change can be very useful to the impact assessment work of the impact investing field. At its most general level, the theory of change for impact investing involves multiple results chains, multiple levels and multiple stakeholders.⁷⁴ The essential point here is that not only must capital be unlocked, but it also must be placed in investment-ready enterprises and projects. In turn, those investments must then generate tangible results for individuals, households and communities. For impact investing to ultimately achieve impacts on the ground, in poor and distressed communities, all of the elements in the theory of change must function effectively. This takes a great deal of effort by many parties—investors, intermediaries and investees alike.

It also takes time. Once investments are made in viable initiatives, these must be monitored carefully, and should be given the time and space to achieve their objectives. Sometimes, therefore, impact investors must simply be patient. However, this does not mean that they should not accelerate their efforts elsewhere. While they are waiting on investments to flourish, impact investors and their allies can and should move “sideways” to other tasks: networking, learning, measuring, mobilizing new capital, and supporting work on the demand side. These are all activities through which impact investors can accelerate their efforts to build their own portfolios and also to build the industry as a whole.

3.4.5 Challenges in Assessing Impact

Clarifying the intent of measurement: Measuring social impact continues to be a complex question for the field of impact investing. On one hand, there is a desire for standardized approaches to measurement, while on the other there are important reasons why customized approaches may be more relevant. As well, the objective of measurement also creates a set of tensions; investors and entrepreneurs often use these measures in different ways and for different ends. In a similar vein, the challenges and opportunities of measuring impact *investment* for investors differ from those of measuring impact *performance* for entrepreneurs—and we must be careful when we try to combine both, or mistake one for the other.⁷⁵

One important divergence among the various actors involved in impact measurement is whether they consider this function a public good or a private revenue source. While the whole point of IRIS and GIIRS is to provide systems and tools to the broad impact investing industry, some organizations have built customized, private systems, methods and indicators that their business models rely on for income, either through fee-for-service or through grants. More candid conversations are needed to find reasonable ways of resolving these apparently conflicting approaches.

Strengthening IRIS and GIIRS: IRIS and GIIRS have emerged as the current leading global initiatives for social impact measurement, and there is a level of synergy between them.⁷⁶ For its part, GIIRS is an investor-focused tool. IRIS, though, has broader applicability across the sector for investors, enterprises, and intermediaries. Nonetheless, there is still some confusion among some stakeholders as to the respective mandates of the two systems. Their proponents and other industry leaders should make the distinctions (and the synergies) between them clearer. While both initiatives have stressed continuous refinement, their initial adoption by influential investors and industry stakeholders suggests that they will continue to gain traction. However, they also need more time to do so.⁷⁷ As initiatives still in development, they have not yet been universally adopted, and a variety of other initiatives will likely continue to co-exist with them. Nor have their business models been fully tested. Overall, there are competing and complementary efforts underway, mostly

IRIS and GIIRS have emerged as leading global initiatives but need more time to refine their methods and business models.

Beyond the development of standards and infrastructure, there remain challenges of implementation.

being driven by impact-first investors, the ongoing market-building phase of impact investing will likely continue to be characterized by numerous impact assessment initiatives operating in parallel, sometimes in conflict and sometimes in cooperation.⁷⁸

Building capacity for measurement: Measurement is never easy, and social impact measurement remains fraught with multiple methodological and implementation challenges.⁷⁹ In many cases, there is still an inverse correlation between ease of use and relevance to user needs. Also, there is a danger that social measurement efforts could contribute to organizations “drowning in data.”⁸⁰ Beyond the development of standards and infrastructure, there remain challenges of implementation: from data collection to analysis through to the use of such data to influence enhanced social outcomes (beyond simply proving that they have occurred). These and other measurement challenges will, rightly, continue to be explored and debated within the impact investing industry.⁸¹

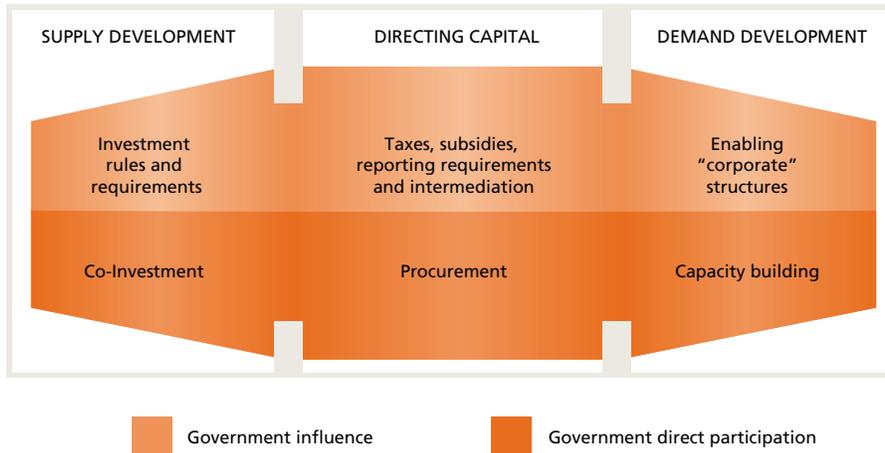
Measuring performance: For some impact investing actors, social measurement is important to prove impact. Others believe that improving the nature of the venture should be the priority of assessment. As social impact measurement continues to evolve, it must also recognize that the starting point for these efforts may need to be broadened beyond the investor. These investor-focused initiatives have been supplemented by some demand-side efforts, such as the creation and promotion of Benefit Corporation standards and legislation.⁸² However, there are still gaps in how global indicators connect with operational priorities at the enterprise level. The creation and refinement of public goods, which address performance measurement, likely require support through grant funding by a range of stakeholders beyond existing industry leaders.

Integrating a social dimension across business models: There is a perception that there is an unavoidable trade-off between financial and social returns in most investment decisions. However, this is not necessarily accurate, nor should it be presumed that social businesses operate in this manner. There is even the argument that, if a business does present a trade-off between these factors, then there is a question as to whether it should be labeled as an impact investment. This position takes the view that financial and social returns should move in the same direction.⁸³ Recent studies of business models generated in developing and emerging markets have shown improved social and/or environmental outcomes.⁸⁴ However, simply operating in these countries does not automatically confer intentional impact.

3.5 CREATING AN ENABLING ENVIRONMENT

Governments can play important direct and indirect roles in creating a policy environment that fosters, rather than hinders, the growth of impact investing. Governments can encourage impact investing through appropriate investment rules, targeted co-investment, taxation, subsidies and procurement, as well as corporate legislation and capacity development that enable the efforts of investors, intermediaries and investee enterprises in this space. The last two years, in particular, have seen intensified efforts in research and networking by the industry to connect policy experience and actors around the world, and to jointly produce new knowledge and tools to support governments.⁸⁵ The prime vehicle for this work is the Impact Investing Policy Collaborative (IIPC), whose policy framework is gaining wide usage.

Figure 13: Policy Framework



Source: Thornley, Wood, Grace and Sullivant, *Impact Investing: A Framework*, 2011

3.5.1 Progress in Multiple Jurisdictions

In the United States (US) and United Kingdom (UK), in particular, there are important precedents in how government can engage in impact investing. Several of these precedents pre-date 2008. One prominent example is that of the Community Reinvestment Act in the US that has stimulated the growth of the community development financial institution (CDFI) sector. Another case involves the growth of government interest and activity in social enterprise in the UK over the past decade. Over the past four years important contributions have been made by government in further adapting the policy and regulatory environment to enhance the flow of capital and activity in sectors aligned with impact investing.

Beyond the US and the UK, there are other approaches to creating an enabling environment for impact investing. Many of these initiatives can, and have, stretched beyond their initial funding. The impact investing field is beginning to capture and share these experiences across regions, and to draw on the experiences of others in developing policy and regulatory proposals.⁸⁶ Positive experiences in key countries have provided impetus to other governments to move forward. The social impact bond is an example of a new policy tool that has attracted the interest of governments in several countries in the Global North.

Of course, the context within which this progress occurs influences the directions of such efforts. For their part, developed countries will likely continue to face financial and fiscal pressures from a prolonged economic downturn. Impact investing holds the potential to address some of these pressures, and politicians are attracted by the opportunity to leverage private capital toward public good.⁸⁷ Translating impact investing into tangible outcomes for their populations—such as job creation leading to relative income increases—will be essential if these efforts are to be embraced by citizens who demand more accountability and results from their law-makers.

In the case of countries in the Global South, there are at least two different contexts governments are faced by there. One is the context of the high-growth, new economic powerhouse of the BRIC countries, and also Korea, Indonesia and Turkey. Here, high-growth rates are creating a larger pool of high net worth individuals and large-scale major corporations and investment pools, especially sovereign wealth funds. At the same time, there remain unacceptably large segments of the

Important contributions have been made by government in adapting the policy and regulatory environment to enhance the flow of capital and activity in impact investing.

population of these countries that live in severe poverty. In these instances, governments may choose to support impact investing for domestic-purposes in order to address social and environmental problems whose financing requirements exceed local philanthropy and public spending.

The second contextual scenario is that of very poor countries, which still rely on infusions of foreign aid. As Western nations cut back their aid, and foreign capital from the BRIC countries is generally targeted to trade and commerce, the governments of poor countries may choose to support impact investing as a means of expanding the pools of foreign and local capital available to tackle extreme poverty, climate change and other complex challenges.

3.5.2 A Range of Policy Options

In 2011, the Rockefeller Foundation-funded report by InSight at Pacific Community Ventures (PCV) and the Harvard University Initiative for Responsible Investment (IRI) established clearly that governments of all political stripes have a wide range of policy options available to them to advance impact investing in their jurisdictions. In the United States, for example, the 35-year-old Community Reinvestment Act has driven billions of dollars in loan capital into low-income neighborhoods through community development financial institutions for on-lending for minority business development and affordable housing, among other things. In recent years, the New Markets Tax Credit has catalyzed institutional investment in real estate projects aimed at revitalizing inner city areas. But the PCV/IRI report also highlighted a wide range of other government policies, such as Brazil's Clean Development Mechanism, Kenya's Microfinance Act, Regulation 28 in South Africa, and Malaysia's Corporate Social Responsibility Disclosure Rule, (though a number of these predated 2008) that have influenced impact investing in other ways elsewhere in the world.

Governments of all political stripes have a wide range of policy options available to them to advance impact investing.

Figure 14: Selected Examples of Creating an Enabling Environment

<ul style="list-style-type: none"> Malaysia requires mandatory Corporate Social Responsibility Disclosure Low-profit Limited Liability legal structure announced in the US 	2008	<ul style="list-style-type: none"> Australia launches the National Rental Affordability Scheme Dormant Bank & Building Society Accounts Act enacted in the UK
<ul style="list-style-type: none"> Office of Social Innovation and Civic Participation launched in the US 	2009	<ul style="list-style-type: none"> France launches the Programme d'investissements d'avenir
<ul style="list-style-type: none"> Benefit Corporation legislation introduced in the US 	2010	<ul style="list-style-type: none"> Canadian Task Force on Social Finance releases seven recommendations to mobilize private capital for public good
<ul style="list-style-type: none"> Growing the Social Investment Market strategy launched by the UK Government European Social Investment Taskforce launched 	2011	<ul style="list-style-type: none"> The UK Charities Commission provides impact investment guidance for charities The European Commission adopts the Single Market Act to improve access to funding for social business

Much more is known now than prior to 2008 about what governments can do to remove the barriers to impact investing, and to strengthen the policy environment to enable it to grow. A new round of work in this area is being led by the Impact Investing Policy Collaborative (IIPC), coordinated by PCV and IRI, and involving partner organizations in more than a dozen developing countries. In addition to engaging policy leaders in developed countries like the US, UK, Canada and Australia, the IIPC is working hard to build links with, and support the efforts of, policy actors in the Global South in countries such as Brazil, India, and South Africa, among others.

Box 10: Ways Government Can Engage[†]

- **Supply development policies** increase the amount of impact capital. Policies dealing with investment rules or requirements and policies that provide co-investment increase the supply of impact investing capital by mandating such investment or by enticing investors through risk-sharing with government.
- **Policies directing capital** change the way existing investments are made in the capital markets, shifting more toward impact opportunities. Policies that direct existing capital change the perceived risk and return characteristics of impact investments by adjusting market prices and costs and improving transaction efficiency and market information.
- **Demand development policies** increase the demand for impact capital. Policies that build demand include those that build institutional capacity, create enabling structures, and contribute generally to the development of impact investment-related projects and capital recipients.

[†] Thornley, Wood, Grace and Sullivant, *Impact Investing: A Framework* (2011).

Governments can, directly or indirectly, influence the supply and direction of impact capital as well as the demand for it.

3.5.3 Challenges Relating to the Enabling Environment

Strategically engaging government: Looking ahead, articulating the role of government in this process will become even more important, as many countries struggle to allocate funding toward pressing social and environmental issues.⁸⁸ Against a backdrop of financial constraints in the West in particular, the role of the state may not necessarily be diminished (though this could be the case in some regions). Instead, governments will more likely be inclined to use levers other than direct funding to catalyze impact investing. This transition will raise questions with regard to the role of the state and its obligations, and the resulting answers may not be acceptable to all stakeholders. In general, in terms of engaging government in a strategic way, the Impact Investing Policy Collaborative advises that policies aimed at enabling the growth of impact investing should be designed and assessed on the basis of six essential criteria: targeting, transparency, coordination, engagement, commitment and implementation.⁸⁹

Clarifying legal forms: In many countries, there is a tendency to segment the marketplace by the legal status of ventures. Thus, nonprofits are equated to social returns, and for-profits are defined as profit-maximizing. This dichotomy is too simplistic to explain the range of hybrid models that balance financial and social objectives in a coherent manner. The introduction of new legal structures for enterprises (Benefit Corporations in the US, the Community Interest Companies (CICs) in the UK) goes some way toward breaking through these stereotypes. These laws and regulations define the criteria by which enterprises can qualify, while also maintaining standards to which enterprises must consistently adhere.

Encouraging policy coherence: For governments that are, in fact, serious about creating an enabling environment for impact investing, it is important that they ensure that domestic policies do not conflict with each other, or, in a sense, cancel each other out. One important example here is that tax incentives for oil production can draw capital away from investments in renewable energy. Business corporation law and charities law must be aligned with regulations governing new forms

of social enterprise, such as Benefit Corporations in the United States or the CICs in the United Kingdom. Pension fund regulators must put in place guidelines to encourage affordable housing investments, rather than regulations that discourage them. Governments must therefore ensure that their various ministries and agencies talk with each other and that their policies are complementary rather than contradictory. The best way to do this is through proactive leadership and directives from the highest executive levels.

3.6 BUILDING LEADERSHIP

A growing number of organizations have played critical leadership roles in the building of the impact investing field.

Over the past four years, a growing number of organizations have played critical leadership roles in the building of the impact investing field. In particular, the Rockefeller Foundation has provided grants and PRIs to a network of some 30 core allies to create collective action platforms, build standards and rating systems, scale up intermediaries and engage in research and advocacy—all of which have propelled the sector forward, with energy, purpose and agility. Early on, the Rockefeller Foundation supported the establishment of the Global Impact Investing Network, which has become the pivotal platform for impact investors and their support organizations from the Global North to learn about impact investing and participate in syndicated investment projects.

Other networks make leadership contributions, as well. ANDE, which focuses on organizations that promote small and growing businesses, is one of these. So is the United Nations Principles of Responsible Investing network on international investors. Leaders in other related fields—such as socially responsible investing and community development finance—also help to build the space and resources for impact investing. While relations between some impact leaders and SRI and CD finance have not always been smooth, by late 2011 these relationships had improved considerably.

Figure 15: Selected Examples of Leadership

	2007	B Lab launched
First Social Capital Markets (SoCap) conference	2008	Rockefeller Foundation establishes the Harnessing the Power of Impact Investing Initiative
Aspen Network of Development Entrepreneurs Official launch	2009	Official launch of GIIN at CGI 2009 Sankalp Forum launched
First GIIN Investors' Council meeting	2010	Final Report of the UK Social Investment Task Force TONIIC launch
Sankalp Forum	2011	First SoCap Europe conference

3.6.1 Global Impact Investing Network (GIIN)

The launch of the Global Impact Investing Network (GIIN) was announced at the Clinton Global Initiative in 2009, initially supported by funding commitments from the Rockefeller Foundation and J.P. Morgan. From 23 founding members, the GIIN Investors' Council membership has more than doubled to 50 members. The Council is an impressive lineup of foundations, development finance institutions, commercial banks and private equity firms. The objectives of the GIIN are to help build infrastructure, conduct activities, promote education and undertake research to foster more impact investing globally. The GIIN has been a crucial source of thought leadership and legitimacy for this nascent sector and has provided important intellectual leadership that other industry actors have been able to leverage.

As an investor-led network, many of the GIIN's activities are directed at reducing the barriers to the engagement of investors, and at making such engagement even more effective. The GIIN Investors' Council, launched in early 2010, is provided as a leadership platform through which impact investors can facilitate their learning and share best practices, as well as contribute to broader field-building efforts. As an industry network, the GIIN has played an important convening role by providing investors with baseline information about the industry, supporting key efforts such as a series of reports published in conjunction with J.P. Morgan, housing innovative initiatives such as IRIS and ImpactBase, and promoting outreach and knowledge-sharing through events and its website. In addition to the Rockefeller Foundation and J.P. Morgan, USAID has been a major supporter of the GIIN, particularly for IRIS.

3.6.2 An Array of Complementary Networks

The field has also benefited from the development of other networks such as Toniic, ANDE, the Social Venture Network (SVN) and UNPRI. In a less formal sense, a series of conferences, notably the Social Capital Markets conferences held annually in San Francisco, has provided important opportunities for networking and shared learning. In addition to US-based networks, momentum has been building in organizing impact investing actors in other countries, including the UK, Canada, Australia, India (through the Sankalp Forum), Singapore, Hong Kong, South Africa and Brazil. Many of these efforts are in the initial stages and only now are gaining traction.

Box 11: Six Influential Networks

The Global Impact Investing Network (GIIN) is a nonprofit organization dedicated to increasing the effectiveness of impact investing. The GIIN supports collaboration, develops industry infrastructure, and undertakes research and advocacy to foster a coherent impact investing industry worldwide.

United Nations Principles of Responsible Investment (UNPRI) is a network of international investors working together to put the principles for responsible investment into practice. Developed by the investment community, these principles reflect the view that environmental, social and corporate governance issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfill their fiduciary duty.

The Aspen Network of Development Entrepreneurs (ANDE) is a global network of organizations investing money and expertise to propel small and growing businesses (SGBs) in developing and emerging markets. In 2010, 110 ANDE members collectively operated in 150 developing countries, including more than 60 SGB-focused funds managed by ANDE members that have collectively invested more than \$900 million in over 2,500 investments since they started investing.

Social Venture Network (SVN) connects business leaders and social entrepreneurs in expanding practices that build a just and sustainable economy. They build peer-to-peer relationships among high-impact business leaders and foster a focus on active collaboration.

Investors' Circle/SJF Institute is a network of over 150 investors (angel investors, foundations, venture capitalists and family offices) that are using patient capital to promote the transition to a sustainable economy. IC is one of the oldest and largest early-stage investor networks in the US, and has facilitated the flow of over \$134 million into more than 200 private companies and small venture funds since 1992.

Toniic is an international impact investor network that promotes a sustainable global economy by investing in entrepreneurs addressing the needs of people and the planet. The network provides a strong set of investor tools, investing support (through access to high quality deals and process support), education, and a peer group of impact investors globally.

The GIIN has been a crucial source of thought leadership and legitimacy for this nascent sector.

3.6.3 Impact-First Foundations

Foundations continue to play an important role in defining and catalyzing the impact investing field. Several prominent foundations have devoted significant financial and intellectual resources toward harnessing the potential of this approach. Through the grants and PRIs of its Impact Investing Initiative, the Rockefeller Foundation has played a catalytic role in the field. The Omidyar Network continues to combine philanthropic and investment capital in innovative ways. A growing, though still modest number of foundations have insisted that aligning their investments and grantmaking through mission-related or program-related investment is a crucial strategic priority. The Gates, Kellogg, Casey, Ford, Packard and Tony Elumelu foundations are active members of the GIIN. As the field continues to evolve, there are still critical needs for public goods: the development of infrastructure for shared social measurement standards, market intelligence such as industry trends and analysis, and education and awareness building of large constituencies. Impact-first foundations can use a variety of tools to support these public goods.

3.6.4 Challenges in Leadership

Supporting industry building: As the Rockefeller Foundation's Impact Investing Initiative winds down at the end of 2013, other funding agencies will need to step forward to support ongoing efforts to build the impact investing industry. The main vehicle through which to carry out this work is now the GIIN. A number of major funders, including the Omidyar Network and the UK's Department for International Development, are considering providing substantial support to the GIIN and to the field. In particular, the public-goods functions of the sector—networking, impact measurement, ratings, research—will require subsidy for some time to come, as have the public-goods infrastructure of other social investment fields, such as the Consultative Group to Assist the Poor in the case of the microfinance field. Moreover, such public-goods systems are not only essential at the international level. They will be very important, going forward, at the regional and national levels, as well.

Promoting inclusive leadership: The leadership of the impact investing industry must become more inclusive in two main respects. First, new ways of engaging leaders from related fields (responsible investing, community development finance) and less engaged, larger investors (pension funds, major corporations) should be tested, as should ways of working with leaders on the demand side of the industry (though some of this is addressed through ANDE). Second, a more challenging priority for inclusive leadership is to identify appropriate partners in the Global South with whom to work to build Southern platforms and networks for impact investing. This must be done carefully, and systematically, and it will take time. But it should be considered a task of the highest priority. As the industry evolves in Southern and Northern sites, leaders can learn a great deal from each other.

Building new talent: In addition, the leadership of the sector must work to create viable career paths for young professionals seeking to enter and remain in the impact investing industry. Formal and informal training and education programs are needed, together with thoughtful, progressive human resources policies and, in particular, benefits packages. At the same time, professional programs for existing fund managers and advisors should be developed to enable them to acquire the many competencies required to successfully manage portfolios aiming to create blended value. There is a real opportunity here for universities to work with industry actors to develop appropriate, cost-effective professional development and graduate programs to respond to industry needs and accompany the field into the future.

The leadership of the impact investing industry should engage leaders from related fields and from the Global South.

Bridging sectors: The leadership of the industry should also continue to strengthen ties with leaders in related fields. These include socially responsible investing, community development finance, clean technology, environment, social and governance (ESG), corporate social responsibility (CSR) networks, inclusive business and others. There is much to be gained, at little expense, by doing so. One potential area of cooperation, for example, could be a strand of joint research linking research on ESG ratings and corporate social performance with research on enterprises financed by GIIRS-rated funds.

Managing expectations: A clearer, tighter definition of impact investing is needed to clarify expectations and to limit “impact-washing.” As the slow, difficult work of assessing impacts on the ground proceeds across many regions and target sectors, not everything will succeed. As in any field of activity, there will be problems and failures, some of them very public ones. Impact investing leaders should be prepared for some bad news, and be ready to examine and address the reasons for sub-optimal results. Of course, there will be many successes, too, which should be replicated, purposefully and aggressively.

Impact investing leaders should be prepared for some bad news as well as many successes.

3

PART III: ACCELERATING IMPACT INVESTING

It is time for the field of impact investing to move into an era of acceleration and execution.

4 OPPORTUNITIES AND DIRECTIONS: WHAT'S NEXT?

Overall, our scan of the impact investing sector's progress over the past four years has shown that the field has moved decisively from the “uncoordinated innovation” phase in the Monitor Report schema to a sustained “marketplace-building” phase. Within this phase, it is also clear that the industry is shifting from a period focused on organizing itself and establishing initial infrastructure to one much more clearly focused on implementation. Indeed, leaders whom we interviewed and other champions of the field have spoken of the need to move into an “era of execution.”

This is entirely appropriate. To this, however, we would add: an era of **acceleration** and execution. There are some very concrete steps that can, and should, be taken in order to make such an era a reality. We have had the privilege of learning from the experience and insights of over 100 leaders in impact investing from 11 countries. Based on these interviews, and our own overall analysis of the state of the field, we believe that there are 15 important lines of action that should be taken to realize, in practical terms, the twin aspirations of acceleration and execution.

The impact investing industry is shifting from organizing itself and establishing initial infrastructure to a much clearer focus on implementation.

4.1 RECOMMENDATIONS FOR ACCELERATING IMPACT INVESTING

4.1.1 Unlocking Capital

Recommendations for unlocking more capital:

1. Strengthen the business case for large institutional investors, both public and private, to integrate non-financial factors into their investment decision-making, particularly to enhance risk mitigation.
2. Use education and research to encourage a move from individual deals to multi-investment portfolios, in which investors can hold both impact-first and financial-first investments.
3. Encourage foundations to continue to innovate by making the strategic and cultural shifts necessary to devote the full range of their assets to their mission.

Hold capital accountable for non-financial impact

There is a broad range of evidence to suggest that the largest institutional capital pools are increasingly concerned with non-financial factors in their financial decision-making. The business case for doing so must be strengthened in at least two ways: first, evidence of a demonstrated track record related to specific investment products, and, second, market and academic research to prove resilience in returns over the long term. Even if these large institutions initially focus on environmental, social and governance (ESG) screening and risk mitigation, experience with these data points can encourage a more active stance relating to the integration of extra-financial factors into investment decisions. It is also possible for the owners of capital (such as payees into pension funds) to demand more accountability for these non-financial considerations in a manner consistent with their fiduciary obligations.

Move from deals to portfolios

As the sector matures, it is important that investors begin to discuss their participation in impact investing through the lens of their entire portfolio, as opposed to through occasional transactions

only.⁹⁰ The distinction between impact-first and financial-first investors has been important to classify investors according to their intentions in an individual transaction. With a portfolio lens, investors can play either role, depending on how their overall portfolio is geared toward meeting their financial and social objectives.

Unlock capital in the right forms

As noted earlier, there is a surplus of capital seeking a blended value return, but which is not being placed appropriately. This capital is often seeking a different risk/return/impact profile than those currently offered by existing opportunities. There is a need to develop fund structures that align deal flow with the existing needs of enterprise, in particular, by providing more debt financing and early-stage capital, and by addressing the “missing middle.” There is also a need to build in incentives for investors to provide truly risk-tolerant **patient** capital and to facilitate engagements that allow for all parties to maintain successful activity during these extended time periods. Models such as funds of funds can help address some of these challenges, while also deploying capital at scale.

Foundations should continue to innovate

Foundations will continue to be an important and necessary group of players in the industry’s evolution. They should be encouraged to devote the full range of their assets toward their mission, in creative and responsible ways, to amplify their overall impact. These investors range from foundations that are making important investments in building the infrastructure for the sector (such as the Rockefeller and Skoll Foundations, and the Omidyar Network) to newer entrants whose portfolios are already fully impact-invested across all assets with aggressive timelines. The very real strategic and cultural shifts required to fully engage foundations should be addressed with more focus and energy.

4.1.2 Placing and Managing More Capital

Recommendations for placing more capital:

4. Create new intermediaries, and strengthen existing ones, that can effectively facilitate investments in businesses in underdeveloped markets, as well as those that can enable larger deals suitable for institutional investors.
5. Increase the variety of products that address the risk/return profile of a wide range of investors, that are provided through easily accessible distribution systems, and that offer reasonable evidence of track record or comparable product performance.
6. Create new options by matching investor risk/return profiles with investee businesses that can generate measurable returns on both the financial and impact dimensions, as well as by supporting investor collaboration and deal syndication.

Ramp up deal activity

There are still too few examples of successful deals, relative to the extent of interest in impact investing, and to the amount of capital aggregated in impact investing funds. It is a well-recognized problem that many funds continue to face challenges deploying capital. The metric for success over the next phase of industry evolution should move from “capital raised” to “deals completed” and “returns realized.” This would constitute a shift to execution. Such a shift would require greater effort to place this capital, a heightened level of transparency among funds, and a stronger base of market intelligence.

Strengthen intermediary capacity

Creating a robust set of intermediaries across sectors, themes and asset classes is key to maintaining a dynamic and robust marketplace. Even more deliberate intermediary development is required:

The metric for industry success should move from “capital raised” to “deals completed” and “returns realized.”

creating new institutions, strengthening existing ones, and validating business models that can grow with the sector. One issue that must be addressed, for funds in particular, is that there will likely need to be local adaptation of the structure of funds as compared to full-fledged adoption of a typical venture capital or private equity model. Making the economics work in these traditional, Western models, especially in countries that have underdeveloped financial sectors, has proven to be a challenge. Alternative approaches are required that can lower these search and transactions costs even further.

Meet the actual needs on the ground

There are several strategies that can be employed to ensure that capital is aligned with actual needs on the ground. Gaining a deeper understanding of prospective investment opportunities often involves getting as close to the “action” as possible. Investors do this in a number of ways: setting up funds housed in the regions they choose to invest in (e.g., IGNIA), building partnerships with firms that are based in target regions (e.g., Elevar Equity), engaging through networks (e.g., ANDE), or sharing due diligence with a view toward syndication of deals (e.g., Toniic). This deeper level of engagement often extends beyond simply deal sourcing. In particular, brokers can play important roles in building investment readiness, providing ongoing technical assistance and preparing for growth.⁹¹

Increase the range of products and platforms

There is a need to deliberately focus the conversation and action on impact investing that goes beyond solely privately negotiated investments, and, relatedly, to find a way for all segments of the investor market to engage. Some of the key priority areas here should include building products that appeal to those investors looking to place capital on a large scale, such as pension funds investing in affordable housing or other social or green real estate projects. These products, inasmuch as they need to be designed in a manner to address the risk/return profile of the target investor, should also be easily accessible through mainstream distribution platforms, and be capable of providing reasonable evidence of track record or comparable product performance.

Several types of platforms have emerged to stimulate intermediation. Social stock exchanges are one popular, yet relatively new and untested, vehicle that can benefit investors seeking some reassurance on the strength of the market. The market intelligence efforts that go into the development of these platforms are often extensive, and could be purposed toward investor and intermediary intelligence. Despite increasing product and platform sophistication, many clients will access these avenues only if their advisors are educated about such intermediary mechanisms.

Create options beyond the financial-impact trade-off

As the market increases in sophistication, investors should be willing to move beyond the idea of an ongoing trade-off between financial and social returns. In some cases, this view is legitimate; however, in many other instances, business models are able to generate returns on both dimensions. That being said, there is a wide range of investors that are keen to be involved in impact investing, yet each has its own unique risk/return profile. The real opportunity may be to leverage the capital of investors with varying profiles through collaboration and syndication, particularly for early-stage ventures in new sectors that provide demonstrable and meaningful financial and social outcomes.

Conduct due diligence and risk assessment in a cost-effective manner

Investors face a series of hurdles in conducting due diligence and assessing risk in a manner that suits them, the prospective investee and the intermediaries that may be involved. Impact investing has relied on the venture capital and private equity worlds for tools and models, though these approaches often fail to account for the uniqueness of impact investing ventures. New sets of tools

As the market increases in sophistication, investors should be willing to move beyond the idea of an ongoing trade-off between financial and social returns.

must be developed in response to this gap, and they must be shared broadly. Several examples already exist. For example, venture philanthropy has made important contributions to the process of identifying organizations that may be good candidates for financial and human capital.⁹² For their part, foundations now have a set of tools to guide their PRI strategies.⁹³

4.1.3 Strengthening Demand for Capital

Recommendations for strengthening demand for capital:

7. Co-sponsor new action research on emerging hybrid, scalable enterprise models in both the very poor and the new-power economies of the Global South, as well as in industrialized economies.
8. Identify and support successful and cost-effective approaches to improving the management capacity of social entrepreneurs, while nurturing a range of enterprise supports throughout the life cycle of growing ventures.

Appreciate that diverse business models can deliver blended returns

Similar to the variation in the terms associated with impact investing, there is a diversity of labels to describe potential investment opportunities (SME, social enterprise, social business, etc.). Business models are not the same as legal forms, even though sometimes they are equated. The sector must continue to develop and test hybrid business models that combine the best features of existing legal structures, while retaining a strong quality assurance role to maintain credibility related to social impact. These models must remain focused on meeting the needs of customers. Creating business models that meet all of these criteria is not simple or quick. This work requires a unique combination of capital, non-financial supports, an enabling ecosystem and motivated talent. The presence of industry associations (such as ANDE) and certification standards (such as Benefit Corporations) are good starting points, but they must be complemented by more detailed research on specific regions and/or themes.⁹⁴

Support effective and scalable management capacity development approaches for entrepreneurs

Much activity related to impact investing focuses disproportionately on entrepreneurs that are at the seed or early stage of their business evolution. Building the capacity of these entrepreneurs at this stage involves validation of customer demand, refining their business models, and strengthening internal capacity. A wide range of models of providing this type of technical assistance is required, at a reasonable cost. A specific issue that many entrepreneurs deal with is financial awareness and planning, and there has recently been more emphasis on educating entrepreneurs to understand the issues and opportunities relating to impact investing in particular.⁹⁵ All of these issues remain contextually specific and can be addressed through proven models, such as those supported by the International Finance Corporation (IFC) and others.

Develop a market-driven ecosystem of sustainable support for impact enterprises

Once entrepreneurs are able to deal with the initial phases related to seed and start-up, they are likely ready for different kinds of technical assistance than they might have had access to, as well as for a range of reinforced supports. There is a strong need for programs that are designed to transition individuals and teams from a start-up phase to an early-stage venture. Organizations such as the IFC and Endeavor are able to make these programs work for entrepreneurs and themselves, and they have achieved considerable success.

The sector must continue to develop and test hybrid business models that have credible social impacts.

4.1.4 Assessing Impact More Effectively

Recommendations for assessing Impact more effectively:

9. Strengthen investor understanding of various dimensions of performance management, and address confusion concerning the relationship between key impact assessment initiatives.

Coordinate efforts across approaches

The measurement field continues to struggle with the issue of fragmentation and the presence of competing approaches at differing stages of maturity.⁹⁶ As noted earlier, GIIRS and IRIS are two global initiatives that continue to improve and be adopted by influential investors. At the same time, several other approaches and methods are jockeying for greater awareness and adoption. These approaches are not always able to fit well together, particularly the global and local initiatives. Most funds develop proprietary social due-diligence processes to assess social impact, but shared standards do exist. The field must seek ways of aligning and triangulating methods, and integrating centralized and decentralized systems, in order to further reduce duplication of effort.

Develop the capacity of ventures

The traditional social sector has been noted for its preoccupation with data collection, particularly with respect to donor-funded projects. Clearly, social metrics play an important role in encouraging accountability and improving operations. Yet many organizations still lack the capacity to utilize (rather than simply collect) data. In the social enterprise sphere, the discussion on social metrics has largely focused on data collection, with relatively less attention directed at the analysis of the data and the operational/strategic implications. On these fronts, there is a need to continue to develop capacity at the enterprise level (internally, or in partnership with others) to use data not only for reporting to investors, but also for better product/service design and to improve operational and strategic decision-making. In addition, greater access to impact measurement advisors and evaluation practitioners, earmarking funding for impact measurement, and affordable and intuitive database management systems can all support these capacity building efforts.

Balance the needs of the diversity of users

Increasing the sophistication of defining social impact, which balances the perspectives of investors with the lenses of entrepreneurs, beneficiaries and policymakers (among others) is key. Social impact data are used in a variety of ways. Since various actors have diverse views on what matters, it is challenging to achieve agreement on a single metric or approach.⁹⁷ In addition, data must be translated into information and then to knowledge, and this process of interpretation can give rise to multiple plausible explanations. While there is some evidence to indicate that investors are adopting standardized metrics,⁹⁸ these are not yet universally adopted by investors or entrepreneurs. “Top-down” approaches will continue to co-exist with “bottom-up” approaches that are highly contextual. Instead of debating standardization versus customization, a more effective approach is to triangulate data to generate plausible and reasonable explanations of what has occurred, and to what degree and extent this can be attributed to the particular initiative under study.

Raise the bar on impact

Measuring social impact is a fundamental component of impact investing. The field must set a high bar for what constitutes impact. Sector leaders should encourage the diversity of approaches to social impact measurement, while ensuring a high degree of transparency related to their assumptions, uses and limitations. The field must set a higher standard for the importance of measuring social return, and must do so in a manner that provides accountability and verification.

Leaders should encourage a diversity of approaches to social impact measurement and ensure a high degree of transparency.

The set of standards associated with the Benefit Corporation is one example of a standards-based approach. The need for measurement must be revisited in the context of specific investments—not only to prove outcomes and accountability, but also to improve performance and output quality.

4.1.5 Improving the Enabling Environment

Recommendations for improving the enabling environment

10. Accelerate the production and application of practical knowledge products, including research and tools, aimed at governments engaged in or considering support for impact investing through policies that develop the supply of capital, policies that direct capital, and policies that strengthen demand.
11. Facilitate a continuous and open exchange of experience among governments engaged in supporting impact investing, across the Organisation for Economic Cooperation and Development (OECD) countries, the BRIC (Brazil, Russia, India, China) nations and other emerging economies, and low-income countries.
12. Establish publicly funded safety nets that can address the consequences of failed or inadequate impact investments, and resist pressure for markets to displace states in addressing the basic needs of populations that are vulnerable and in distress.

Recognize the key role of government in impact investing

In the developed economies, it is clear to most impact investing leaders that government can, does and must play a key role in the growth of the industry. This is also recognized in the BRIC countries, where the state is an integrated, major player in almost every part of the economy. Governments set the regulatory, accountability, tax and legal framework within which pension funds, banks, corporations, charities and social enterprises operate. And governments can play a powerful, direct role in the impact investing market, using their financial power to provide low-cost, patient capital to worthy investments, and, through guarantees, moderating the risk of private and nonprofit investors in syndicated deals. In developing countries, DFIs, which are agents of rich governments, can play, among other things, an especially useful co-investing and guarantor role. In the BRIC nations and other new economic powers, the giant sovereign wealth funds should be engaged by impact investors through the formers' national governments. In general, however, the impact investing industry should be wary of being used by government to justify cuts to social programs; if it falls into this trap, the industry will quickly lose local support among the very constituents whose lives it seeks to improve.

Anticipate the challenges and opportunities of building the market

In fact, social safety nets must be in place to “catch” and address the consequences of failed or inadequate impact investments. In the long journey of the impact investing industry toward maturity, scale and sustainability, things will go wrong—that, simply, is what happens to permanent sectors. The leadership of the field should have contingency plans when there are failures. Working closely with governments and the traditional nonprofit sector to put in place such contingency measures just makes good sense. Moreover, strengthening safety nets is a means of resisting pressure for markets to displace states in addressing the basic needs of populations that are vulnerable and in distress.

At the same time, if the impact investing industry is working cooperatively with governments, it may be able to anticipate certain policy, research or commercial opportunities that will be to the industry's advantage. Strong networks within and outside of government serve to position the field to anticipate both challenges and opportunities.

The leadership of the impact investing field should have contingency plans when there are failures.

4.1.6 Renewing and Broadening Industry Leadership

Recommendations for renewing and broadening industry leadership:

13. Mobilize multi-year grant funds to expand and deepen the public-goods infrastructure necessary for a fuller industry ecosystem, especially in the Global South, while setting out clear, realistic results expectations and timelines.
14. Work with educational institutions to design and launch professional development and graduate programs for current fund managers, for new entrants to the investor and intermediary segments of the sector, and for social entrepreneurs seeking investment.
15. Actively manage the brand integrity of the impact investing field through renewed media engagement and storytelling of both successes and failures, managing stakeholder and public expectations, and strengthening, testing and policing the definition of impact investing.

Step up to support public-goods infrastructure

Further market building is needed in the years ahead, particularly for the public-goods infrastructure relating to networking, research, education, standards and ratings. For the next decade, this must be funded by grants from foundations, aid agencies, DFIs and major private entities. Such support should encourage, in particular, partnership and platform building in the Global South, renewed engagement of institutional investors, the building of linkages with demand-side actors, and the facilitating of the design and piloting of training and education programs to meet the broader needs of industry growth and sustainability. The current ethos of the sharing of research freely across impact investing actors should be maintained.

Inclusive growth from all sectors and regions

The creation of a global network remains a work in progress, and at this stage it still retains a US-Europe bias. Despite several fledging initiatives in emerging and frontier markets, efforts to build and propagate networks beyond North America and Western Europe must be accelerated. Developing markets are certainly important to the demand side for impact investing, yet they can and should also be important accelerators of intermediation, infrastructure building and supply of capital. These networks would benefit from being more deliberate in including entrepreneurs, intermediaries and those from outside the sector. There are exciting opportunities to forge new relationships, approaches and deals as the industry truly takes root globally.

Research and education in support of execution

As the GIIN continues to build its leadership capacity and financial stability, it will be even better positioned to accompany and respond to the impact investing industry as it evolves, particularly as the industry shifts to a focus on execution and deal flow, both areas of priority highlighted by the GIIN's chief executive.⁹⁹ It is important to note, however, that both in terms of its legal form and its mission, the GIIN is not a fund manager, broker or intermediary. Instead, it is a nonprofit organization that conducts research and education. As the field evolves, the GIIN's activities may become more defined by theme and region of the world, and stage of investee business (particularly early-stage enterprises). This is already happening to an extent, through ANDE chapters in various regions, and with Investors' Circle/SJF Institute and Toniic in the US.

Bridge sectors, break down silos

Socially responsible investment has grown significantly over the last decade. There are many large institutional investors readily applying negative/positive screening and shareholder advocacy strategies. The third pillar of SRI, community investments, requires more attention and could

Further work on public-goods infrastructure is needed and, for the next decade, must be funded by grants.

benefit from a closer relationship with the field of impact investing. While there are some steps in this direction, such as the work of the Institute for Responsible Investment at Harvard University, there are still cultural and conceptual gaps.¹⁰⁰ Interestingly, the evolution of the CDFI sector in the US presents useful lessons in how creating the demand for community investments (in this case, via CRA legislation) can spur the development of a range of intermediaries, products and talent.

Strengthen the definition of impact investing

Defining impact investing continues to challenge the sector. Building on an augmented definition of impact investing, it is important to articulate the various subsectors or themes that fall within it, and the extent to which they can be aggregated or overlap. Such a definition would need to be bounded in a manner that makes it clear what is considered to be within its realm and what is outside, and that proposes a means test for assessing the difference. In a related vein, revisiting the notion of impact investing as an asset class is key. Many active investors do not favor this definition, due to its perceived constraints and limitations. Instead, impact investing can and should be a theme that cuts across asset classes.

Develop talent

Impact investing continues to garner interest among young professionals, particularly those who work in the traditional financial sector. There is a need for targeted training to enable a new generation of talent to take on these jobs in areas related to impact investing. Social entrepreneurship is experiencing significant interest and uptake among larger numbers of students, which has led to a fledgling pipeline of early-stage social ventures and budding social entrepreneurs. In addition to many fellowship programs, there are now vibrant areas of academic and practitioner-oriented study in social entrepreneurship around the globe.¹⁰¹

Manage expectations

The leaders in impact investing will face a real challenge over the next few years in telling the story of the many successes and failures they will encounter in the field, and in managing the expectations of the sector and of the general public. Impact investing has gained significant traction as a term in a relatively short period of time. There has been healthy adoption of the term by important investors, and a subsequent increase in profile through associated initiatives, such as social impact bonds. Of course, there remains tremendous variation across sectors and regions as to how the term is defined and used. The relatively nascent state of the industry, coupled with a lack of track record comparable to other asset classes or sectors, remains a barrier to mainstream adoption. The broad understanding of impact can potentially lead to negative associations with the term itself. For example, headlines such as the ones from controversial microfinance investments in India and failed clean technology projects in emerging markets can cloud the steady progress of impact investing.¹⁰² One way of managing expectations is to begin to talk about failures in the field, and ways of responding to them, internally within organizations, as well as externally with the general public. Dealing with failures is a task for all permanent industries, and impact investing is no exception.

Targeted training and education are needed to enable a new generation to take on key jobs in impact investing.

5 CONCLUSION

Leadership was pivotal five years ago, when the term “impact investing” was coined at those first Bellagio convenings that set off such a remarkable chain of events. As this review has shown, much progress has been made in building the field of impact investing globally. Many tangible gains have been achieved. And there is still much to be done. To be sure, building an effective global industry is a long-term, complex and difficult task. However, this is precisely the time for the leaders of the impact investing field to recommit to building a fully developed marketplace. It is especially important now for those leaders to expand their partnerships with peer champions in every corner of the globe, to create compelling new financial products for institutional investors, to strengthen the investment readiness of enterprises on the ground, and to demonstrate social impact where it matters most: for individuals, households and communities.

Acceleration is a vector, a transformative agent in its own right. It is now time for the leadership of the global impact investing industry to do everything in its power to increase the rate of change in the field—to catalyze an unprecedented surge forward toward maturation, scale and sustainability. It is time to accelerate.

It is time to accelerate.

APPENDICES

Appendix A: Coordination/Capitalization Matrix, 2008

Appendix B: Coordination/Capitalization Matrix, 2012

Appendix C: Recommendations from the Final Report of the Strategic Assessment of The Rockefeller Foundation's Impact Investing Initiative

APPENDIX A: Coordination/Capitalization Matrix, 2008

What type of CAPITALIZATION is required?	Subsidy (philanthropy, government corporate social responsibility)	N. Integrate social and environmental factors into economic and finance theory P. Support effective and scalable management capacity development approaches for entrepreneurs	F. Support the development of backable fund managers	H. Set industry standards for social measurement I. Lobby for specific policy/regulatory change J. Develop an impact investing network L. Coordinate development of a common language platform O. Launch a targeted public relations campaign to promote demonstrated successes
	Medium-term development funding	C. Launch and grow dedicated impact investment banking capabilities K. Develop risk assessment tools	E. Create investment clubs focused on specific themes Q. Provide tools to support research and development for innovative, scalable models	M. Create publicly available comprehensive benchmarking data
	Short-term profit	G. Create financial products to increase accessibility	A. Create industry-defining funds that can serve as beacons for how to address social or environmental issues B. Place substantial, risk-taking capital into catalytic finance structures D. "Pull" existing intermediaries into impact investing by making business commitments	
		Operating alone	Small groups of individuals or institutions	Industry level coordination
2008		What level of COORDINATION is required?		

Source: Freireich and Fulton, *Investing for Social and Environmental Impact*, 2009

APPENDIX B: Coordination/Capitalization Matrix, 2012

What type of CAPITALIZATION is required?	Subsidy (philanthropy, government corporate social responsibility)	<p>N. Integrate social and environmental factors into economic and finance theory</p> <p>P. Support effective and scalable management capacity development approaches for entrepreneurs</p>	<p>F. Support the development of backable fund managers</p> <p>S. Develop a market-driven ecosystem of sustainable supports for impact enterprises</p>	<p>H. Set industry standards for social measurement</p> <p>I. Lobby for specific policy/regulatory change</p> <p>J. Develop an impact investing network</p> <p>L. Coordinate development of a common language platform</p> <p>O. Launch a targeted public relations campaign to promote demonstrated successes</p>
	Medium-term development funding	<p>C. Launch and grow dedicated impact investment banking capabilities</p> <p>K. Develop risk assessment tools</p>	<p>E. Create investment clubs focused on specific themes</p> <p>Q. Provide tools to support research and development for innovative, scalable models</p> <p>R. Coordinate seed and early-stage investments via collaboration and syndication</p>	<p>M. Create publicly available comprehensive benchmarking data</p>
	Short-term profit	<p>G. Create financial products to increase accessibility</p>	<p>A. Create industry-defining funds that can serve as beacons for how to address social or environmental issues</p> <p>B. Place substantial, risk-taking capital into catalytic finance structures</p> <p>D. "Pull" existing intermediaries into impact investing by making business commitments</p>	
	Operating alone	Small groups of individuals or institutions	Industry level coordination	
2012	What level of COORDINATION is required?			

APPENDIX C: Recommendations from the Final Report of the Strategic Assessment of The Rockefeller Foundation's Impact Investing Initiative

1 RECOMMENDATIONS TO THE ROCKEFELLER FOUNDATION

In light of the findings of this assessment, it is recommended that the Rockefeller Foundation:

1.1 Approach and Model of Operation

1. Create new knowledge products and learning opportunities, including systematizing raw knowledge, for Foundation teams, in order to
 - a) transfer the lessons of the Impact Investing Initiative's experience in terms of the strategy and tactics used to effectively catalyze and launch a dynamic new field;
 - b) promote the awareness of impact investing and investors among Foundation teams in other programming areas, in order to facilitate the financing of downstream implementation of enterprises and projects; and
 - c) assist Foundation personnel in smoothly and constructively winding down and handing off Initiatives or programs in fields that have gained momentum and constituencies.

1.2 Action to Sustain Achievements

2. Sustain the gains toward, and steward the vision of, a robust, mature impact investing movement, through
 - a) innovative, results-oriented partnerships with other funding agencies;
 - b) continued, active support of the further evolution of the GIIN as a truly global, catalytic network; and
 - c) active promotion of the adoption rates and business models of the IRIS and GIIRS projects.

1.3 Transitions

3. Design and implement a two-year transitional phase of targeted grants, in order to
 - a) strengthen Southern platforms and networks in selected emerging markets (e.g., Kenya, India, Hong Kong, Mexico);
 - b) test ways of improving investment readiness on the demand side;
 - c) demonstrate new ways of effectively engaging larger investors that have shown an appetite for making impact investments; and
 - d) create new products and distribution platforms for investors.
4. Support the engagement of the development evaluation profession based in developing countries to add value and hold impact investors accountable for their social and environmental objectives.
5. Convene and animate a series of conversations/encounters between leaders in impact investing and those in other areas of innovative development finance.

2 RECOMMENDATIONS TO THE FIELD OF IMPACT INVESTING

Furthermore, it is recommended that the leaders of the impact investing field take steps to

6. Institutionalize authentic developing-country voice and governance in the impact investing movement at all levels, through
 - a) creation of new Southern platforms and networks on the supply side or involving a combination of both supply-side and demand-side actors;
 - b) deepening policy dialogue among Southern policy actors in all spheres: private, philanthropic and public; and
 - c) experimentation with more democratized forms of impact investing and enterprise (e.g., widely held shareholder base in for-profits; mass membership in nonprofits and cooperatives).
7. Accelerate the velocity and expand the volume of capital mobilized for impact investing, through
 - a) support to the rapid, targeted development of new products, distribution systems and other “plumbing” in the impact investing space;
 - b) strengthening the capacity of intermediaries to identify, prepare, monitor, and enable exit from, new investment deals on behalf of impact investors, while also enabling the building of investee capacity;
 - c) increased formation of private-public investment syndicates involving development finance institutions and focused on specific sectors (e.g., water, health, energy, agriculture);
 - d) design and implementation of large-scale investment funds and mechanisms (e.g., in green real estate or social infrastructure) that can attract pension-fund and sovereign wealth fund investment with low transaction costs; and
 - e) closer relations and joint partnerships between impact investors and investors in related fields, such as responsible investing, community development finance, clean technology, corporate social responsibility and inclusive business.
8. Secure and sustain funding for the public-goods infrastructure of the impact investing movement.
9. Deepen the talent pool of the impact investing field, through
 - a) encouragement of policies and incentives for investment management teams to drive impact investing;
 - b) new courses to enhance the skills and knowledge of current investment fund managers and new entrants to the impact investing field; and
 - c) strengthened policies and practices relating to salaries, benefits and career paths for young professionals.
10. Convene the key players—including strong representation from impact investors in developing countries—to build a 10- to 15-year, phased plan to move toward a mature and sustainable global impact investing movement.

ENDNOTES

Executive Summary

- 1 We use the term “Global North” to refer to the developed economies of North America, Western Europe, Japan and Australia. The term “Global South” refers to low-income and emerging economies of Africa, the Middle East, Asia and the Americas, including the new economic powers of China, Brazil and India (even though much of China and India is in the north). A third group is that of the economies of Russia and the countries of the former Soviet Union.
- 2 Drawn from the field of program evaluation, “theory of change” refers to the construction of a model that specifies (usually visually) the underlying logic, assumptions, influences, causal linkages and expected outcomes of a development program or project. This model can then be tested against actual performance and adjusted on the basis of experience and learning. Good theories of change are not merely linear and simplistic; instead, they are dynamic tools that enable an understanding of the complex relationships among actors and factors in an intervention.

Parts I-III

- 1 See “Harnessing the Power of Impact Investing,” (New York: Rockefeller Foundation). Available at www.rockefellerfoundation.org/what-we-do/current-work/harnessing-power-impact-investing.
- 2 E.T. Jackson and K. Harji, *Unlocking Capital, Activating a Movement: Final Report of the Strategic Assessment of The Rockefeller Foundation’s Impact Investing Initiative* (New York: E.T. Jackson and Associates Ltd., 2012).
- 3 J. Freireich and K. Fulton, *Investing for Social and Environmental Impact* (San Francisco: Monitor Institute, 2009).
- 4 Ibid.
- 5 We use the term “Global North” to refer to the developed economies of North America, Western Europe, Japan and Australia. The term “Global South” refers to low-income and emerging economies of Africa, the Middle East, Asia and the Americas, including the new economic powers of China, Brazil and India (even though much of China and India is in the north). A third group is that of the economies of Russia and the countries of the former Soviet Union.
- 6 These conditions prompted a call in 2009 by the International Labour Organization for a “Global Jobs Pact” and renewed commitment to the ILO’s “Decent Work Agenda” program. On rising inequality in the OECD countries, see Organisation for Economic Cooperation and Development, *Divided We Stand: Why Inequality Keeps Rising* (Paris, 2011).
- 7 World Bank, *Multipolarity: The New Global Economy* (Washington DC, 2011).
- 8 “Blended value” is a term coined by Jed Emerson (see blendedvalue.org), which holds that all organizations, whether for-profit or not, create value that consists of economic, social and environmental components—and that investors (whether market-rate, charitable, or some mix of the two) simultaneously generate all three forms of value through the provision of capital to organizations.
- 9 On these and other drivers of impact investing, see Freireich and Fulton, *Investing for Social and Environmental Impact* (2009).
- 10 Ibid.
- 11 Consider, for example, the range of terms used in the “Tower of Babel” referred to in the Monitor Report, which includes socially responsible investing, social investing, mission-related investing, ethical investing and others.

- 12 Freireich and Fulton, *Investing for Social and Environmental Impact* (2009).
- 13 N. O'Donohoe, C. Leijonhufvud and Y. Saltuk, *Impact Investments: An Emerging Asset Class* (New York: J.P. Morgan Global Research, 2010). Available at www.jpmorgan.com/pages/jpmorgan/investbk/research/impactinvestments.
- 14 Ibid.
- 15 For example, the ImpactAssets50 is a list of experienced fund managers that seek intentional social or environmental returns. It covers a wide range of sectors and asset classes.
- 16 Drawn from the field of program evaluation, "theory of change" refers to the construction of a model that specifies (usually visually) the underlying logic, assumptions, influences, causal linkages and expected outcomes of a development program or project. This model can then be tested against actual performance and adjusted on the basis of experience and learning. Good theories of change are not merely linear and simplistic; instead, they are dynamic tools that enable an understanding of the complex relationships among actors and factors in an intervention. For more on theory of change, or program theory, see S.C. Funnell and P.J. Rogers, *Purposeful Program Theory* (San Francisco: Jossey-Bass, 2011) and P.J. Rogers, "Using Program Theory to Evaluate Complicated and Complex Aspects of Interventions," *Evaluation* 14(1) (2008): 29–48.
- 17 For one approach to classifying investees with social objectives, see B. Trelstad, in J. Simon and J. Barmeier, *More than Money: Impact Investing for Development* (Washington, DC: Center for Global Development, 2010).
- 18 Here we are speaking of impact investing funds that serve as intermediaries between the supply of impact capital and the demand by enterprises that generate social environmental impacts. Examples of such intermediaries include the Acumen Fund, IGNIA, and Root Capital. However, it is also common for consulting firms that package and broker investments either for investors (e.g., ImpactAssets, Imprint Capital) or investees (e.g., Total Impact Advisors) to call themselves intermediaries, even when they don't manage capital per se.
- 19 Freireich and Fulton, *Investing for Social and Environmental Impact* (2009), originally put forward this focus on intentions and the differentiation between impact-first and financial-first impact investors.
- 20 See, for example, P. Collier, *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It* (Oxford: Oxford University Press, 2007). Current data from the World Bank indicate, in fact, that nearly 1.3 billion people, or a little more than one-fifth of the world's total population, still live on less than \$1.25 per day ("Poverty Picture—1990-2008," World Bank, accessed April 2, 2012 <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/0,,print:Y~isCURL:Y~menuPK:336998~pagePK:149018~piPK:149093~theSitePK:336992,00.html>).
- 21 Another issue is the violation or abuse of human rights. While most examples of impact investing, to date at least, do not attempt to directly take on this major issue, there are, in fact, opportunities to invest in social enterprises whose mission is to advance human rights. One such social business is the nonprofit technology company Ushahidi, which provides tools and support for democratizing information and increasing transparency; Ushahidi was very active during the ethnic conflicts that accompanied the 2008 elections in Kenya. Another social enterprise is that of California-based Benetech, which has generated technologies that have enabled secure human rights reporting in conflict zones and increased affordable access to digitized book libraries for the blind.
- 22 There is an unprecedented opportunity today to form innovative, triangular partnerships among the rapidly growing countries, Western donors and poor nations that build on the comparative advantages of each of these groups working together to solve global problems. See B. Gates, "Innovation with Impact: Financing 21st Century Development" (presentation, G-20 Summit, Cannes, 2011). On the new trend to frugal innovation that has been most evident in Asia and now is being adopted by Western corporations, see, "Asian Innovation," *The Economist* (March 24, 2012): 68. This concept is, and should be, closely associated with that of social innovation.

- 23 The World Bank, OECD, United Nations, private foundations and a number of university research centers have all been working on innovative models for development finance. Among others, George Soros has supported new thinking on innovations in finance for HIV/AIDS and climate change. See also B. Gates, “Innovation with Impact” (2011).
- 24 Judith Rodin, Keynote Address (Acumen Fund 10th Anniversary Investor Gathering, New York, 2011).
- 25 Y. Saltuk, A. Bouri and G. Leung, *Insight into the Impact Investment Market* (New York: J.P. Morgan and the Global Impact Investing Network, 2011), 3.
- 26 Ibid., 5.
- 27 Freireich and Fulton, *Investing for Social and Environmental Impact* (2009), 9.
- 28 O’Donohoe, Leijonhufvud and Saltuk, *Impact Investments: An Emerging Asset Class* (2010), 11.
- 29 Housed at the GIIN, ImpactBase is the searchable, online database of impact investment funds and products designed for investors, accessible at <http://www.impactbase.org/>.
- 30 Several sources of information provide evidence to this effect, particularly the wide coverage of funds across asset classes in the ImpactAssets50 list, and the scope of activity described in the 2011 J.P. Morgan Report, *Insight into the Impact Investment Market*, by Saltuk, Bouri and Leung.
- 31 The 2011 J.P. Morgan study (ibid.) presents the most recent data, but source data are unavailable, and generally these data are limited. ImpactBase is another source, but it too is also limited due to a lack of benchmark data. Subsequent IRIS data reports and forthcoming data from GIIRS will help bolster this information base in the future.
- 32 O’Donohoe, Leijonhufvud and Saltuk, *Impact Investments: An Emerging Asset Class* (2010).
- 33 Saltuk, Bouri and Leung, *Insight into the Impact Investment Market* (2011), 14.
- 34 Ibid.
- 35 For more information on this topic, see A. Nicholls and C. Pharoah, *The Landscape of Social Investment: A Holistic Topology of Opportunities and Challenges* (Oxford: Skoll Centre for Social Entrepreneurship Research, Oxford University, 2007).
- 36 J. Novogratz, “Meeting Urgent Needs with Patient Capital,” *Innovations: Technology, Governance, Globalization* 2(1–2) (2007): 19–30.
- 37 L. Mitchell, J. Kingston and E. Goodall, “Financing Civil Society: A Practitioner’s View of the UK Social Investment Market,” *Venturesome* (2008): 4.
- 38 J. Kohler, T. Kreiner and J. Sawhney, *Coordinating Impact Capital: A New Approach to Investing in Small and Growing Businesses* (Santa Clara: Santa Clara University, 2011).
- 39 M. Bishop and M. Green, “The Capital Curve for a Better World,” *Innovations: Technology, Governance, Globalization*. Special Edition for Tech4Society: A Celebration of Ashoka-Lemelson Fellows (2010): 25.
- 40 See M. Kubzansky, A. Cooper and V. Barbary, *Promise and Progress: Market-Based Solutions to Poverty in Africa* (Cambridge: Monitor Group, 2011), and IFC “Scaling-Up SME Access to Financial Services in the Developing World” (Washington, DC: International Finance Corporation, 2010).
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- 102 The broader point here is that there is much to learn from the experience of other sectors, particularly that of microfinance. Recent challenges in that industry in Andhra Pradesh deserve detailed study. Did the pendulum swing too far toward financial imperatives and away from social principles? Do MFIs need to be obliged to reaffirm their social mission? The answers to these and other questions can help prepare impact investing leaders to try to avoid similar problems.

ABOUT E.T. JACKSON AND ASSOCIATES

E.T. Jackson and Associates Ltd. is an international management consulting firm providing professional services in strategic planning, organizational learning and performance assessment to grant-makers and investors in the public interest. With a track record of award-winning work in Africa and Asia, the firm specializes in impact investing, microfinance, social enterprise, civil-society organizations, gender equality, local governance, and basic and higher education.

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