

FINAL EVALUATION

# The Rockefeller Foundation's Program-Related Investments Portfolio

July 2013



**Arabella**  
Advisors

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THE  
**ROCKEFELLER**  
**FOUNDATION**

## About Arabella Advisors

Arabella Advisors, a leading philanthropy services firm, helps philanthropists and investors achieve greater good with their resources. The firm provides customized services built from a comprehensive platform spanning strategy, due diligence, evaluation, grant making, impact investing, project incubation, donor collaboration, foundation management and more. Arabella Advisors works exclusively with funders, providing objective advice to help them increase the impact of their assets.

## About the Rockefeller Foundation Evaluation Office

For more than 100 years, the Rockefeller Foundation's mission has been to promote the well-being of humanity throughout the world. Today, the Rockefeller Foundation pursues this mission through dual goals: advancing inclusive economies that expand opportunities for more broadly shared prosperity, and building resilience by helping people, communities and institutions prepare for, withstand and emerge stronger from acute shocks and chronic stresses. Committed to supporting learning, accountability and performance improvements, the Evaluation Office of the Rockefeller Foundation works with staff, grantees and partners to strengthen evaluation practice and to support innovative approaches to monitoring, evaluation and learning.



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Annex 4: Field visit list

All annexes listed can be found in the separate annex document for this report.

# Acronyms

AAC	African Agriculture Capital Fund
AMC	Advanced market commitment
ATM	Automated teller machine
CDBI	Community development banking institution
CDFI	Community development finance association
CPI	Corruption Perception Index
DOF	Disability Opportunity Fund
GAVI	Global Alliance for Vaccines and Immunisation (former)
GIIN	Global Impact Investing Network
GIIRS	Global Impact Investing Rating System
HDI	Human Development Index
IDEX	International Development Exchange
IRIS	Impact Reporting and Investment Standards
MDG	Millennium Development Goal
MIE	Mission Investors Exchange
MRI	Mission-related investments
NGO	Non-governmental organization
ODA	Official development assistance
PRI	Program-related investment
ProVenEx	Program Venture Experiment Fund
SMS	Short message service
SIB	Social impact bond
UNDP	United Nations Development Program
USAID	US Agency for International Development

# Preface

In the broader context of impact investing, Program-Related Investments (PRIs) enable foundations to make investments that generate both financial return and social impact. Although PRIs have existed for more than 40 years, they are underutilized as a means of achieving development outcomes at scale. After decades of declining aid resources, there is a growing consensus among funders, philanthropists and the development community that PRIs hold great potential to significantly augment and expand the funding available to achieve more and better development outcomes for the world's poor and vulnerable populations.

Recognizing that PRIs are a powerful tool to complement grantmaking in reaching program goals, The Rockefeller Foundation formally launched its PRI portfolio in the 1990s. Today the \$25 million portfolio contains international and domestic investments in the form of loans, equity investments and guarantees. Through this growing portfolio, the Foundation enables investees to support poor and vulnerable people – by improving asset ownership, expanding access to services and creating or preserving jobs.

Recognizing the need to develop an evidence base of what does and does not work in PRIs, and as part of the Foundation's commitment to learning and accountability, the Foundation's Evaluation Office in collaboration with the Foundation's PRI Team asked Arabella Advisors to evaluate the relevance, effectiveness and impact of the Foundation's PRI Portfolio. This independent evaluation's results draw on extensive research, field visits to investees in Asia, Africa and the US, and in-depth interviews with experts and peer investors that have provided valuable insights, observations and recommendations aimed at strengthening the Foundation's use of PRIs to achieve social impact.

The Foundation has learned a great deal from this evaluation. While it has been gratifying to see evidence of the benefits of many of the individual PRIs, it is sobering to see the impact limitations of a PRI portfolio that operates without an overarching strategy. We are pleased to make this summary overview more broadly available to the field of growing evidence and lessons on the use of PRIs in philanthropy and development.

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# Acknowledgements

We would like to acknowledge the support of the Rockefeller Foundation's Evaluation Office and PRI Staff and Committee for their assistance in the preparation and implementation of this evaluation. We are particularly grateful to Nancy MacPherson, Brinda Ganguly, Laura Fishler and Jill Hannon for their guidance and valuable insights as we conducted our research and developed this report. We appreciate the candor of the many investees, PRI experts and peer investors who generously shared their time and perspectives on the Rockefeller Foundation's work and the impact investing field. We also wish to thank Christa Velasquez for her guidance throughout the project and Rajasvini Bhansali and IDEX for their support in organizing and conducting the field work in India.

# Executive summary

The Rockefeller Foundation's Program-Related Investments (PRIs) have generated modest financial returns for the Foundation, contributed to investees' financial sustainability and generated positive social returns on a variety of fronts. Individual investments have helped organizations promote asset ownership, extend access to products and services on more equitable terms and in new ways to previously excluded populations, and increase the number and quality of jobs in the United States, Mexico and India. As a result, ultimate beneficiaries have greater opportunities to improve their livelihoods and quality of life.

The PRI Fund could achieve even greater impact if the Rockefeller Foundation, like other successful PRI makers, had a clear and detailed PRI strategy, aligned its investments more closely within the Foundation's four focus areas and integrated them with grant-making initiatives. The Rockefeller Foundation's peer investors have succeeded in advancing larger Foundation goals by aligning and integrating investment strategies with grant programs. While the Rockefeller Foundation's individual investments have made important contributions to a number of organizations addressing critical issues in underserved populations, a lack of clear strategic direction currently limits the PRI Fund's impact.

Despite these challenges, both peers and investees feel strongly that the Foundation should continue its PRI work, given its long investing history, its name recognition and its early role in building the impact investing space. The Foundation's involvement as a PRI investor lends legitimacy to the field, and its exit would have a negative effect on the development of the broader impact investing space. The Foundation could augment its impact and influence by increasing the size of its PRI Fund, which is significantly smaller than those of its peers. Its current PRI team inspires confidence for its financial knowledge and, over the past few years, has established more formal processes for identifying and assessing investments. In addition, the lessons learned from its investments to date can help position the Rockefeller Foundation for greater impact and focus going forward.

This independent, learning-focused evaluation of the Rockefeller Foundation's PRI portfolio, conducted by Arabella Advisors, aims to help in that effort. The evaluation assesses the portfolio's social and financial impact and performance, as well as opportunities to refine the overall PRI program strategy and its alignment with the Rockefeller Foundation's new focus areas and grant-making programs. It also takes into consideration the Rockefeller Foundation's contributions to the larger impact investing space and highlights innovative transactions and practices that have influenced individual organizations and other funders.

## History and context

The Rockefeller Foundation has contributed to the rapid evolution of the PRI field for the last two decades, although its grants to support building the broader impact investing field have been more influential than its actual PRIs. The Rockefeller Foundation is most recognized for its efforts to bring impact investing to mainstream investors and for founding the Global Impact Investing Network (GIIN). As an investor, the Rockefeller Foundation has been making PRIs since the 1990s, although



the PRI Fund has only been operating in its current format for a few years and did not have an annual allocation formally approved until 2011.

The lack of a detailed strategy with clear investment criteria for the PRI Fund, combined with the fact that several of its investments are more recent, makes measuring progress against targets difficult. In the absence of a clear strategy, staff and leadership have prioritized investments that contribute to equitable growth and resilience, help investees leverage funding, and enable the Fund to be innovative and influential. These priorities have provided helpful guideposts against which to define investment parameters and measure success and impact. The PRI Fund is performing well when it comes to contributing to equitable growth and resilience, and moderately in terms of leverage. Given its ad hoc strategy, it is not well positioned to be innovative or influential.

## Main findings and lessons

### Performance and measurement

The Rockefeller Foundation's PRIs have contributed to the financial sustainability of its investees and are helping them accomplish social goals and achieve impact. A number of organizations were particularly excited about having the Rockefeller Foundation name involved in their work and appreciated the staff's insights regarding structuring and monitoring investments.

#### **Finding 1 Financial performance.**

Overall, the Rockefeller Foundation has made \$23.9 million in PRI commitments, of which \$18.6 million has been disbursed. Fourteen of the Foundation's active investments are performing in alignment with the parameters of the PRI agreements, while three are not meeting individual PRI milestones or covenants. The portfolio has generated approximately \$552,000 in distributions and \$959,000 in interest income. Additionally, \$4.2 million in principal investments has been repaid. Approximately \$172,000 (representing 1 percent of the total portfolio) has been written off or called across two transactions.

#### **Finding 2 Social impact**

The PRI Fund is making important social impacts. Collectively, the portfolio has increased asset ownership for at least 6,015 people, expanded financial services to 57,816 beneficiaries, and helped create or maintain 8,754 jobs. In addition, the portfolio has helped develop 19,180 units of housing and impacted 1,266,757 individuals through expanded healthcare services. Finally, 1,225,201 rural producers and farmers have benefited from the Foundation's investments.<sup>1</sup>

#### **Finding 3 Social impact measurement**

The Rockefeller Foundation is applying best practices by requiring investees to measure social impact. However, while ratings systems, social audits and certifications are helping organizations think about their own performance management,

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<sup>1</sup> Data from investees' social impact reports to the Rockefeller Foundation.

investees find them complicated and expensive, and do not feel they help attract additional investment.

### **Management and decision making**

While the portfolio is performing well overall, the Foundation can help investees achieve more impact by revisiting and addressing some challenges around its strategy, approach to managing risk, utilization of financial and non-financial investments, and overall PRI investment process.

#### **Finding 4 Strategy**

Most successful PRI makers have a clear and detailed investment strategy, and closely align and integrate their investment strategies with program strategies. The Rockefeller Foundation should consider doing the same and should clearly define and articulate what the Foundation is trying to achieve through its PRI portfolio.

#### **Finding 5 Risk profile**

The Rockefeller Foundation identifies risk well at the deal level but can learn from peers who employ deliberate frameworks for identifying and profiling risk across their portfolios. In addition to having clear risk guidelines to inform investment decisions, the Foundation can better ensure that time and resources are spent on investments that fall within the Foundation's risk parameters by clearly defining its risk tolerance.

#### **Finding 6 Choice of investment vehicles**

The Rockefeller Foundation's practice of investing in intermediaries is common and appropriate for international investors, but it should more frequently consider grant/loan packages as well as providing PRIs to existing grantees to increase the scale and impact of existing programs and initiatives.

#### **Finding 7 Process**

The Rockefeller Foundation's due diligence and investment process is comparable to that of other investors and reflects the current high "cost of doing business" in this space, but it has an opportunity to take a leadership role in streamlining co-investment processes.

### **The Rockefeller Foundation's role, innovation and influence in the field of impact investing**

A small number of individual investments within the Foundation's PRI Fund have influenced practitioners' work, created products that filled existing gaps in the PRI space and demonstrated opportunities in geographies where fewer investors are working. However, while peers identified the Rockefeller Foundation's grants to support impact investing as innovative, they either were not familiar with the PRI Fund, or they did not regard the PRI Fund as influential or innovative. Instead, peers identified organizations as being innovative because they used a full spectrum of financial vehicles including grants, PRIs and mission-related investments (MRIs) to meet investee needs.

### **Additional insights and lessons learned**

The diversity of the investments in the PRI Fund provides great insights into the unique opportunities and challenges inherent in investing across a variety of geographies and issue areas.

#### **Finding 8 International investing**

Access to capital remains a challenge, and investing in rural areas still lags behind urban investments. Investors can also encourage and invest in gender-centric business approaches, which are slowly becoming more mainstream in Africa and India.

#### **Finding 9 Organizational development and sustainability**

Numerous organizations cited the importance of staff development and leadership training for successful implementation of programs. PRI makers should consider how grant funding can complement earned income to help investees accomplish these objectives.

#### **Finding 10 Context and environment**

Building advocacy alliances and partnerships with the nonprofit sector has helped investees shape the environments in which they work and achieve greater success. Investors can help organizations identify the right partnerships and also provide supplemental funding for organizations to use for policy or advocacy efforts.

### **Recommendations and conclusions**

To achieve greater impact, it will be important for the Foundation to have a clear PRI investment approach and strategy, more clearly align its PRI work with its focus areas and initiatives, and integrate program staff and regional offices to inform practice and enable knowledge transfer around specific issues and sectors. Being clear about the Foundation's PRI strategy and approach with investees and peers will also help increase impact. More specifically, by managing expectations around how and why the Foundation chooses to invest, it can identify the most appropriate opportunities for co-funding and better enable its investees to use the Rockefeller name when approaching other investors. Finally, the Foundation should consider providing multiple types of capital to investee organizations and more deliberately assess which package of investments, such as grants, PRIs and technical assistance, will best facilitate and maximize financial and social impact.



# 1

## Introduction: History and context

The PRI field has evolved rapidly over the past two decades, and the Rockefeller Foundation has played an important part in driving that evolution, though more notably as a field-builder through its grants initiative than as a PRI maker. While the Foundation has worked in this field for nearly 20 years, the PRI Fund in its current form lacks a detailed strategy with clear investment criteria and certain investments are only a few years old.

While PRIs have existed as a legal investment vehicle for private foundations for more than 40 years, the field has grown and evolved significantly over the past two decades. Dollar amounts of PRI investments grew from \$426.9 million in 1998–1999 to \$734.0 million in 2006–2007, and the number of PRI investors increased from 133 to 173 in the same years (Lawrence, 2010). In addition, the Rockefeller Foundation grant-funded initiatives – such as the Global Impact Investing Network (GIIN), the Impact Reporting and Investment Standards (IRIS), and the Global Impact Investing Rating System (GIIRS) – have helped bring impact investing to the mainstream investment discussion.

More recent growth in PRIs is partly attributed to a larger movement toward alternative financing models of which impact investing (encompassing PRIs) is one. The 2008–2009 global financial crisis led to stagnant growth in Europe and the United States, limiting official development assistance (ODA). The financial crisis, combined with a growing realization that no sole sector could provide sufficient resources to support development goals, led to a new conversation about alternative financial models and helped accelerate the impact investing movement. Along with innovative partnerships and financial models, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria, the GAVI Alliance (formerly the Global Alliance for Vaccines and Immunisation) and advanced market commitments (AMCs), impact investing gained traction as a new way to advance toward the Millennium Development Goals (MDGs) and other global development priorities.

More recently, PRI makers have broadened their investment tools to include other forms of impact investments such as mission-related investments (MRIs). In addition

to their PRI programs, many of the Rockefeller Foundation's peer investors increasingly use a combination of capital investment tools, (e.g. grants and MRIs) and leverage their nonfinancial resources (e.g. their networks and convening power) to advance toward their objectives.

The number and diversity of actors involved in the broader impact investing movement have also increased significantly. The Mission Investors Exchange, which began in 2002, has grown to more than 250 members after convening 145 participants (96 member foundations) in 2006 (MIE, 2013). In addition to institutional foundations, family offices, pension funds and commercial lenders are helping increase the amount of capital available for investing and creating new investment products. Market research reflects this growth: E.T. Jackson and Associates (2012) estimated that in 2011 alone, investors made 2,200 impact investments worth \$4.4 billion.

Nevertheless, PRIs and other types of impact investment still remain relatively rare tools and need additional support to become more mainstream. Investors are still grappling with how to assess them in terms of their true social impact and transformative power. Finding investment opportunities that meet investor's financial and impact goals continues to be a challenge as more capital is unlocked for investment. As a PRI maker, the Rockefeller Foundation is in rare company, with less than 1 percent of US foundations making PRIs in the last two years. Furthermore, of the 3.4 billion PRI dollars invested from 2000–2010, 60 percent were invested by foundations with asset sizes of \$200 million and above (Foundation Center, 2010), a bracket that encompasses the Rockefeller Foundation.

The Rockefeller Foundation's approach to PRIs has evolved as the field itself has evolved. It began making investments in the 1990s, but it was on an ad hoc basis until the Foundation Board officially approved the use of PRIs in 1997. Shortly thereafter, the Foundation launched the Program Venture Experiment Fund (ProVenEx), which invested \$20.2 million in 15 organizations over 10 years. ProVenEx provided a significant learning experience for the Foundation, which faced challenges in investing directly in start-up and international social enterprises. Given these challenges, the Foundation shifted to working through intermediary organizations in 2002, a preference the PRI team continues to exercise in today's PRI Fund and that many of the Rockefeller Foundation's peer funders also employ.

Following ProVenEx, the Board of Trustees approved the establishment of a PRI Fund with a separate allocation in 2011. The approval included a preliminary term sheet with targets for direct or intermediary investments, average deal size and tenor, asset class distribution, financial targets, social impact criteria and governance. Shortly thereafter, the PRI team presented a draft strategy to the executive team with programmatic and financial criteria. However, this strategy was not formally approved and, during a retreat held at the end of 2011, the PRI team discussed its need for a clearly defined strategy and the Foundation's lack of vision and definition of success for PRIs.

The following year, in 2012, the executive team discussed the PRI Fund document and requested revisions to include greater clarity around the rationale for the Rockefeller Foundation's making PRIs and the relationship with the Foundation's Inno-

vative Financing work, an evolving topic. However, this document was not formally adopted as a strategy, and the Foundation did not determine how to operationalize the PRI Fund within the Foundation's major approaches to funding, which include three pathways: innovation, influence and intervention.

Consequently, although the Foundation has significantly refined its PRI processes in recent years, the PRI Fund does not have a long-term investment strategy or allocation, and its activities are not integrated or directly aligned with the Foundation's grant-based initiatives. While the 2011/2012 strategy document is a starting place, it lacks necessary detail on portfolio-level risk, investment parameters, definitions of influence, expected leverage, and other items that peer investors include when planning to make investment decisions. At the same time, the shorter-term nature of the Foundation's program initiatives and the fact that it recently launched four new focus areas (revalue ecosystems, advance health, secure livelihoods and transform cities) complicate the PRI Fund's integration with grant-based activities. The lack of a detailed investment strategy, combined with the fact that six of the PRI Fund's active investments were closed in the last three years, makes it difficult to measure progress against targets and, for certain investments, full impact is not yet known.





# 2

## Purpose and objectives

The Rockefeller Foundation awarded a grant to Arabella Advisors to conduct an independent evaluation of the Foundation's PRI portfolio. The evaluation had five specific objectives.

1. Assess the relevance, rationale, efficiency, effectiveness, social impact and innovative nature of the PRI portfolio in relation to the portfolio's stated objectives, (including how the strategy was crafted and positioned) as well as to the Foundation's goals of more equitable growth and resilience.
2. Assess the merit of the use of Foundation monies for PRIs. This analysis will be relative to other PRI makers' financial returns, projected and realized; social impact, projected and realized; accuracy of risk characterization; external funds leveraged due to the Foundation's PRIs; the Foundation's influence beyond leveraging additional funds; and the cost of making PRIs.
3. Assess to what degree the Foundation's PRI program is unique vis-a-vis other PRI makers, including the size and structure of the fund, alignment with grant-making strategies, number of transactions, reporting requirements and risk tolerance.
4. Assess to what degree the Foundation's PRI activities have influenced the larger field of impact investing.
5. Contribute to knowledge generation for the Foundation and the field by capturing PRI-related lessons on issues of equity, resilience and social change, and the innovative nature of the portfolio.



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## Methodology

Arabella employed a mixed-methods approach to our evaluation and drew upon the following sources to inform this report:

- a review of key internal documents and external literature
- a review and analysis of current PRI investees' financial data and performance documentation
- interviews with the Rockefeller Foundation leadership and staff, PRI investees, peer investors and other experts
- a survey of current and exited PRI investees
- field visits to six investee organizations and nine beneficiaries.

TABLE 1. **Summary of methods**

METHOD	SOURCES
<b>Document review</b> Internal and external	<p><b>Internal:</b> strategy documents, PRI committee notes and presentations, notes from speaking engagements, content or other thought leadership products</p> <p><b>Investees' narrative documentation:</b> proposals, narrative and social impact reports, investee pipeline reports</p> <p><b>External literature review:</b> recent reports and literature available on trends in the impact investing space</p>
<b>Portfolio analysis</b>	<p><b>Investees' financial documents:</b> portfolio summaries, audits, loans/guarantees/limited partnership agreements, side letters, addendums to agreements, financial reports, covenant compliance reports</p> <p><b>Dashboards of performance by criteria:</b> asset class, size of investment, stage of investment, intensity of the effort, program alignment, performance of investment</p>
<b>Investees survey</b>	The survey included 17 current and exited PRI investees and covered 18 investments made through both ProVenEx and the PRI Fund
<b>Stakeholder interviews</b>	The Rockefeller Foundation staff (10) Investees (9) Peer investors and experts (8)
<b>Field visits</b>	<p><b>International:</b> Juhudi (Nairobi), Centenary Rural Development Bank (Kampala), African Agricultural Capital Limited (Kampala), Aavishkaar (Mumbai)</p> <p><b>Domestic:</b> Disability Opportunity Fund (NY), New York Acquisition Fund (NY)</p>

Collectively, these inputs provided insight into the Rockefeller Foundation's PRI portfolio management and performance; the Foundation's role, innovation and influence in the field of impact investing; and lessons learned both to inform the Foundation's future strategy and to advance the field.

# 4

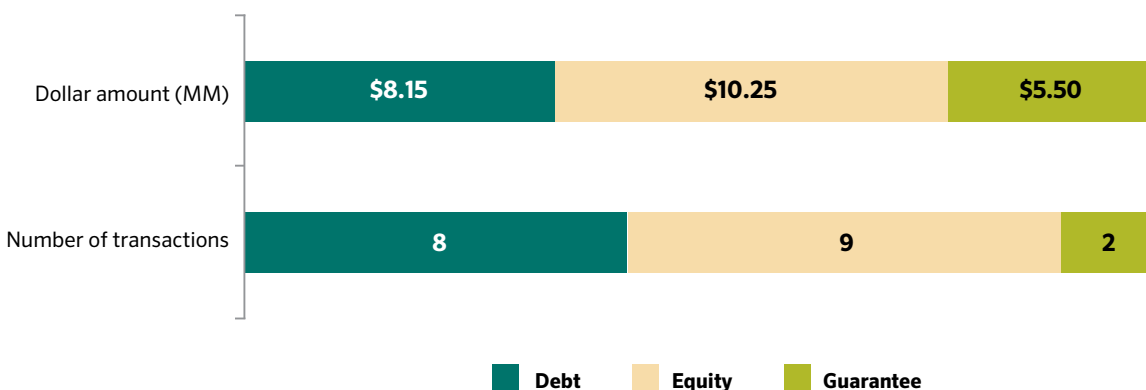
## PRI Fund overview

Arabella Advisors conducted an evaluation of \$23.9 million dollars of the Rockefeller Foundation's portfolio, consisting of 18 PRIs in 17 unique investees. Fourteen PRIs are active and four have been exited. Six current and two exited deals were ProVenEx legacy investments, four were part of the impact investing or innovation program initiatives, and the remainder were PRI Fund investments. Of the active investments, \$20.2 million has been committed and \$15.1 million has been disbursed, 42.8 percent of the portfolio was committed within the last three years, and at least 21.4 percent will be exited by 2015.

### 4.1 Asset class and investment vehicle

The Rockefeller Foundation's portfolio is 44 percent equity, 44 percent debt and 11 percent guarantees by number of transactions (42 percent, 35 percent and 23 percent by dollar amount). The average equity commitment was \$1.28 million, the average debt commitment was \$1.02 million and the average guarantee commitment was \$2.75 million.

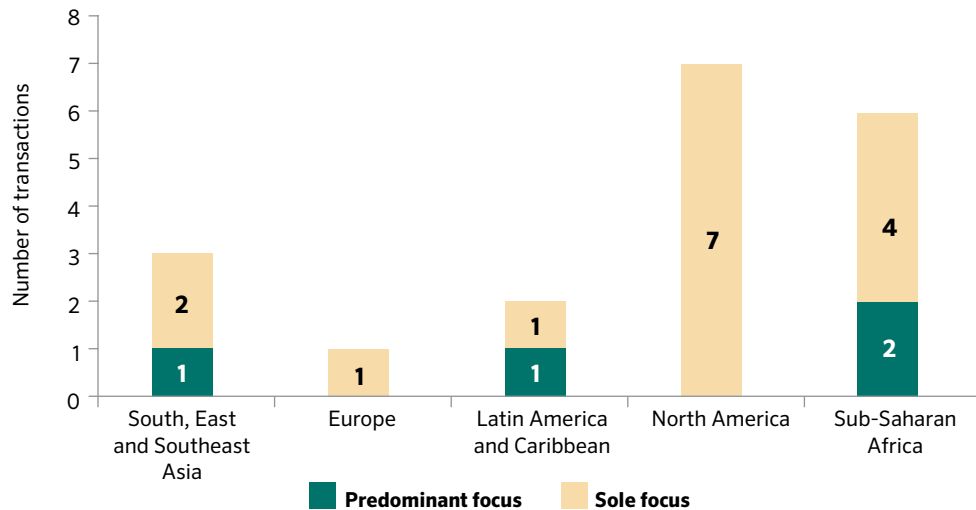
FIGURE 1: **Asset class of the Rockefeller Foundation PRIs**



## 4.2 Geography

Seven investees deployed the Rockefeller Foundation’s capital in the United States and 11 organizations deployed capital internationally. Over a third of investees are domestically focused organizations. One-third of investees are solely or predominantly focused on sub-Saharan Africa, and most of these focus only on that region.

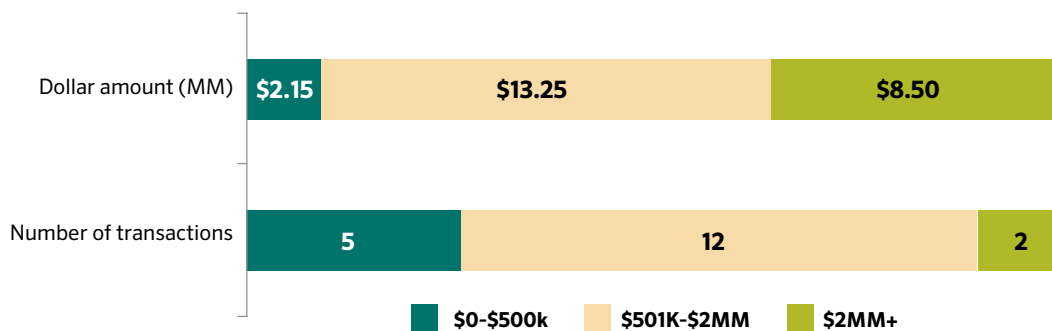
FIGURE 2: **Geographic regions where investees deployed the Rockefeller Foundation PRIs**



## 4.3 Size and stage of investment

The average investment commitment was \$1.33 million. The smallest investment was a \$200,000 forgivable loan, and the largest was a \$5 million loan guarantee. The five PRIs equal to or less than \$500,000 were the African Healthcare Fund, Calvert Social Investment,<sup>2</sup> Social Impact Bond, Centenary and Pacific Community Ventures I. The two PRIs greater than \$2 million accounted for over a quarter of the total portfolio dollars: a \$5 million loan guarantee to the New York City Acquisition Fund and a \$3.5 million equity investment to the Acumen Fund.

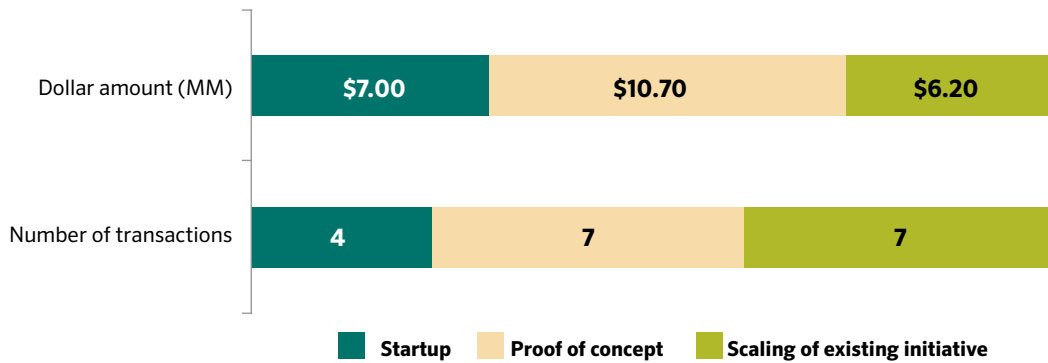
FIGURE 3: **Size of the Rockefeller Foundation investment**



<sup>2</sup> A \$1 million standby letter of credit provided to Calvert Social Investment was not included in this analysis

Four transactions were made with organizations that were startups at the time of investment: the African Healthcare Fund, Pacific Community Ventures I, Social Impact Bond and the New York City Acquisition Fund. Seven transactions were made to advance proof of concept with an experienced team but a new initiative, and seven were made to scale existing initiatives.<sup>3</sup>

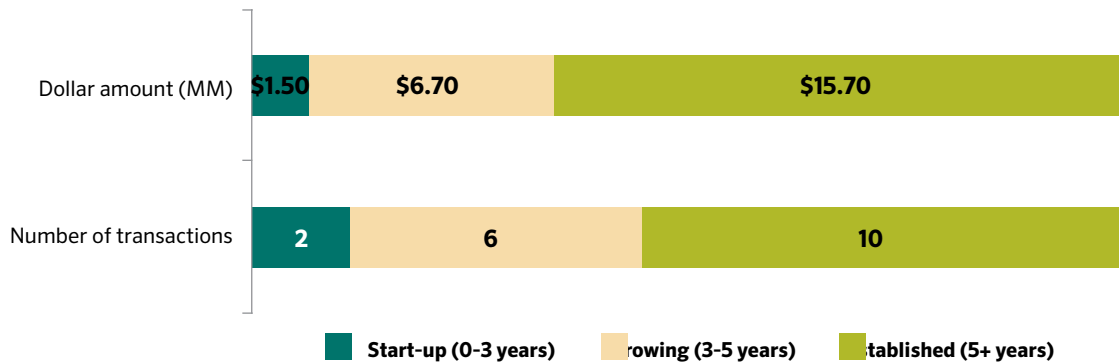
FIGURE 4: Investees' stages of development at time of the Rockefeller Foundation investment



The majority of Rockefeller Foundation's investees now describe themselves as established organizations with over five years of impact investing experience. Startup and emerging organizations were equally split between receiving equity and debt financing, and both of the PRI Fund's guarantees were provided for organizations that now self-report as established. Half of the established organizations received equity.

Startups reported grants and PRIs as their largest capital sources. Growing organizations were most likely to report PRIs as a primary source of capital. The four organizations that rely primarily on earned revenue for capital described themselves as established organizations.

FIGURE 5: Investees' stages of development in 2013

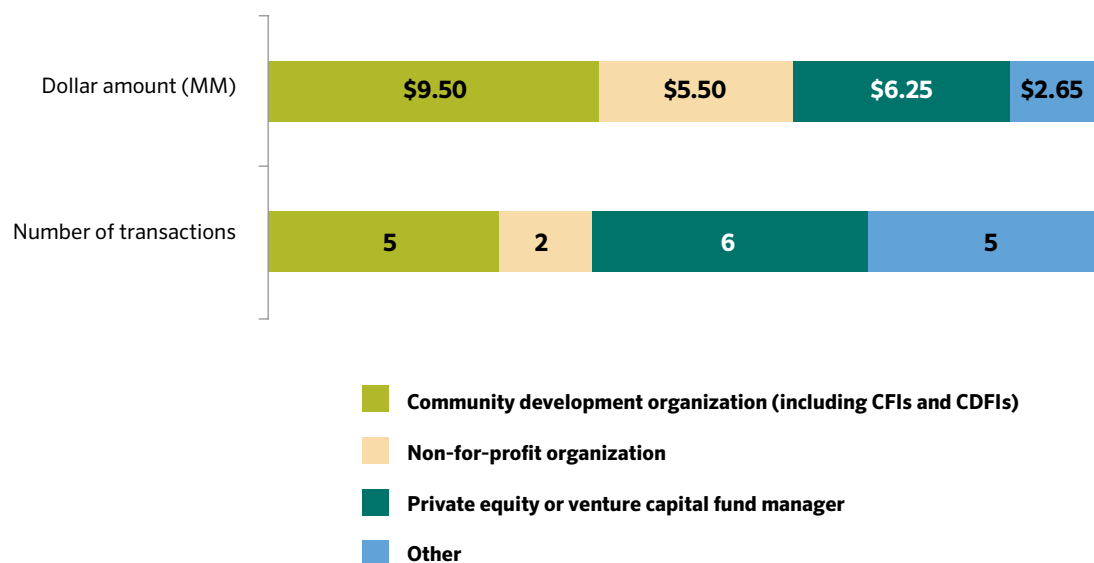


<sup>3</sup> The following criteria were used to categorize investments: startup (new team, new fund), proof of concept (experienced team, new fund), and existing initiative (experienced team, existing fund).

## 4.4 Type of organization and capital structure

The portfolio is fairly evenly distributed across types of investees. Two-thirds of investees that received equity self-identified in the survey as private equity or venture capital fund managers, while community development organizations received over half of all loans. Those who self-reported as “other” were either a blend or variation of several organization types.

FIGURE 6: **Type of investee organization**



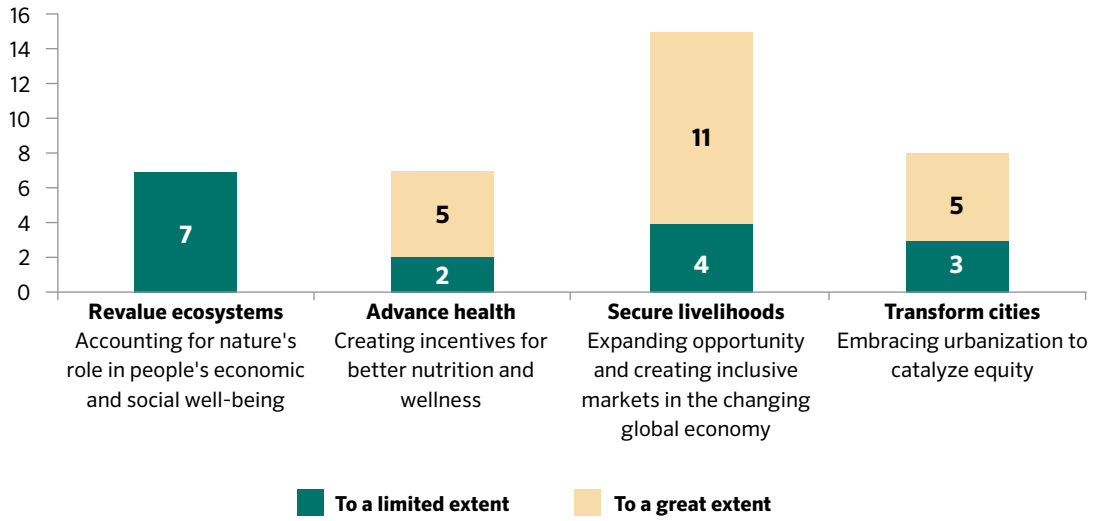
Eighty-three percent of investees reported PRIs as their primary or secondary source of capital. The remaining respondents listed their primary source of capital as earned revenue.

## 4.5 Program and issue area alignment

When compared with the organization’s new focus areas, 15 investees listed secure livelihoods as the primary or ancillary work of their organization. Established organizations are primarily working within the secure livelihoods and transform cities issues areas, while growing organizations are working primarily in the secure livelihoods area. To put this in context, from 2006 until 2007, 57 percent of all PRIs made by foundations were focused on the traditional PRI sectors of education, economic/community development, and housing and shelter. Now, PRIs are increasingly being made in new areas, such as arts and culture (4 percent), health (5 percent) and the environment (11 percent) (Lawrence, 2010).



FIGURE 7: **Extent to which investees' work falls within the Rockefeller Foundation focus areas**





# 5

## Main findings and lessons

The Rockefeller Foundation's PRIs have contributed to investees' financial sustainability and generated a variety of positive social returns. While the Foundation's individual investments have made important contributions to organizations addressing critical issues in underserved populations, the Foundation also can help investees achieve more impact by revisiting and addressing some challenges around its strategy, approach to managing risk, choice of financial and non-financial investments, and overall PRI investment process.

### 5.1 Performance and measurement

Measured by the terms within each PRI agreement, most of the PRIs within the Foundation's portfolio are performing as anticipated. While it is too soon to tell whether many will ultimately reach their overall financial and program goals, the PRIs within the portfolio are clearly contributing to investees' financial stability, helping them accomplish social goals and achieve impact. In some cases, investments have also begun to generate financial returns. Meanwhile, several investees who are fund managers appreciated the Rockefeller Foundation staff's general suggestions on how to structure and manage their own investments.

**Finding 1** When viewed as an aggregation of individual investments, the portfolio can be seen in a largely positive light. However, the Foundation's leadership has not officially confirmed portfolio-level targets for financial and program performance, making it difficult to determine whether or not the whole of the portfolio is greater than the sum of its parts.

### 5.2 Financial performance

**Finding 2** Most of the Foundation's 18 investments are performing in compliance with the parameters of the PRI agreements, with three not meeting PRI milestones or program requirements.

Additionally, the four exited transactions within the portfolio have returned \$4,188,703 of the Foundation's original investments, and the portfolio has generated approximately \$552,000 in distributions from equity investments and \$959,000 in interest

income. The majority of this income (\$1.37 million) is from investments made prior to 2008. Income generated from investments made after 2008 totals \$142,265. Additionally, \$4.2 million in principal investments have been repaid.

**Finding 3 The PRI portfolio has some transactions experiencing performance issues. There was a partial write-off of one investment totaling \$75,399, and \$95,898 in capital was called for a loan guarantee. However, these losses represent only 1 percent of the investments examined in this evaluation and are within the Foundation's expectations of performance.<sup>4</sup>**

Of the active investments experiencing performance issues, two are equity and one is debt. The equity transactions' performance issues are primarily due to issues within the investees' portfolio companies, deploying investor capital, or larger organizational issues. The one debt transaction in default has not made scheduled interest payments since December 2012, and the Rockefeller Foundation is working closely with the investee to develop a solution. When structuring these investments, the Foundation recognized and planned for the high-risk nature of these transactions. Overall, it is too early in the investment timeline to know what the results will be. For example, many of the Foundation's investments are for ten years and thus too early in their lifecycles to determine whether they will ultimately meet their overall financial and program goals.

### 5.3 Leverage

**Finding 4 While investees succeeded in leveraging additional financial capital, the Rockefeller Foundation's PRIs only directly leveraged 22 percent of the overall capital raised.**

In total, the Foundation's PRIs have been co-invested with over \$330 million in additional grant and investment capital from other funders and investors. Within the portfolio's \$13.6 million in debt and guarantees, PRIs have leveraged over \$143 million in total capital. Further, in the debt transactions where the Rockefeller Foundation took a subordinated debt position (\$6.4 million), investees were able to directly leverage<sup>5</sup> the Foundation's PRI, resulting in \$74.8 million in additional senior debt, or 22 percent of the overall capital leveraged. Finally, the portfolio's \$10.25 million in equity investments contributed to nearly \$200 million in additional equity capital for investees.

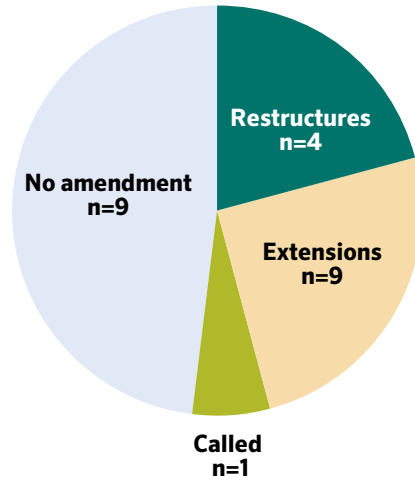
**Finding 5 While the number of amendments, restructures and extensions appears high at 50 percent, a closer look at the circumstances for these changes mitigates concerns.**

Of all the transactions reviewed, 22 percent were restructured, 22 percent had the term of the investment extended or renewed, and one was called. Of those restructured, all were loans, and changes were made to specific covenants and/or reporting requirements. All extensions and renewals were options within the original PRI agreements. The PRI that was called was structured as a forgivable loan and had the option of being converted to grant equity when the investee was unable to raise additional capital for the

<sup>4</sup> The Rockefeller Foundation wrote off one investment, which was not included in this evaluation.

<sup>5</sup> Direct leverage applies to instances where third-party investments could be directly attributed to the Rockefeller Foundation's investment.

FIGURE 8: **Amendments by number of investments**

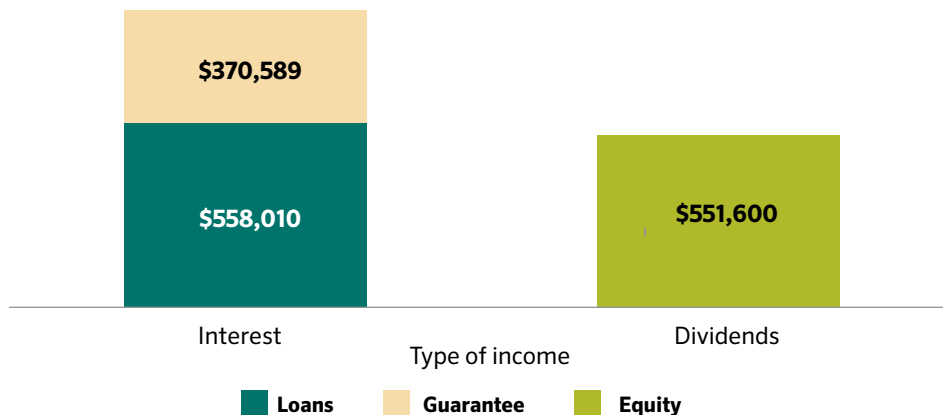


fund. Many peers noted that amendments and restructures are a common part of the process of managing PRIs. Due to the generally innovative nature and structure of PRIs, investments may require such amendments or restructuring due to, e.g. unanticipated shifts in business models, markets or organizational management and/or capacity.

**Finding 6 The Rockefeller Foundation has exited four PRI investments that have resulted in partial or full repayments, including three loans and one guarantee.**

Investment commitments totaled \$3.7 million, of which the Rockefeller Foundation received \$3,528,703 in principal repayments, \$175,043 in interest income, and wrote off approximately \$171,000 of the original principal investment. After receiving principal and interest totaling \$3,703,746, the Foundation broke even across the four original investments. Two of the three loans were fully repaid with interest, and one was partially repaid. The portion of the guarantee was called to cover loan losses in the recipient’s portfolio with the remainder of the guarantee balance returned to the Foundation. To date, there have been no exits from equity investments.

FIGURE 9: **Investment income by asset class**





**A hearing-impaired woman at Net Systems translating a textbook to an audio format.**

## 5.4 Social impact

Individual investments have helped investees promote asset ownership, extend access to products and services on more equitable terms and in new ways to previously excluded populations, and increase the number and quality of jobs.

**Finding 7 Most investees were able to successfully deploy the capital they received from the Rockefeller Foundation and achieve some degree of social or environmental impact.**

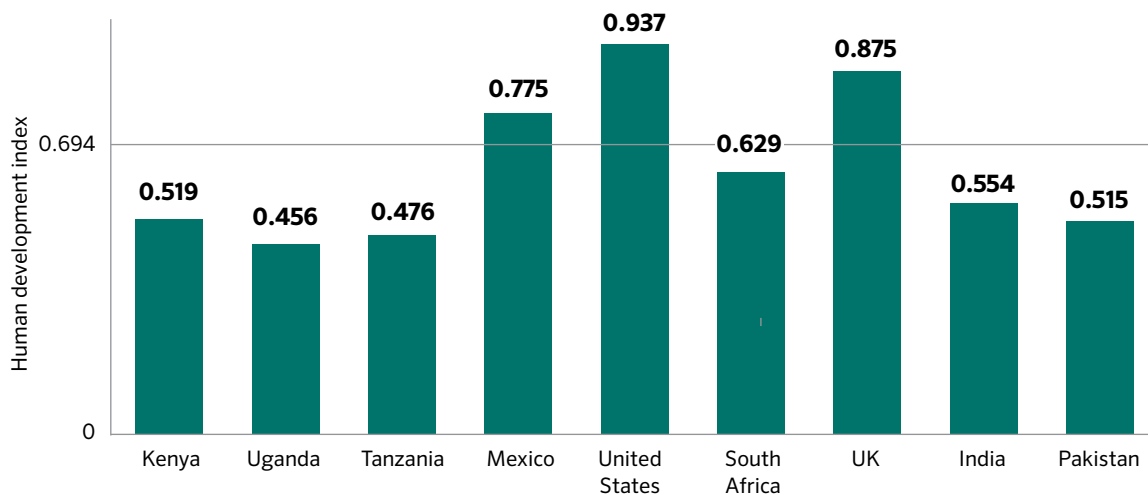
Two-thirds of survey investees reported the main accomplishment they achieved as a result of the Rockefeller Foundation's PRI was the deployment of capital, while half of the respondents reported achieving some degree of social or environmental impact. In general, domestic investees reported having greater impact than international investees, with 85 percent reporting that they had deployed capital and achieved social or environmental impact. On the other hand, approximately half (54 percent) of international investees reported they had deployed their capital, while only 27 percent reported achieving social or environmental impact. Domestic organizations were also slightly more likely to report that the PRI helped them develop strategic partnerships and build organizational capacity. Investees credit favorable policies and public support in the United States as critical to advancing their work.

**Finding 8 The Foundation is achieving its goal of reaching poor and vulnerable communities.**

A look at Rockefeller Foundation’s investments in comparison with the Human Development Index (HDI)<sup>6</sup> shows that the Foundation is generally investing in countries that fall below the world’s HDI average (see Figure 10). In the cases where the investee country’s HDI is above the world HDI average (e.g. Mexico, the United States and the United Kingdom), the Foundation is generally investing in underserved populations that are not illustrative of the total population, such as low-income and rural communities, people with disabilities and former prisoners.

Similarly, an analysis of the Rockefeller Foundation’s investments against the corruptions perception index (CPI)<sup>7</sup> shows that the Foundation is investing in countries where public sector corruption is perceived to be high, which is indicated by a score lower than the world average (see Figure 11). The United States and the United Kingdom are once again outliers.

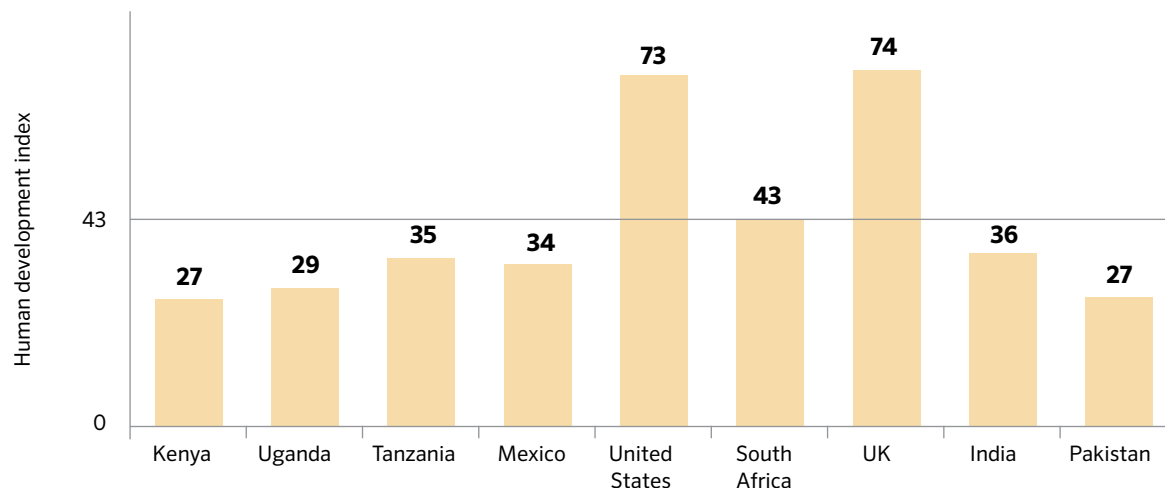
**FIGURE 10: Countries where PRI recipients operate mapped against the Human Development Index, where the world average is .694**



<sup>6</sup> The United Nations Development Program (UNDP) Human Development Index (HDI) measures social and economic development. The HDI includes three dimensions (health, education, living standards) and four indicators (life expectancy at birth, mean years of schooling, expected years of schooling, GDP per capita), and sets a minimum and a maximum for each dimension, called goalposts. Countries are assessed in relation to these goalposts, expressed as a value between 0 and 1. The HDI can be found at <http://hdr.undp.org/en/statistics/hdi>.

<sup>7</sup> The Transparency International Corruption Perception Index (CPI) measures countries’ perceived levels of corruption assessed through expert assessments and opinion surveys. The CPI defines corruption as the misuse of public power for private benefit. The 2012 CPI index can be found at <http://www.transparency.org/research/cpi/overview>.

FIGURE 11: Countries where PRI recipients operate mapped against the Transparency International Corruption Perception Index, where the world average is 43



**Finding 9** While the Rockefeller Foundation did not set clear social targets for its portfolio, investees are making meaningful and important contributions towards the goals that the Foundation outlined in its internal documentation (see Table 2).

Social impact data were collected and aggregated based on investee self reports to determine the PRI Fund’s overall social impact in terms of lives reached and access to expanded services. We used data available in investees’ reports to the Foundation, as well as additional information gathered through interviews, site visits and surveys. It is worth noting that because the Rockefeller Foundation invests its PRIs in pooled intermediary funds with co-investors, the social impact achieved by investees may only be partially and/or indirectly attributable to the Foundation. Given that a number of the PRIs have only recently been committed, it will be important to assess these impacts more thoroughly in the future.

**Finding 10** Several organizations faced external circumstances that limited their social impact, such as the economic downturn in the United States (which affected most of the domestically focused organizations), environmental conditions, foreign markets and regulations abroad.

One-third of investees (all domestic) reported that the economic downturn was the biggest challenge they faced in meeting their PRI-related goals. International investees reported facing myriad external challenges, including lack of access to optimal financing mechanisms and capital, difficulty in finding qualified investees, challenging foreign markets and regulations, and environmental conditions. Poor weather and climatic conditions that lead to a drought in Africa were particularly challenging for investees working in the rural agricultural sector.



TABLE 2: **Aggregate social impact data by the Rockefeller Foundation goals<sup>8</sup>**

GOAL	EVIDENCE
<b>Promote asset ownership</b>	<ul style="list-style-type: none"> <li>Collectively, the PRI portfolio has increased asset ownership for at least 6,015 poor and vulnerable people, including farmers, artisans and low-income homeowners</li> </ul>
<b>Extend access to products and services on more equitable terms and in new ways to previously excluded populations, including financial services, housing, healthcare, water &amp; sanitation, utilities, education, etc.</b>	<ul style="list-style-type: none"> <li><b>Financial services:</b> 57,816 people have benefited from expanded financial services as a result of increased access to financing<sup>9</sup></li> <li><b>Housing:</b> 19,180 units of housing developed or preserved and 35,707 people housed</li> <li><b>Healthcare:</b> 1,499,032 lives impacted by expanded healthcare services, including the construction of new hospitals providing in-patient and out-patient care and an expansion of mobile services</li> <li><b>Water &amp; sanitation:</b> More than 2.7 million people have access to portable toilet cabins and water purification systems</li> <li><b>Energy technology and utilities:</b> 640,443 households covered by new technology, and at least 6,602,431 lives impacted as a result</li> <li><b>Education:</b> Over 4,056 schools, 7,853 teachers and 517,200 students have received new programs and training, and 1,779 classroom seats have been created</li> <li><b>Agriculture:</b> 1,225,201 rural producers and farmers impacted by services such as increased access to loans, shareholding and technology<sup>10</sup></li> <li><b>Telecommunications:</b> 7,129 people have increased access to affordable coverage</li> </ul>
<b>Increase number and quality of jobs</b>	<ul style="list-style-type: none"> <li><b>Jobs created/maintained:</b> 8,754</li> <li><b>Quality of jobs:</b> 652 employees work for two investments focused on workforce development. Of these 652 jobs, 453 (69 percent) are eligible for health care benefits, 400 (61 percent) are eligible for retirement benefits, 564 (87 percent) earn a low-to-moderate income wage. Another investment created salaried and hourly, entry-level jobs that exceed minimum wage.</li> </ul>

## 5.5 Social impact measurement

**Finding 11 The PRI Fund is employing best practices by requiring investees to track and measure their social impacts. GIIRS is considered limited, with regard to its ease of use and effectiveness for leveraging funds, while investees found IRIS more helpful for thinking internally about social impact.**

The Rockefeller Foundation took a lead role in creating social impact performance and measurement tools through its early investments in the creation of IRIS and GIIRS. IRIS consists of a set of standardized, sector-specific metrics that help organizations assess and report on their social, environmental and financial performance. GIIRS is a comprehensive system for assessing the social and environmental impact of companies and funds using a ratings and analytics approach. Since 2010, the Foundation has required all PRI investees to provide social metrics reporting that is compliant with IRIS and to obtain a GIIRS rating whenever relevant and applicable. The PRI team has also asked investees to set social targets prior to closing and report against those targets on an annual basis, providing increased accountability and a clear basis for intervention and conversation regarding future impact strategies.

<sup>8</sup> This table does not include social impact data for one investee, which was unable to provide data because it is undergoing a separate independent evaluation of its performance and impact.

<sup>9</sup> In addition, the expansion of automated teller machines (ATMs) in rural areas increased access to financial services for approximately 500,000 people in India alone.

<sup>10</sup> Dairy automation technology has impacted over 1 million farmers in rural India.

Empowering flower farmers through economic opportunity. Wilmar Agro Ltd., a flower-exporting firm based in Thika, Kenya, is an investee company of the African Agricultural Capital Fund, LLC. Since its humble beginnings in 1995, the family-owned company has become a flourishing business that exports more than a dozen flower varieties and provides employment for more than 70 staff and 3,000 growers. Farmers working with Wilmar Agro Ltd receive seeds and training on how to cultivate the flowers and receive payments on a weekly basis, as opposed to the monthly payments provided in the milk and tea production industries. This provides them more operating income and better opportunities to support their families. One farmer, who won an award as the most successful Wilmar farmer, grew over 1 million stems and received enough income to rent additional hectares, expand production on his farm and send his children to school.



**Finding 12 While the Rockefeller Foundation is increasingly applying best practices by requiring investees to measure their social impact, the field as a whole is still struggling to identify the best metrics and standards to use.**

Most investors believe that having investees set their own targets in partnership with investors is a more favorable approach for measuring social impact than having investors set them for investees. PRI makers and investees alike acknowledged in interviews that social impact is often difficult to measure and that the impact investing field has, until recent years, lacked adequate tools to assess, benchmark and report impact. Efforts to improve the collection and measurement of social impact through IRIS and GIIRS are beginning to address a gap in the field.

*“GIIRS and IRIS do not measure how we think of impact. Organizations should set their own metrics for success.”*

—PEER INVESTOR

However, GIIRS can be a burdensome process and investees are not yet seeing ratings from systems such as GIIRS translate to additional capital. Similarly, investees surveyed by Keystone Accountability noted that reporting requirements in general are onerous and questioned whether the costs to provide the requested information are worthwhile when investors rarely respond to it (Keystone Accountability, 2013). Investees find themselves collecting data that they do not otherwise need or use, just to meet reporting requirements. While the goals of GIIRS were broader

than increasing funding (e.g. setting industry standards, transparency, promoting best practices), investors and investees emphasized that collecting the information does require a significant investment and that the field should continue to think about what level of information and social impact tools should be required.

In addition, the Rockefeller Foundation, as many of its peers, currently holds its PRI investees to a different standard than its grantees, requiring investees to track social impact more diligently. PRI makers and impact investors generally expect more of their investees because the legal requirements associated with PRIs are greater than those with grants. Should the Foundation integrate its PRI making more fully with its grant making, it would have an opportunity to capitalize on the knowledge of the PRI team and build toward a model where the Foundation as a whole better targets and measures the social impact of its investments.

## 5.6 Management and decision making

**Finding 13** While the overall portfolio is generally performing in alignment with the parameters of the PRI agreements, the Foundation can help investees increase their impact by revisiting and addressing some challenges around its strategy, approach to managing risk, choice of financial and non-financial investments, and the overall PRI investment process.

## 5.7 Strategy and decision making

**Finding 14** Most successful PRI makers align and integrate their investment strategies with program strategies, and The Rockefeller Foundation should consider doing the same.

A strategy that clearly outlines investment criteria, connects more directly to the Foundation's overarching focus areas and integrates into initiatives will facilitate senior leadership's support for using PRIs and engage staff more effectively in the PRI decision-making process.

The peer investors that invest in specific program areas all indicated in interviews that they use PRIs in close alignment with their program strategies. The Foundation's peers and experts overwhelmingly expressed a belief that PRIs are a tool for advancing program work and should not be a separate, stand-alone program area.

In interviews, the Foundation's own senior leadership indicated that such an alignment between the Rockefeller Foundation's program and PRI strategies is a necessary priority, recognizing the need for closer ties between the Foundation's PRI work and grants initiatives. At the same time, the Rockefeller Foundation staff and leadership expressed concerns about how to align and integrate PRI investments with time-bound grants initiatives. How would the Foundation report on social impacts of a given initiative when an investment is still ongoing?

Peer investors we spoke with emphasized that, for the most part, the challenges their grants and PRIs help address will continue beyond the length of either type of investment. Thus having perfectly coordinated timelines for grant and PRI investments is

not particularly important. One of these PRI makers pointed out that the value added by connecting PRIs to grant-making initiatives outweighs any difficulty inherent in aligning the timing between the two. Of course, like its peers, the Rockefeller Foundation will need to identify an approach for managing investments with timelines that outlast related grant initiatives. Toward that end, it could consider limiting its investment period to the first two years of any initiative so it does not have new PRI deals as it is transitioning out of the grant-funded work.

Finally, while the 2011/2012 strategy document is a helpful starting place for informing the PRI Fund approach, it is neither approved nor specific enough for staff and the PRI committee to use as a basis for decision-making. Other funders have documents that outline clear investment criteria at both the portfolio and investment levels. Sample criteria include portfolio-level goals, financial expectations and risk thresholds, and program fit. Investment-specific criteria include potential impact, influence, leverage, geographic targets, financial strength, management strength, potential replication and innovation (as clearly defined by the investors themselves). The Rockefeller Foundation's document takes steps in these directions, but should be significantly elaborated.

**Finding 15 PRI team members are recognized for providing thoughtful due diligence and possessing strong impact investing acumen. However, they lack expertise in investees' specific content, issue and geographic areas – a need that could be addressed by including program officers in the due diligence and decision-making process.**

In interviews, investees generally felt that the PRI team was diligent in sourcing deals and displayed strong financial knowledge of impact investing. Some investees, however, mentioned that there were times when the Foundation did not appear to have sufficient understanding of the issues and geographies where it worked which, in some instances, prolonged the due diligence process. One investee noted that while the Foundation displayed immense business savvy, the specific issue-related questions and information that the Foundation requested seemed misguided. The Foundation can overcome this challenge by more fully integrating program officers and international staff with specific content knowledge into the decision-making process and through integrating and aligning the PRI Fund with program initiatives. Including program staff members in these processes is also a way to get them to engage with and understand the PRI tool. Several PRI staff and committee members noted in interviews that ProVenEx used to source PRIs from the Foundation's program areas, and that they would like the current PRI Fund to again be more inclusive of program staff.

**Finding 16 The Foundation's establishment of a PRI committee and green-light process has improved how staff members are involved in investment decisions. The decision-making process will be even more effective and efficient once a strategy with clear selection criteria is in place.**

Foundation leadership and staff interviews illuminated a general agreement that the development of the PRI committee and green-light process has been beneficial. PRI

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<sup>11</sup> The More for Mission Campaign broadly aims to promote investing and encourage foundations to take up mission investing practices.

## Considerations for structuring PRI Fund allocations

When considering how to structure and report on its PRIs, Rockefeller Foundation can draw on the experiences of its peers. Given the challenges of identifying opportunities and making PRIs, most PRI makers have an overall allocation of PRI funds to manage rather than annually determined investment levels. Some foundations with long-established programs recycle capital that has been repaid into new investments and supplement that with additional funding from annual program budgets as needed.

When reporting, the majority of foundations count PRIs toward payout. However, not all foundations manage combined grant and PRI expenditures to the 5 percent requirement. Some foundations make PRIs on top of the 5 percent grant distributions as encouraged by the More for Mission Campaign.<sup>11</sup> Overall, given the unpredictability of the timing when closing a PRI, managing to the 5 percent rule requires a great deal of attention.

committee members are now involved in discussions earlier in the process, which has led to better information sharing. For example, when the PRI committee was exploring an investment in East Africa, concerns were flagged and addressed as a result of the process. Members of the legal team also reported that they felt better informed as a result of this new process.

Peer investors we interviewed also discussed the structures of their PRI committees, and all described committees that combined program staff (by issue area), investment staff (both PRI staff and financial team members) and executives. While the approval processes and authority of the committees differed for each foundation, all peers described conscious efforts to ensure a balance between the financial and program perspectives within the foundation. In comparison to its peers, the Rockefeller Foundation's PRI committee has fewer programmatic staff. As the Foundation determines how best to integrate its work with grants initiatives, it may wish to add more programmatic staff to the committee.

### 5.8 Risk profile and management

Although the Rockefeller Foundation assesses potential deal risk through its thorough due diligence process, the PRI Fund lacks a larger risk framework from which to make investment decisions. There is an opportunity for the Foundation to learn from peers who employ more deliberate risk-assessment criteria.

**Finding 17** **The PRI committee engages in thorough due diligence at the investment level, but does not have deliberate criteria outlining the risk threshold of the PRI Fund overall. Without a clear risk profile, the Foundation misses opportunities to make higher-risk but potentially innovative transactions, and at times is inefficient in its use of time and resources.**

While the Rockefeller Foundation engages in thorough financial due diligence, it does not currently set levels of risk for each deal or evaluate risk across the portfolio. As a result, too many potential deals enter the green-light process because there is

no strategy providing guidance on which deals to screen initially and eliminate. In addition, without a risk profile for the fund itself, the Foundation may decide not to move forward with an investment that is financially high-risk but socially impactful, because there are not clear parameters by which to assess whether the risk of one investment can be offset by another. The lack of a clear strategy prolongs and complicates the decision-making process because it is difficult to prioritize investments and results in an ineffective use of staff time and resources.

**Finding 18 Peer investors employ formal risk management and modeling processes that the Rockefeller Foundation can learn from and adapt when determining its own risk profile and tolerance.**

Peer investors regularly rate deals relative to one another, segment deals by types of risk, and have clear guidelines on how much risk or financial loss the organization is willing to take on, as well as on which focus areas or types of investments they are willing to take bigger risks. In addition, peer investors have established rates of expected financial return for their PRI portfolios. Furthermore, every peer funder we interviewed had some formal method for categorizing and rating risk. Common factors include international risk (e.g. currency and politics), financial risk (e.g. financial deterioration, missing payments, breaching covenants), and management risk (e.g. internal turnover, breaches of charitability). One peer foundation employs a

*“If you spend all your time getting your money back, you miss the point of seeing whether your investees will succeed. The main risk we evaluate is that of our investees and their employees.”*

—PEER INVESTOR

risk rating system that it applies equally across all asset classes. After the due diligence process, another peer foundation assesses investments' risk annually to understand which investments might be problematic. Its portfolio is segmented into low, medium and high-watch risk. When investments are placed on the high-watch list, the PRI committee receives formal notification and a mitigation plan. Finally, peer investors have also creatively engaged their programmatic resources to mitigate risk. For example, one peer foundation investor employs a unique

method that combines its programs with PRIs by calculating the risk of financial loss on PRIs and then requesting that programmatic grant budgets subsidize any potential loss.

## 5.9 Choice of investment vehicles

**Finding 19 The Rockefeller Foundation's practice of only investing in intermediary funds is common practice: it can minimize loss and increase effectiveness, especially with international investments.**

In interviews, peer investors reported that investing in intermediary funds is common in the field, especially with international investments. Diversified, professionally managed intermediary investments tend to produce lower loss rates than direct investments and can thus be more effective. Fund managers in India and Africa emphasized that early-stage equity investments require intensive and ongoing collaboration with social entrepreneurs. They also felt that, given the distance, international investors would be far more effective working through intermediary funds.

*“If you invest directly, you must have an appetite for larger losses and need to have better quality of underwriting and knowledge of the sector or industry in which you are investing.”*

—EXPERT

However, some peers do make direct investments and some PRI committee members have expressed interest in direct investments. There is support in the PRI team for considering them, as requests are received from time to time, and the team has expertise with such investments. Although these committee members believe that the Foundation should reconsider direct investments, all PRI staff and committee members generally agree that the PRI committee’s current staffing structure, skill set and risk tolerance do not support this type of work.

Finally, both direct investments and investments through intermediaries provide meaningful opportunities for innovation and learning. For example, many Foundation staff involved in ProVenEx investments felt that despite the poor performance, the hands-on nature of the direct investments allowed the staff to learn a great deal about the sectors and issues they were working on. Strong intermediaries can present similar learning opportunities as long as PRI makers and grantees put effective communication structures in place and establish an environment that is comfortable for sharing and admitting mistakes.

**Finding 20 Other successful PRI makers make PRIs to existing grantees and provide grants alongside PRIs, which investees benefit from and sometimes need to increase their impact.**

A number of the Rockefeller Foundation staff and senior management expressed concerns about making PRIs to existing grantees as well as grant/investment packages. Their primary concerns were: i) organizations might be hampered by the competing priorities of grant and PRI program officers (for example, grant teams might be pushing scale while PRI teams might be pushing stabilization to focus on refining a business plan), ii) grant funding would be used to pay off a PRI, and iii) grant funding would be a disincentive to PRI investees to leverage resources. None of the peer investors we interviewed had any concerns about awarding grants alongside PRIs or to existing grantees, and they felt that the scenarios that concerned the Rockefeller Foundation would only occur in very rare circumstances. One such circumstance was an existing grantee that had grant funding and investment funding with competing goals: grant funding would be used to expand the program geographically while an investment would require the organization to hone its business model. While this was a case in which a PRI to an existing grantee might not be appropriate, it demonstrates the need for a larger conversation and close alignment with the program officer about the organization’s model and whether or not it is sustainable in the first place.

The provision of grant capital alongside PRIs was mentioned as an especially critical need for the field by investors and investees alike. Every PRI maker we interviewed provides grants alongside PRIs, and the majority of these investors have been making PRIs as long as the Rockefeller Foundation. Investees also reiterated a need for grant funding. More than half (54 percent) of investees said in the survey that what they need most to increase their impact is grant funding. These investees reported needing grants to support deployment of the PRIs they receive, build capacity and infrastruc-

*“We create a theory of change for each sector and make a holistic plan to move the sector, including financial capital, intellectual capital, regulatory and policy issues, etc. We then use additional vehicles to evolve relevant players to help our investments succeed.”*

—PEER INVESTOR

grant for capacity building, technical assistance and support of social performance measurement. As the Rockefeller Foundation refines its PRI approach and strategy, the Foundation should consider what capital mix (grants, recoverable grants, PRIs) each investee needs based on its stage of organizational development, its programmatic goals and its importance to the Foundation's larger objectives.

**Finding 21 Investees value the visibility and credibility they receive from having a reputable organization such as the Rockefeller Foundation as an investor. There is an opportunity for the Foundation to help investees further leverage the Rockefeller Foundation name by having a clearly articulated strategy and investment approach that they can point to.**

Only one-third of the survey investees reported that they received non-financial support from the Foundation. Two-thirds of those who did receive non-financial

ture, provide technical assistance, and measure and/or evaluate impact. In interviews, investees spoke of the benefits of receiving grant support. For example, one international investee reported that all of its other investors provide additional support that is critical for early-stage businesses. In addition to a debt investment, one investor provided a \$200,000

## Juhudi Labs - how grant funding complements impact investments

Juhudi Kilimo provides financing to smallholder farmers and enterprises for a variety of income-producing assets such as cows or farm equipment. To continue to meet its aggressive growth targets, Juhudi needs to develop new loan products and use grant funding to accelerate its research and development process. Accordingly, CEO Nat Robinson is launching Juhudi Labs. The vision for Juhudi Labs is to provide a commercial market environment to test new products, services and business ideas that will turn into direct Juhudi products or be distributed to smallholder agriculture farmers through complementary service providers. A pilot program with a grant-

funded Kiva<sup>12</sup> fellow has already demonstrated the potential of the Juhudi Labs concept. In 2010, the Kiva fellow developed a short message service (SMS) survey tool and used Juhudi clients as a pilot group. The survey, which costs less than \$1 per client to conduct, launched what is now Echo Mobile, a web-based platform for SMS that organizations such as Juhudi can use to access, communicate with, and respond to information from clients. In addition to helping Juhudi be more data-driven, Echo Mobile is now a thriving business with over 25 clients. In July 2013, Juhudi received a \$100,000 grant from the Mulago Foundation to further develop Juhudi Labs.

<sup>12</sup> Kiva is a nonprofit that makes loans via the Internet to low income and unserved entrepreneurs around the world.



resources stated that it came in the form of support and guidance from program officers. For some investees in the early stages of development, the program officers served as thought partners as they developed new vehicles and products for investments. In other cases, investees reported that Foundation staff helped them expand their networks and provided platforms through which to share their work. Investees also valued the visibility that the Foundation provided and the credibility resulting from having a prominent foundation attached to their investments.

**Finding 22 While the Rockefeller Foundation name is attractive to investees looking to build legitimacy and credibility, the Foundation's lack of a clearly articulated and communicated strategy can have a negative influence on investees.**

One investee mentioned that while it wanted to use the Foundation's name and investment as a fundraising tool, it was hesitant to speak up because other investors might ask why the Foundation chose not to renew its investment. Another investee does not speak about the Rockefeller Foundation's investment due to concerns that, given the Foundation's size, other funders would become skeptical if they knew how small the Foundation's PRI was. If the Foundation has a clearly communicated strategy that rationalizes the size and timing for its investments, these concerns would be unfounded and investees could better utilize its valuable reputation.

## 5.10 Process

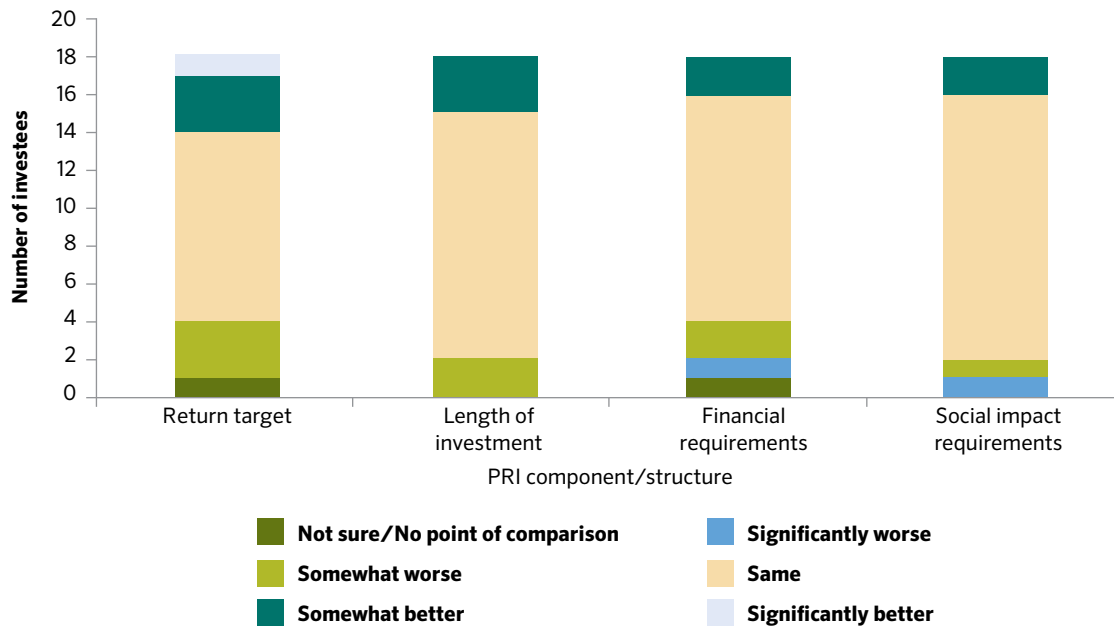
**Finding 23 The Rockefeller Foundation's due diligence and investment process is comparable to that of other PRI investors and reflects the "cost of doing business" in this space, a cost that in today's investment environment is greater than the cost of making grants.**

Despite this resource intensity, the Foundation's peers believe that PRIs are a unique tool for promoting business solutions to development challenges and an important vehicle to have as part of a larger funding approach that includes other forms of impact investments as well as grants. Should it choose to remain a PRI maker, the Foundation should continue to plan for and expect significant internal and external transaction costs associated with making these investments. However, there is an opportunity for the Foundation to take a leadership role in streamlining co-investment processes.

**Finding 24 The Rockefeller Foundation's PRI investment process is not overly burdensome for investees, and both the process and structure of the PRIs are comparable to those of other foundations. However, borrowers (debt recipients) find the Foundation's PRI structuring and closing process difficult.**

Overall, most investees (60 percent) found the Rockefeller Foundation's process to be fairly easy and emphasized that they had greater access to the Foundation's staff than they had to other investors' staffs. Interestingly, internationally focused investees found the process to be easier than domestically focused investees, although given the small sample size, this may be due to the fact that most of the Foundation's international investees are fairly well established. More than half of borrowers (57 percent)

**FIGURE 12: Investee ratings of how the Rockefeller Foundation’s PRI compares with to investments from others**



reported that structuring and closing the PRI was difficult to some extent, with 42 percent of the borrowers finding the structure and closing to be somewhat or much more difficult with the Rockefeller Foundation than with other investors. Compared to other investors, the structure of the Foundation’s PRI was largely the same. Half (n=3) of the growing organizations surveyed reported that the Foundation’s PRIs were priced higher than other investors.

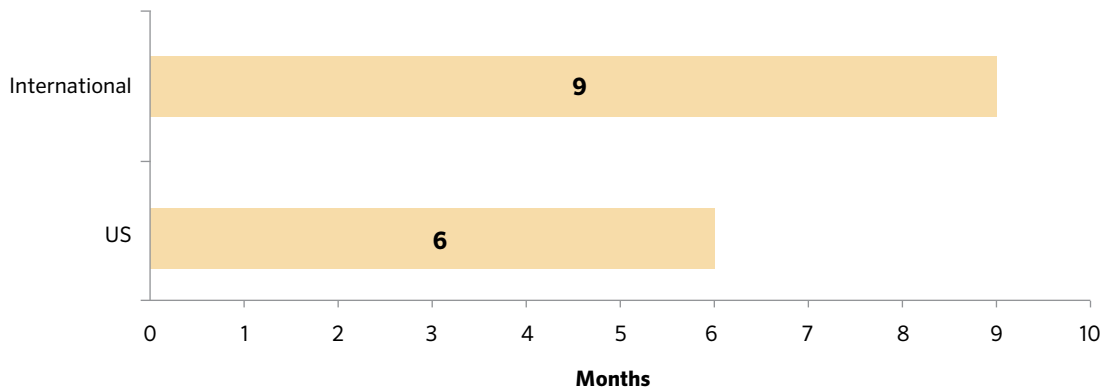
**Finding 25 Investees find the Rockefeller Foundation’s reporting requirements to be similar to, or easier than, those of other investors, and appreciate the Foundation’s flexibility and willingness to adapt its requirements to streamline their reporting obligations.**

Two-thirds of survey respondents reported that the Rockefeller Foundation’s overall reporting requirements are easy or somewhat easy, with 83 percent stating that the requirements are similar to, or easier than, those of other investors. In interviews, several investees acknowledged that the Foundation had adapted its reporting requirements to better align with those of other investors, thereby streamlining their reporting obligations and lessening the burden on investees to track and report back to funders on a wide range of measures. One investee in particular noted that the Foundation structured its financial covenants to be similar to other funders and was willing to use the same forms that others used, which facilitated its reporting.

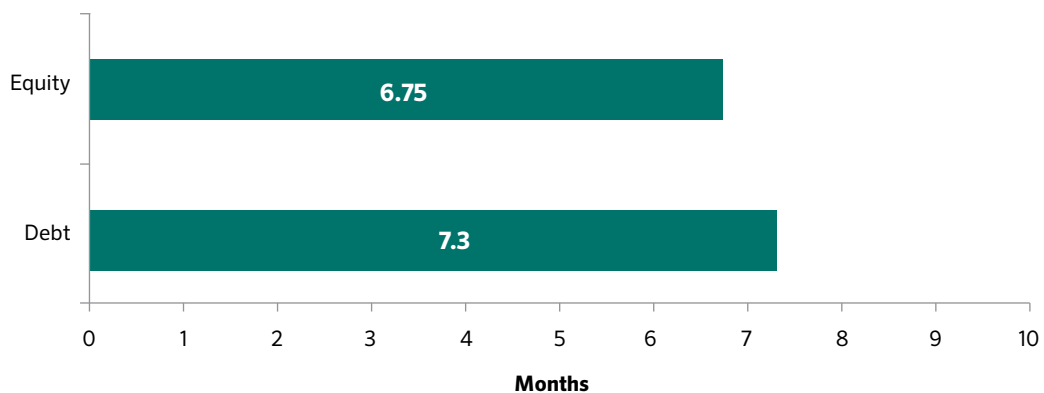
**Finding 26 The Rockefeller Foundation’s peers employ similarly formal and time-intensive decision-making processes that include both PRI staff and senior leadership.**

Almost all peer organizations we interviewed have an investment committee that includes key leadership and usually meets once every two months. The number of staff involved with PRIs ranges from 2.25 to 10 full-time employees. Moreover, two of the Foundation’s peer foundations have adopted a fully integrated approach to their staffing structures, where the traditional program officer and investment officer roles are combined into one position. The majority of the Foundation’s peers also use their international offices to manage and source PRI activities, and one peer investor hires local staff to support and manage investments.

**FIGURE 13: Domestic vs international due diligence: average months from green-light to closing for the Rockefeller Foundation PRIs**



**FIGURE 14: Equity vs debt due diligence: average months from green-light to closing for the Rockefeller Foundation PRIs**



*“If you are regularly making investments of less than \$2 million, you get eaten alive by administrative costs. You need to do at least 4-5 investments per year and my gut is you shouldn’t be in the business if you don’t have \$20 million in the portfolio.”*

—PEER INVESTOR

**Finding 27 The Rockefeller Foundation’s due diligence timeline is comparable to those of its peers that also make complex and international investments, but it falls on the longer side of the industry standard.**

Compared to its peer foundation investors, the Rockefeller Foundation’s PRI timeline falls within the average for time from internal green-light to closing, which ranged from two months to two years and was highly dependent on the complexity of the investment. However, compared with the impact investing field at large (which includes other forms of impact investments), the Rockefeller Foundation’s due diligence process tends to be on the longer side. While data specific to institutional investors are difficult to obtain, the majority of respondents in a recent Keystone Accountability survey indicated it takes less than eight months to make an investment (Keystone, 2013), and a survey of impact investors in 2011 reported that 57 percent of investors close deals within two to four months, with only 12 percent reporting that their average deal took more than six months to close (J.P. Morgan and GIIN, 2011).

**Finding 28 Despite the Foundation’s smaller investment size, the Rockefeller Foundation’s PRI transactions by their very nature require significant due diligence and will therefore require more time and resources.**

Peer investors cited challenges and additional time needed for making international or multi-country investments, complex capital structures that required significant time to negotiate with other investors, and legal restraints that lead to intensive due diligence to determine what qualifies for payout. All incurred additional legal fees for these expenses. In addition, a recent survey by Keystone Accountability found that legal costs associated with investment were approximately 5–10 percent of the overall investment. Keystone’s sample size included domestic investments, so foundations such as the Rockefeller Foundation that have a number of international investments should expect to incur even greater legal costs (Keystone, 2013).

Over the last five years, the Rockefeller Foundation has closed, on average, two transactions<sup>13</sup> per year, while peers with larger portfolios typically averaged seven deals per year. Peer investors also highlighted that smaller investments lead to higher administrative expenses per dollar invested. In addition, the Foundation has spent significant time restructuring

*“Some funders were much more interested in preserving their own capital than investing in an early-stage organization, as evidenced by interest rates that weren’t all that different from commercial rates.”*

—INVESTEE

<sup>13</sup> This does not include transaction restructurings or amendments.

TABLE 3: Overview of investments in the PRI Fund

ORGANIZATION	COORDINATION WITH OTHER INVESTORS	AMENDMENT	INTERNATIONAL	LEGAL EXPENSE AS A % OF TOTAL INVESTMENT
Aavishkaar India Micro Venture Capital Fund	Yes	No	Yes	4%
Acumen Capital Markets I LP	Yes	Restructured	Yes	2%
Africa Healthcare Fund / Seven Seas Capital Mgmt	No	Called	Yes	Data not available
African Agricultural Capital Fund LLC	Yes	Yes	Yes	3%
BCLF Ventures II, LLC	No	Extended	No	Data not available
Calvert Social Investment Foundation	Yes	Restructured	No	3%
Centenary Rural Development Bank Ltd.	No	Extended	Yes	Legal support provided internally
Disability Opportunity Fund	Yes	No	No	2%
Enterprise Louisiana Loan Fund, LLC	Yes	Restructured	No	5%
IGNIA Fund I, LP	No	Yes	Yes	3%
Jacobs Center for Neighborhood Innovation	Yes	Restructured	No	Data not available
Juhudi Kilimo Company Ltd	Yes	Yes	Yes	15%
New York City Acquisition Fund LLC	Yes	Extended	No	20%
Pacific Community Ventures Investment Partners I, LLC	No	Extended	No	Data not available
Pacific Community Ventures Investment Partners III, LLC	No	No	No	Data not available
Resident Ownership Capital, LLC	No	No	No	1%
Root Capital Inc.	No	No	Yes	1%
Social Impact Partnership LP	Yes	No	Yes	9%

or amending transactions. Across the portfolio, 22 percent of transactions were restructured, 36 percent had the term extended or renewed, and one investment was cancelled. While peer data on amendments are limited, restructuring did not come up as a key challenge among investors interviewed. Table 3 illustrates that the Rockefeller Foundation's investments tend to be more time and resource intensive due to their high frequency of coordination with other investors, amendments and international investments. As the Foundation determines its approach and strategy moving forward, it will be important to fully explore and agree on what time and resources it is comfortable spending, given the more complicated nature of the Foundation's investments.

When investing with other foundation investors, the Rockefeller Foundation has an opportunity to take a leadership role in streamlining the process, and more strongly consider investee needs. In interviews and site visits, investees reported that working with multiple investors was difficult and burdensome because foundations have different priorities that sometimes lead to conflicting interests. Three investees expressed their disappointment that the investors seemed more focused on returning their own capital than on the combined impact the investments would have on the investee’s financial sustainability and ability to achieve social impacts. The Rockefeller Foundation should continue to be selective about participating in initiatives that require co-investments. It also can take a leadership role in reminding others that the primary focus should be on the intended outcomes of such projects.

**Finding 29 Overall, peers and investees emphasized the intensive and challenging nature of making PRIs but felt that their transformative power, both in leveraging other forms of capital and in supporting investees’ organizational development, made them worth the effort.**

None of the Rockefeller Foundation’s peers compare their grant-making efforts directly to their PRI efforts. Neither do they track the operational intensity of PRIs in terms of hours or legal fees. Instead, PRI makers argue that, despite the difficulties associated with them, PRIs are unique tools that can help advance an overall approach and strategy. Peers emphasized the importance of PRIs in helping organizations scale, leverage capital, develop financial discipline and adopt outcomes-oriented thinking. Like the Rockefeller Foundation, they are motivated by the premise that investments will lead to leveraged financing from commercial lenders and larger development institutions. In addition, peers emphasized that the long and intensive process itself builds the organization’s capacity. For example, by going through the proposal process, an organization may refine its business plan or develop longer financial forecasts. Finally, peers emphasized that PRIs, while challenging, play a critical part in how the sector engages in the larger innovative finance debate and in non-traditional approaches to addressing global development, health and climate-related challenges.

TABLE 4: **Impact investing benefits**<sup>14</sup>

STAKEHOLDER	STRATEGIC BENEFITS
Foundation	Impact, recyclable, flexible, scale, leverage, payout, partnership, learning, alignment, feasibility, credibility
Investee	Proof of concept, credibility, managerial discipline, scale and sustainability, capacity/leverage, partnership
Society/Market	Market development/innovation catalyst, policy catalyst, efficient use of charitable resources, accountability in social sector, sustainable organizations

<sup>14</sup> Chart developed by Mission Investors Exchange

# 6

## The Rockefeller Foundation's role, innovation and influence

A small number of individual investments within the Foundation's PRI Fund have influenced practitioners' work, created products that filled existing gaps in the PRI space, and demonstrated opportunities in geographies where fewer investors are working. However, the portfolio as a whole is not considered influential. Nor do others view it as innovative, pointing instead to other foundations that leverage multiple vehicles for accomplishing their work.

### 6.1 Influence

The Rockefeller Foundation, noted for its role as one of the first PRI makers in the early 1990s, has been influential in building the field of impact investing as the founder of the GIIN and as the supporter of key actors and initiatives such as Kiva, the Acumen Fund, Root Capital, IRIS and GIIRS. Peer investors and investees credit the Foundation for advancing the discourse of impact investing and for contributing

to the adoption of impact investing by more mainstream and commercial investors. In addition, the Rockefeller Foundation's approaches at the deal or transaction level have been influential in facilitating investees' activities.

For example, the Rockefeller Foundation's willingness to adopt the terms and covenants of Prudential Social Investments, which was also investing in the Disability Opportunity Fund (DOF), helped streamline and accelerate the investment and closing process and can be a model

for other investors. According to the Foundation's staff, it also provided over \$1 million in financial support to cover the majority of legal expenses during the New York Acquisition Fund's closing process, which investees emphasized was a unique and helpful way to facilitate closing with a wide range of investors. The Rockefeller Foundation's

*“Rockefeller was a convener of actors who previously worked in silos. The GIIN is the embodiment of Rockefeller's contribution to the space - it carried momentum forward, mobilized capital and created definitions.”*

—INVESTEES

## Larger PRI funds create more opportunities for influence and innovation

Although investing greater resources creates more overall opportunities to be influential, that is not the only reason a foundation such as the Rockefeller Foundation might choose to have a larger PRI allocation. Having a smaller fund with fewer transactions makes it more difficult to make risk tradeoffs across investments at a portfolio level, limiting opportunities to do potentially innovative but riskier work. In addition, investing larger amounts of capital can lead to greater reach and access to ultimate beneficiaries. Finally, integrating a smaller fund with time-bound grants initiatives requires that teams intensively work the pipeline of deals to identify the highest and best use of limited PRI capital.

guarantee for Centenary allowed it to reach small shareholder farmers, a population it wouldn't otherwise have been able to reach. Finally, the Rockefeller Foundation's involvement with Juhudi Kilimo eventually led to other investors extending their investment terms, allowing Juhudi more time and greater flexibility to refine its strategy and scale its approach.

While these tactical contributions are important, the Foundation is not considered influential at the portfolio level. In particular, while the Rockefeller Foundation has an extensive reach and strong reputation as a grant maker, the PRI Fund lacks comparable vision, breadth and scope, and is more narrowly defined by the choice of only using PRIs. The Rockefeller Foundation's PRI Fund is also, as previously noted, considerably smaller than those of its peer investors, which limits its influence and recognition in the field.

As the Foundation considers how it can grow its influence as a PRI investor, it can draw on the experience of its impact investing grants initiative, which peer investors, grantees and experts repeatedly cited as game changing. The initiative's clearly articulated strategy, deep resources and use of the Foundation's network, its reputation and its program officers' skills all contribute to significant influence over other foundations, investors and organizations operating in the impact investing space.

## 6.2 Defining and understanding innovation

Working within a rapidly changing field where the notion of innovation is itself a moving target, the Rockefeller Foundation has made a handful of investments that have helped create new pathways for solving problems and laid the groundwork for other investors to operate in new geographies and sectors. Its contribution to the social impact bond (SIB) in the United Kingdom was repeatedly cited as groundbreaking, both in terms of its financial structure and its impact on reducing recidivism. Investees

*“Complex structures don't equal innovation. Funders will create crazy structures with huge transaction costs when all we need is equity.”*

—INVESTEES

highlighted the SIB as a unique and helpful financial product and differentiated it from other co-financing models that they viewed as less transformative. As of September 2012, over 1,400 prisoners had been offered support through the social impact bond and more than £5 million (about \$8.1 million) had been raised to fund work with 3,000 prisoners over six years.





**Wilmar Agro Ltd 's CEO examines stem growth in farmer's flower field.**

The African Agriculture Capital Fund (AAC), while difficult to launch, is also paving the way for agricultural investments in East Africa and is being closely monitored as a potential model for other joint investment efforts. Finding investable opportunities in East Africa remains challenging, and Pearl Capital, the AAC's investment management firm, is hoping to pave the way for additional investments and activity in communities where poverty is rampant and access to capital remains scarce. The PRI team's persistence and willingness to explore opportunities in the region shows a commitment to innovation.

Investees and peers do not have a shared definition of innovation, but few considered the Rockefeller Foundation's portfolio as innovative, instead pointing to other foundation investors which provide a range of investment structures to match investee needs. Interviewees provided different perspectives on what they consider to be innovative, indicating clearly that the field does not have a universally shared definition of innovation within the impact investing space. As such, it is all the more important for the Rockefeller Foundation to clearly articulate and communicate its own definition of innovation within impact investing. One investee pointed out that doing so would help others understand what the Foundation seeks from its investments. When asked about the Rockefeller Foundation's role in innovation in the impact investing space, survey and interview respondents credited the Foundation's early field-building work, commitment to international investments,<sup>15</sup> and willingness to be an equity

investor. As a point of comparison, in 2006–2007, over 71 percent of all PRIs made were loans, while only 8.5 percent were equity investments and 0.6 percent were loan guarantees (Lawrence, 2010). However, peer investors and experts did not appear to know enough about the Rockefeller Foundation's PRI making to deem the Foundation innovative. In general, peer investors found the Rockefeller Foundation to be risk averse and emphasized that the Foundation is limited as it only uses PRIs rather than exploring other forms of innovative finance such as MRIs. Investees emphasized the importance of using a blend of grant and investment vehicles depending upon an organization's life cycle and development stage.

Investees and peer investors cited three organizations as innovative primarily for the use of multiple investment vehicles. The Ford Foundation was cited most frequently as an example of an innovative institutional foundation when it comes to making impact investments. Interview and survey respondents recognized the Ford Foundation for its willingness to make diverse investments with varying return expectations, for the risk it has taken in experimenting in new geographies, and because it does not seem limited by a commitment to one type of investment structure/risk profile. The Eleos Foundation provides a range of investments, from grants to debt and equity, all with the purpose of growing new business. Grants are applied with the commercial focus of proving a concept which can later attract commercial capital. Finally, the Omidyar Network was frequently mentioned for its innovation in using all available vehicles (grants, PRIs, MRIs) to match investee needs.

While the Rockefeller Foundation's portfolio may not be considered innovative, the majority of peers, investees and experts felt it was important for the Foundation to continue to make PRIs. The Foundation has an opportunity to amplify its influence and test the limits of innovation by building on its long history and reputation as a key actor in building the broader impact investing space. However, realizing this opportunity in a way that translates to more influence or innovative approaches as a PRI maker will require a clear investment strategy, consensus on what risk the Foundation is willing to incur, and an internal decision on whether PRIs will primarily serve as tools for innovation, influence or intervention.

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<sup>15</sup> While there are not many international PRI makers, four of the six foundations interviewed for this evaluation make international investments. Three out of those four heavily depend on their international offices for PRI management and sourcing, and believe that having a local presence is critical.

# 7

## Additional insights and lessons learned

The Rockefeller Foundation PRI Fund's diversity provides great insights into the unique opportunities and challenges inherent in investing across a wide range of geographies and focus areas. The experiences of the 18 investees in the current portfolio offer important lessons for investors interested in international investment (particularly those focused on gender and equity), organizational development and sustainability, and in how to shape public policy.

### 7.1 International investing

Finding investable opportunities and executing on international impact investments in the Global South remains challenging. As impact investors expand their portfolios to additional geographies and sectors, the Rockefeller Foundation's existing portfolio highlights important trends and challenges that investors can take into consideration when structuring their deals.

**Finding 1 Access to finance is particularly problematic in rural areas.**

Both African and Indian investees highlighted the challenges of raising initial capital and the difficulty of explaining their social business models to both commercial and philanthropic investors. Two social entrepreneurs interviewed during site visits had self-financed their early activities or relied on family members to contribute capital. While their persistence and success is commendable, lower-income entrepreneurs or individuals from more rural areas with fewer connections will not have the same opportunities. Working through intermediary organizations that have long-standing partnerships with grassroots and rural organizations is one way to identify unique and innovative opportunities in underserved areas.

**Finding 2 Social entrepreneurs' capital needs vary greatly by geography and sector, a good reason for investors to consider offering diverse forms of investments.**

Finding exit opportunities is more challenging for fund managers in Africa than in India, where companies benefit from a fairly thriving venture capital sector and a

## Sanitation solutions: searching for financing that will enable scale and growth

Saraplast Private Limited is India's first portable sanitation company and a pioneer in the industry of portable sanitation and liquid waste management. An investee company of the Aavishkaar India Micro Venture Capital Fund, Saraplast seeks to improve access to clean and safe sanitation facilities and create lucrative and dignified employment opportunities for underserved populations across India. While Saraplast has experienced impressive growth and achieved international quality standards since its launch in 1999, financing to purchase the physical toilet structures integral to its business model remains a challenge. Demand for Saraplast toilets already outweighs supply, and grant funding to purchase greater numbers of toilets would allow Saraplast to expand more rapidly and impact even greater numbers of construction workers, slum dwellers and pilgrimage travelers. However, its structure as a for-profit business limits its ability to obtain grant funding, and banks are unwilling to lend against the toilet as a prime security. While Saraplast is currently considering setting up a nonprofit trust to allow grant funding, investors and grant funders alike can learn from the Saraplast experience by carefully considering how multiple financing vehicles can help overcome obstacles in a company's development and growth.



wealthy upper class. Indian companies expressed a preference for debt financing, which is less expensive and significantly harder to get than equity investments. In addition, all investees described ways in which grant funding could help them scale their work more quickly.

Social enterprises in Kenya and India were well aware of the need to build specific gender strategies into their business plans. Investors interested in supporting such work can encourage and build on this existing awareness. Site visits in Africa and India revealed a surprisingly high awareness of the unique needs of women and girls. Whether by providing separate facilities for women and children or putting in place new data management software that will improve their understanding of borrower patterns – including the unique needs and behaviors of women – many of the Rockefeller Foundation investees are incorporating a gender lens into their work.

**Finding 3 More face-to-face interactions are needed to educate and connect Western investors with opportunities in the Global South.**

Investees in the Global South described a significant disconnect between Western donors' and investors' concerns about deal-flow and the opportunities they see on the ground. One investee felt the efforts of US Agency for International Development (USAID) were not leading to fruitful exchanges, and two fellows involved in a social entrepreneurship network lamented that the network had not led to meaningful introductions. Overall, both investees and investors in the Global South felt that more face-to-face meetings that allow for personal connections and relationship building were needed to bring greater investment to Africa and India.

## 7.2 Social impact measurement

**Finding 4 Approaches taken by PRI makers, fund managers and social entrepreneurs to measure and track social impact vary greatly. In fact, the field is still determining how best to track and report on social impact.**

As investors think about what social impact requirements should be included in PRI agreements and how to help their investees maximize their social impacts, they can keep the following in mind.

While social impact targets are established prior to closing the PRI, investors should not impose targets but rather should work with investees to identify focus areas with relevant accompanying social impact metrics to use to measure progress over

time. Peer investors state in interviews that social impact reporting helps them assess their investees' progress and serves as a primary basis for conversations regarding their social impact. These investors deem it more important to learn from failures when investees do not meet benchmarks than to penalize them for noncompliance. Investees, for their part, encouraged investors to focus on a limited number of socially focused key program indicators that are most critical and relevant to understanding that organization's performance. Because it is important to hold investees accountable and have them abide to some standard social impact measures, the Foundation can help encourage the use of IRIS by allowing investees to identify and adapt the IRIS-compliant metrics that best serve as indicators of performance for their specific investments. Finally, the Rockefeller Foundation can also support investees' own efforts to develop social impact measures that are culturally appropriate and that meet demand on the ground.

### The Sankalp Summit: A model platform for connecting investors with innovative, high-impact social enterprises

Sankalp Forum, an Intellectap initiative founded in 2009, provides recognition and support for innovative, sustainable and high-impact social enterprises. Through its annual summit, Sankalp convenes and connects social enterprises and investors, allowing for in-person interactions and network building. Social entrepreneurs receive support and training throughout the year plus specific assistance in preparation for the summit, such as preparing presentations and communications for investors. While currently focused in India, this platform will expand to Africa in 2014, increasing opportunities for investments in the Global South.

### 7.3 Leadership and organizational development

Numerous organizations cited the importance of staff development and leadership training for successful implementation of programs. While most organizations try to use earned income to conduct these trainings, investors can accelerate organizational development by providing supplemental grant funding for training.

**Finding 5 Leadership at the enterprise level is critical, underscoring the importance of investing in training.**

Attracting, retaining and developing top talent is a critical component of organizational growth and sustainability. Juhudi Kilimo has a \$150,000 training budget and invests in developing people at all levels of the organization, including executive training, supervisory and leadership training for potential managers, and compliance training for loan officers. Loan officers were particularly enthusiastic about their compliance training, which helped them identify strategies for managing delinquent borrowers. While Juhudi is still tracking the longer-term impacts of these trainings, the 2012 Kitale office training resulted in a spike in repayment rates. Juhudi benefits from its partnership with the African Management Services Company, which funds

50 percent of its trainings and recently received a \$200,000 grant from the Ford Foundation to build out expert trainings on various agricultural practices.

*“There is no way to do this work without understanding the policy context across all sectors – you need to understand why the funding isn’t getting there already.”*

—PEER INVESTOR

Wilmar Agro Ltd, a portfolio company of the African Agricultural Fund, also prioritizes and invests in training and has seen notable improvements in the length of stems and quality of flowers as a result of these investments. Finally, technical assistance provided through TechnoServe, the Ugandan government and the Danish International Development Agency has been crucial for the development

of Centenary’s loan officers, who needed training in agriculture lending to be successful in this business. Centenary is trying to develop a full curriculum and encourage training of trainers, and is beginning to train investees on financial management and entrepreneurship. It anticipates that this training and mentorship will help loan officers become even more successful with their portfolios.

### 7.4 Context and environment

The external context in which PRI makers and investees operate is often critical to success. Whether through advocacy efforts to advance public policy, building relationships with communities in new markets or a heightened awareness of the climate and environmental challenges that impact business, impact investors can play a role in helping investee organizations utilize partnerships and alliances to advance their work.

**Finding 6** Given the importance of public policy on the domestic affordable housing market, PRI makers can facilitate investee success there either by brokering partnerships or by making direct grants to support advocacy.

A handful of peer investors provides supplemental grant funding for organizations working in the highly regulated affordable housing space, an approach other investors should consider. For example, staff at the Disability Opportunity Fund (DOF) could

have used the Rockefeller Foundation's investment even more effectively if it had received supplemental grant funds to support a public-savings analysis that would inform the use of social impact bonds. DOF leadership has already made significant progress in influencing policy at the national, state and local levels, and is well positioned to inform discussions of new financing tools such as SIBs that have the potential to transform the sector. The Rockefeller Foundation and its peers may have similar opportunities in the future.

Skepticism and distrust of the NGO sector in India is preventing social businesses from fully capitalizing on partnership opportunities and expansion to rural areas. Very few of the social enterprises Arabella visited during the site visits actively sought partnerships with the nonprofit sector, and the majority did not feel that nonprofits could play a role in contributing to solving the problems these businesses hope to address. Leaders at key philanthropic institutions

confirmed the divide between the sectors but expressed their willingness to participate in programs and work with social entrepreneurs. PRI makers can encourage investees to think about the role nonprofit partners can play in advancing advocacy efforts on regulatory issues as well as building trusted relationships with the rural or grassroots organizations the business is targeting.

### Building cross-sector partnerships to advance business objectives

Net Systems/BarrierBreak, a portfolio company of Aavishkaar, seeks to bridge barriers between ability and accessibility by offering disability consulting services, digitized textbook translation services, and assistive devices such as computer software and hardware. Given that disability doesn't attract the same funding and investment as education and health, BarrierBreak's managing director Shilpi Kapoor has sought out alliances and partnerships to help advance the regulatory sector in which BarrierBreak operates. Shilpi and her team have been influential in informing Indian disability policy, e-governance and United Nations guidelines. While she found it difficult at first to overcome the mistrust of the NGO sector, she has used her credibility as a businesswoman to gain access to key policymakers, demonstrating to her NGO alliance colleagues the unique value that a social business can provide in advocacy efforts.







## Conclusion

The Rockefeller Foundation's PRI Fund is making important contributions to the financial sustainability and social impact of the organizations in which it has invested. The Foundation has a strong reputation as a field builder and, with a more detailed strategy, it can help investees achieve even greater impact while at the same time communicating to other investors the role Rockefeller has played and will continue to play in investees' work. Investees and peer investors applaud the Foundation's early field-building efforts and would like to see the Foundation continue and amplify its work as a PRI investor. As the Foundation seeks to achieve greater impact, it will be important for the PRI Fund to help advance the Foundation's core focus areas and larger body of programmatic work including initiatives. In doing so, the highly skilled PRI team can draw on the sector-specific expertise of program officers and the Foundation's regional staff, strike a better balance of program and operations staff on the PRI decision-making committee, better assess risk across the portfolio, and be more deliberate in considering what package of investments (e.g. grants, PRIs, MRIs) will best advance the mutual goals of the Foundation and the investee organizations.

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