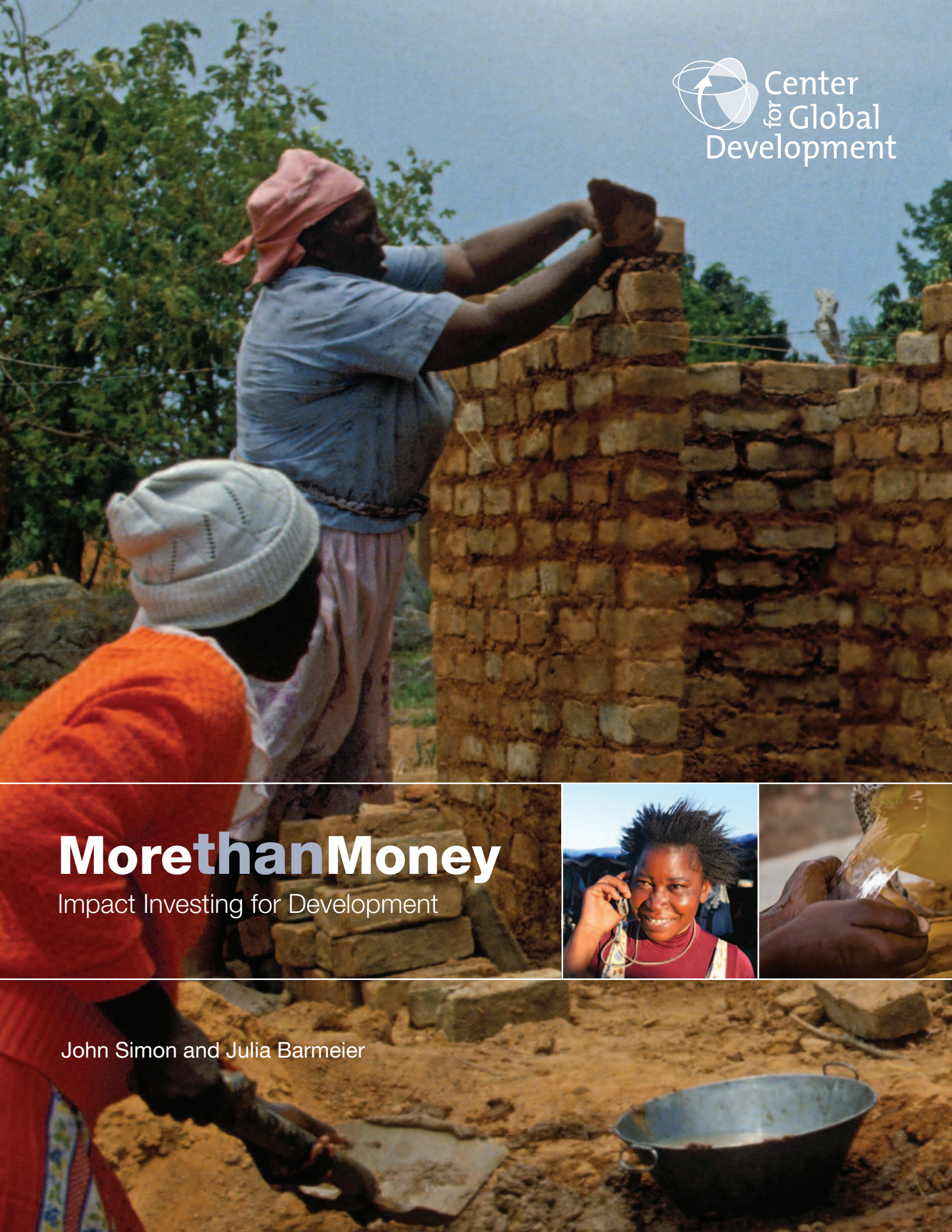

Center for Global Development

MorethanMoney

Impact Investing for Development

John Simon and Julia Barmeier

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MorethanMoney

Impact Investing for Development

Center for Global Development

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Preface

Will the emergence of a new kind of investment and new class of investor that aims for social impact in addition to financial returns bring new ideas and new sources of capital to tackle problems in the developing world? There is much talk about "impact investing" and its potential to be transformative, but as John Simon notes in this report, prepared with Julia Barmeier, impact investing is new and still small. Simon joined CGD as a visiting fellow in February 2009 after serving as the executive vice president of the Overseas Private Investment Corporation and holding various positions in the National Security Council, the U.S. Agency for International Development, the State of Massachusetts, and in the private health care industry. He and Barmeier define the new trend as investment specifically targeted to create development outcomes in addition to a financial return and map the main players and what we know about this nascent marketplace. They then suggest concrete steps that will help the market mature and grow, with separate and specific recommendations for practitioners, development finance institutions, and regulators.

I expect *More than Money* to contribute to a better understanding of impact investing. More important, I hope it will influence those three groups with influence to take the steps that can help turn impact investing from an experiment into a powerful tool for making the world a better place.

Nancy Birdsall
President
Center for Global Development

Acknowledgements

This report is the result of a team effort. First and foremost, I would like to thank Nancy Birdsall and Todd Moss, who graciously gave me a wonderful home at the Center for Global Development to pursue this work, as well as all the fellows, research assistants, board members, and others related to the Center who provided a stimulating work environment, keen insights, and pointed questions that greatly improved it. In particular, I would like to thank Julia Barmeier, the research assistant with whom I had the extraordinary good fortune to work with on this report. She is largely responsible for the intellectual content of this report and almost entirely responsible for the data and analysis. Others at the Center who were involved in the project include David Roodman, Mead Over, Vijaya Ramchadran, Lawrence MacDonald, Sarah Marchal Murray, John Osterman, Alex Denny, Veronica Gonzalez, Tom Gibian, Jim Harmon, and Ed Scott.

The report builds on the previous work of many thinkers and actors in the field, but in particular the research that Antony Bugg-Levine has spearheaded at the Rockefeller Foundation; the thinking and actions of Jacqueline Novogratz and Brian Trelstad at the Acumen Fund, Kevin Jones and Gary Bolles at Good Capital, and Shari Berenbach and Wayne Silby at the Calvert Foundation; and the scholarship of Greg Dees at Duke University, Julia Sass Rubin at Rutgers University, and Paul Hudnut at Colorado State University. I am grateful to them and to the many others in the impact investing community who have been pioneers in this new field.

The report is also a function of contributions to impact investing made by my colleagues at the Overseas Private Investment Corporation and some of its more intrepid clients, including Rob Mosbacher Jr., Jim Polan, John McCall MacBain, Jim Brenner, Tom Haslett, Jeff Leonard, Richard Essex, Richard Bell, Ali Mufuruki, Stewart Paperin, Barbara Brereton, Richard Greenberg, Loren Rodwin, Lynn Tabernacki, Diana Jensen, and Mitchell Strauss (to whom I owe a particular debt of gratitude for starting me on my journey into impact investing).

Finally, I am grateful for the guidance and feedback of many others who guided me along the way and reviewed initial drafts, including Rob Schneider, Neil Ghosh, Randall Kempner, Tom McPartland, Amie Patel, Michael Chu, Tom Barry, Derek Saleeby, Michael Brownrigg, and Arthur Wood.

While all of those above, and many others too countless to name, have contributed to this report, any errors are mine and mine alone.

John Simon

ExecutiveSummary

Introduction

Much of development policy is geared toward increasing investment and creating the conditions that allow private capital flows to take the place of development assistance. The renowned development success stories—Taiwan, South Korea, Eastern Europe, Costa Rica, and China—have all been marked by a dramatic increase in private investment, both domestic and foreign.

Investments designed specifically to promote development have been increasing. They go by many names, including triple-bottom-line, venture philanthropy, and social-impact investing; they all focus on achieving a development result as well as a financial return, and many have potential for significant returns.

Such investments are not new, but their application across a broad range of sectors—from moderate-income housing, to health care, water and sanitation, and rural development—is recent. And they raise several critical questions for development policy. Do they represent an effective new tool for long-term development? Are they likely to reach the scale necessary to be part of an overall development strategy? There is little data to assess definitively the development impact of this burgeoning activity, but past and current efforts do help indicate whether this sector is worth promoting as a matter of public policy.

Findings

To understand the potentially powerful new financing source for development, we surveyed nearly 200 existing and aspiring impact investments. We also talked to several funds and organizations active in this field and have engaged in depth with several enterprises seeking impact investment capital, from a plant propagation nursery and tissue culture lab in Rwanda that can dramatically improve the yields of small farmers to a wireless broadband company that will provide affordable Internet service throughout West Africa. The entrepreneurs and investors represented in this report most closely resemble the "Development Entrepreneurs" identified in the Center for Global Development's 2007 corporate engagement report, which this report complements.[1] The former report identifies this group as having the potential to increase corporate engagement in development by leading businesses that produce a good or service designed to further development. Such businesses are fundamentally different from Corporate Social Responsibility (CSR) initiatives that seek to augment the purely commercial activity of a firm with philanthropic pursuits, and they are not socially oriented arms of firms whose primary focus is profit.

Our analysis indicates the following:

- **Impact investing is growing dramatically as a destination for socially oriented capital.** Exact figures are difficult to find, largely because of a failure to define what constitutes an impact investment. What can be charted, however, is the growth of impact investment vehicles—from the Acumen Fund in 2001 to the more than 125 funds and foundations claiming to do some form of impact investing today—that illustrates the activity in the sector. Estimates from the Monitor Group and the Money for Good Initiative suggest that impact investing could mobilize US$500 billion annually within 10 years, US$120 billion from U.S. retail investors alone.
- **Impact investing targets regions and sectors that traditional foreign direct investment does not.** Impact investments are concentrated in the frontier markets, especially in Africa, whereas traditional foreign direct investment

[1] Staci Warden, *Joining the Fight against Global Poverty: A Menu for Corporate Engagement* (Washington: Center for Global Development, 2007).

has focused on the emerging markets, especially in Asia. Also, impact investments target sectors that have had difficulty attracting investment in the past, such as renewable energy, rural development, and health.

- **Impact investors often expect to earn solid returns,** if not returns commensurate with the higher risk associated with the regions or sectors in which they are active. While data on actual returns in the nascent sector are few, the expectations of impact investors and entrepreneurs are often above 20 percent per annum. The microfinance sector shows that double-digit returns are achievable in some circumstances.
- **The marketplace is extremely fragmented,** increasing the difficulty and transaction costs for financing particular projects. Coordination and cross-fertilization among the various players in the field are sparse and confounded by the speed of development in the field and its definitional problems. These problems inhibit cofinancing, the sharing of due diligence, and the development of a robust market where seed funders can exit successful ventures by selling their shares to larger funds.
- **Lack of market infrastructure is a major impediment to the development of the impact investing sector.** Many of the financial services and institutions that are taken for granted in commercial capital markets are absent or barely developed in the impact investing marketplace, including market exchanges, rating services, investment and merchant banking services, and specialized professional service providers such as lawyers. Social entrepreneurs seeking impact investment capital must make up for the lack of these services themselves.

Conclusion and Recommendations

Although impact investing has the potential to promote development by funneling investment into regions and sectors that are unlikely to receive traditional commercial investment, the sector faces daunting challenges. These challenges can be overcome, especially with improved collective action and concrete reforms by government and public institutions. Following are six recommendations from this report.

For Practitioners

Increase transparency in the field. The lack of information on the success (or failure) of social investments inhibits the flow of capital into the sector and forces analysts to rely on anecdotes and case studies to outline social impacts. Traditionally, private equity investors keep information about investments confidential for fear of giving competitors an advantage. For the impact investment sector, however, any advantage of such secrecy is likely lost to reduced capital flows. Organizations should develop methodologies for circulating information regarding performance in the sector without imperiling their competitive advantages.

Standardize the language. The sector is experimenting with different language options, but none have gained critical mass support. The lack of consensus on terminology and language limits consolidation. Are you a double- or triple-bottom-line business? Sustainable or blended? Social enterprise or impact investment? (See box 1.) "Social entrepreneurship" can be a misnomer since connotation trends toward nonprofits instead of for-profits, although there is significant blurring between nonprofit and for-profit participants. Clear definitions of what constitutes investment versus pure philanthropy, and what the range of expectations of each should be, will accelerate development of the sector.

Box 1- What's in a Name: "Impact Investing" and Its Alternatives

As noted throughout this report, there is significant confusion about what to call the type of investment this report seeks to describe. Venture philanthropy, blended-value investment, double- or triple-bottom-line investment? To clarify this question, we should start with what is clearly not the subject of this report. Socially responsible investment (SRI) and social entrepreneurship, while both related to impact investment, have fundamental differences. SRI refers to investments across a range of industries that do not damage society or the environment. They are identified by screening out ("negative screening") companies or industries with bad environmental protection histories, those with records of employee discrimination, or those that sell products with negative societal impacts such as firearms, alcohol, and tobacco. They do not seek to promote business models that by their nature deliver positive social benefits. Social entrepreneurship refers to the creation of new approaches to attack social problems. Such models can be for-profit, but often are not-for-profit and seek grant capital instead of investment.

This report deals with investment in business models that are for-profit, but that will, if successful, create an impact beyond profits. Because the impacts can be as diverse as the challenges they seek to address, the one common thread between all of these models is that the creation of such an impact is fundamental to their existence. Therefore "impact investing" is both a simple and complete name for the sector, encompassing the concepts of many of the alternative terms from the more philanthropically oriented "venture philanthropy" to the most commercial "blended value" terminology. It also the term that the leading network of impact investors – the Global Impact Investing Network – has adopted.

In this report, we propose that the overall sector take the name "impact investment." While entrepreneurs and investors have varying goals, all are trying to have an impact beyond a simple financial return and are willing to hold themselves accountable for it. That is the key distinguishing characteristic. The term "impact investment" captures the breadth of activity and avoids unnecessarily narrow definitions and predeterminations of what is socially beneficial and what is not. What qualifies as a sufficient social impact is still undecided, but we should be as open as possible to the different ways investment can yield nonfinancial returns.

For Development Finance Institutions

Develop clearer pathways for financing. The inability to access full-scale financing is a major constraint in the field. Institutions seeking to finance socially impactful investments should outline clearer processes for accessing their funding. The Development Finance Institutions (DFIs) can lead the way, establishing windows for impact investment deals and making it clear when a project has passed their financial criteria, which can open the doors for other investors.

Seed impact investment vehicles. The impact investing sector could benefit from DFI support similar to what is provided for microfinance, such as authorizing funds to seed microfinance investment vehicles. Unlike microfinance, however, the sector need not utilize grants—in fact, the provision of grant funding to enterprises designed to be profitable could be debilitating—although certain support services such as technical assistance may require free money. In 2007, OPIC launched the Africa Social Development Fund call to identify investment funds seeking social impact in sub-Saharan Africa. The call generated more than 30 responses, 4 of which were selected.

Similar proposals, in partnership with other DFIs and major foundations, could target other regions or particularly high-impact sectors.

For Regulators

Simplify the process for program-related investment. The Internal Revenue Service permits foundations to make program-related investments (PRIs) instead of grants if the investments further the foundation's charitable purpose and are not expected to achieve a market rate of return, but such investments cannot be counted as part of the charitable contributions foundations must distribute each year. The rules create sufficient ambiguity to deter many foundations from making these investments. Several states have passed laws to allow for new corporate structures, such as low-profit limited liability companies (L3Cs), that specifically recognize the companies' commitments to social returns. This allows investments in such companies to be designated *prima facie* as PRIs. Recognizing such vehicles in the federal tax code would simplify the process for PRIs.

Review securities regulations as they apply to the impact investing sector. Recent history suggests approaching with caution and skepticism any proposal to lessen regulatory oversight of the financial sector. However, current regulations—let alone future ones in reaction to the global financial crisis—create significant cost burdens for financial service firms seeking to specialize in impact investments. A review of measures that could lessen this burden without lessening oversight of intermediaries may be warranted. Specifically, the requirements of obtaining licenses and registration could be modified to recognize that many of the potential players may come from backgrounds other than financial services and will be performing only limited activities typically associated with a financial professional.

MorethanMoney

Introduction: Hope vs. Hype

On the way from Roberts International Airport in Liberia to the capital of Monrovia 35 miles away, there is a large sign halfway into town for the new RLJ Kendeja Resort & Villas hotel, a five-star resort on the beach. Who would build such a hotel in a country so ravaged by civil war it still does not have a functioning power system? The investor is Bob Johnson, the entertainment mogul. While he fully expects to earn a profit on the hotel (its occupancy since it opened in March of 2009 has been at about 50-60 percent), he would not be in Liberia had it not been for a commitment he made at the Clinton Global Initiative in 2006 to mobilize funding to rebuild the country. "I chose Liberia because I was inspired by President [Ellen Johnson Sirleaf]," said Johnson. "She talked about the need for Liberia." Aside from the RLJ Kendeja Resort & Villas hotel, Johnson has also made a US$3 million soft investment in the Liberian Enterprise Development Finance Company, a loan facility for Liberian entrepreneurs backed by the Overseas Private Investment Corporation, a U.S. government agency, and managed locally by the nonprofit contractor CHF International.

Liberia is ground zero for a major new movement in finance—impact investing. Impact investors there have been able to move more quickly than the plethora of aid agencies operating in the country to meet several critical needs identified by the government: power, finance, and tourist accommodations. In the process, investors have married the efficiency of the private sector with a social purpose that allows them to take risks that purely financially driven investors do not. Mr. Johnson is just one player in a growing pool of activity in this sector. Others include hedge fund manager George Soros and classified advertizing magazine mogul John McCall MacBain.

What Are Impact Investments?

Impact investments target social and environmental issues not directly serviced by existing international development efforts or investment opportunities. Like nongovernmental organizations (NGOs) engaged in development, impact investments focus on sectors that have a significant positive effect on recipients' quality of life. Unlike NGOs, however, impact investments are made with the expectation of an explicit financial return, and are not largely dependent on external subsidies to sustain operations. Official Development Assistance (ODA) funds critical needs such as education and health, but often through large, inflexible government-sponsored projects. At the other end of the spectrum, traditional commercial investors focus almost exclusively on projects that are attractive purely for their financial returns, such as the natural resource extraction and low-cost manufacturing sectors, with social outcomes as a secondary issue. Impact investors operate in the space between the two poles, seeking to address problems through market-based, for-profit models that provide both a social benefit and the positive financial return necessary to generate a self-sustaining revenue stream and achieve scale.

Some have described impact investment as an asset class. However, the term "asset class" describes a set of investments that behave similarly, are subject to most of the same market forces, and have similar risk, return, and volatility profiles. As recently pointed out by the Parthenon Group and Bridge Ventures in their study, "Impact Investing: Case Studies across Asset Classes," impact investments can run the gamut from low-yielding loans to agricultural cooperatives to high-risk/high-return investments in new environmental technologies.[2] The defining feature of impact investments is that a nonfinancial impact is an intrinsic part of their business model and investors are willing to be held accountable for achieving it.

[2] "Investing for Impact: Case Studies across Asset Classes," report sponsored by Bridges Ventures, the Parthenon Group, and the Global Impact Investing Network (2010), www.parthenon.com/GetFile.aspx?u=%2FLists%2FThoughtLeadership%2FAttachments%2F15%2FInvesting%2520for%2520Impact.pdf.

Headlines

The New York Times

With Impact Investing, a Focus on More Than Returns

April 23, 2010

FT FINANCIAL TIMES

Architects of a 'Social Investment Data Engine'

April 11, 2010

Financial Innovation and the Poor

September 25, 2009

The Economist

Impact investment describes both the motivation of the investors and the conditions under which the investment is made. Impact investments can exist only where commercial investment is limited or unavailable; otherwise there would be no need for the impact investor. In some cases this may be because the perceived, but not necessarily actual, risk of the investment is too high to attract commercial investors, perhaps because the investment is in a developing country or serves a low-income market. Frontier markets with limited governance but massive social needs are particularly ripe for impact investment. The role of the impact investor in these cases is to demonstrate the financial potential in meeting a social or environmental challenge so that commercial investors will be willing to provide capital in the long term, sometimes by developing new business models that mitigate the risks of operating in these environments. The cell phone scratch card that allowed mobile phone companies to operate in environments without consumer credit is one such business model innovation.

In other cases, the risk-adjusted rate of return is never likely to achieve commercial thresholds, but impact investing offers a more disciplined and effective approach than pure philanthropy. Investors in such models will be focused on attracting philanthropic-oriented capital and tapping retained earnings to finance growth. The Liberian Enterprise Development Finance Company is an example of an impact investment that will likely continue to seek philanthropic-oriented support for the entirety of its existence.

Impact investment models have existed in the past in specific sectors, such as microfinance in Bangladesh and elsewhere and community development financing in the United States, but their application across a broad spectrum of

development challenges is a new phenomenon. Can the initial burst of activity in this area develop into a sustainable industry that makes a significant contribution to global development? What challenges does it face in doing so? Can we gain insights from microfinance, a sector that over the past 20 years has emerged as a major player in development, or the Community Development Venture Capital Alliance, a U.S. rural economic development strategy initially driven by the government that aimed at financing businesses in remote areas to stimulate job creation? While it is useful to draw parallels between these sectors and impact investment, the latter will have its own unique challenges to overcome because of its sectoral breadth, geographic scope, and early stage of development.

State of Affairs

The Monitor Institute estimates that impact investing will be a US$500 billion industry within the next decade.[3] The Money for Good Initiative surveyed 4,000 higher-income households and estimated there is a US$120 billion retail market for impact investing in the United States alone.[4] Although a small amount compared to total global managed assets, at US$50 trillion, or even global social screened and shareholder advocacy investing, at US$7 trillion, it would be a significant increase in resources targeted directly toward social causes. The global social screened and shareholder advocacy (better known as SRI) sector is largely characterized by negative screening—avoiding investments in alcohol, tobacco, weapons, gambling, and animal testing, among other criteria—thus the vast majority of this investment goes to blue chip companies in the developed world. Better comparisons for the US$500 billion would be ODA, which totaled US$120 billion globally in 2008,[5] or private sector philanthropy, which the Hudson Institute estimates was US$50 billion in 2007.[6] The US$500 billion estimate for the impact investment industry would be a significant new addition. Should the sector reach that scale, it would be a massive increase from existing activity in the sector, which is currently estimated at US$300 million globally—less than the overall aid budget for the total population (3 million) of Liberia.[7]

Ultimately, the success of the impact investing movement hinges on the financial viability, or "bankability," of investment opportunities. In the absence of proven returns, one cannot expect money of any significant quantity to be invested. Assessing whether this small beginning can grow into an industry depends on four critical questions: Are there enough enterprises needing social impacts that are "bankable"? Is the pool of investors willing to fund them large enough? Can the financial returns meet the expectations of the socially oriented investors? Do mechanisms exist that match impact investment opportunities with interested investors, or should new institutions be created to serve this purpose? This report explores these questions.

The Case for Hope

A number of major institutions are rallying around the creation and promotion of an environment to facilitate impact investing. These efforts, spearheaded by the Rockefeller Foundation, include participation by the Kellogg Foundation, the Schwab Foundation, and the Shell Foundation.

[3] Jessica Freireich and Katherine Fulton, "Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry," The Monitor Institute (2009), www.monitorinstitute.com/impactinvesting/.

[4] "Money for Good: The US Market for Impact Investments and Charitable Gifts from Individuals and Investors," Hope Consulting (May 2010), www.hopeconsulting.us/pdf/Money%20for%20Good_Final.pdf.

[5] Yasmin Ahmad, "Development Aid at Its Highest Level Ever in 2008," Organisation for Economic Co-operation and Development (March 2009), www.oecd.org/document/35/0,3343,en_2649_34487_42458595_1_1_1_1,00.html

[6] These are transfers from all OECD countries to the developing world. Source: The Center for Global Prosperity, "The Index of Global Philanthropy and Remittances 2009" (April 2009), www.hudson.org/files/documents/Index%20of%20Global%20Philanthropy%20and%20Remittances%202009.pdf.

[7] Archana Rai, "Crossing the Divide: The Business of Social Good," Wall Street Journal's livemint.com blog (May 2009), www.livemint.com/2009/05/11203031/Crossing-the-Divide--The-busi.html.

Specialized financial intermediaries, as well as bulge-bracket investment banks, are flirting with the idea of entering this space. A conference to develop metrics for measuring the social impact of investments in May 2009 attracted more than 80 institutions. The Kellogg Foundation has dedicated US$100 million to what it calls "mission-driven investing," US$25 million of which is specifically designated for investments overseas. The investment consultancy Cambridge Associates sees so much business in this area that it has established a special unit called Mission Investing. The Aspen Institute is home to a network of social impact financial intermediaries. Universities are offering concentrations in social entrepreneurship and establishing centers dedicated to the topic, such as Duke University's Center for the Advancement of Social Entrepreneurship, Columbia University's Research Initiative on Social Entrepreneurship, and Harvard's Social Enterprise Initiative. Alex Friedman, the former CFO of the Bill & Melinda Gates Foundation, the world's largest charitable foundation, announced at the Initiative for Global Development Summit in 2009 that the Gates Foundation would seek to leverage its grant giving with social investments from its endowment. The initial Gates commitment to impact investing will be US$400 million.

Several factors are driving activity in this sector. The success of private investment in microfinance has provided a significant example of how investors can have a social impact and still consistently make a reasonable return. From 2006 to 2008, investments in microfinance quadrupled from US$1.4 billion to US$5.4 billion.[8] According to the Consultative Group to Assist the Poor (CGAP), returns on microfinance investment vehicles in 2008 ranged from 6.3 percent for fixed income funds to 12.5 percent for private equity funds, and they have been relatively unaffected by the global financial crisis to date.[9] This record has led impact investing leaders to believe there is an untapped opportunity to catalyze capital flows and investment in for-profit enterprises with explicit social and environmental impacts that are a step above microfinance ventures. If microfinance really allows for financial and social returns, many argue there is potential for even more of both in larger-scale businesses with explicit social missions such as providing health care, water, and renewable energy.

In addition, the growth of so-called living donors who take an active role in their philanthropy has created a new class of potential investors. These are people who have largely made their fortunes in business and often want to apply business principles to their philanthropy. Like John McCall MacBain and Bob Johnson, they see investment as more sustainable and disciplined than pure grant giving. Bill Gates of Microsoft, Pierre Omydiar of eBay, and Google's philanthropic arm, Google.org, are other examples.

Other players have also indicated an appetite for investment as a tool for achieving social impact. Major corporations have begun to explore whether investment should be one option for their corporate social responsibility programs. The Shell Foundation, for instance, invested in the small- and medium-enterprise finance vehicle GroFin, and ChevronTexaco established its own microcredit bank in Angola. Says Chris West, director of the Shell Foundation: "There is an urgent need for more 'venture philanthropy'—an approach that applies venture capital principles, based on detailed due diligence, setting clear objectives, and providing hands-on mentoring support, appropriately structured finance, and clear performance measurement—to tackling development challenges."[10]

Values-based investors such as TIAA-CREF and Thrivent are also exploring this space. TIAA-CREF formed its Global Social and Community Investment Department in 2006, making investments in affordable housing,

[8] "CGAP 2008 MIV Survey," available at www.cgap.org/p/site/c/template.rc/1.26.1430.

[9] CGAP, "Microfinance Managers' Views on a New Microfinance Risk Landscape Shift," (July 9, 2009), www.cgap.org/p/site/c/template.rc/1.11.89556/.

[10] Chris West, "Promoting Enterprise-Based Solutions to Generate Sustainable and Scaleable Solutions," blog entry published on Business Fights Poverty (March 14, 2009), http://businessfightspoverty.ning.com/profiles/blogs/chris-west-director-shell.

microfinance, and community banks. Said its founding director, Scott J. Budde, "What we are trying to do…is to give these [social investing] strategies a more centralized home with added emphasis, focus and additional resources. This was the result of recognition that these strategies are very important to our clients."[11]

Two other factors contribute to the current emergence of impact investment: the more hospitable climate for investment in most of the developing world, and technologies that help mitigate many of the risks particular to less developed markets. The greater openness to investment of the large emerging economies like Brazil and India is well documented, but even frontier markets have become more investor-friendly. As Ethan Kapstein points out, Africa is "in the midst of a profound economic transformation" that is "promoting trade, foreign direct investment, and domestic entrepreneurship."[12] While risks still remain even in countries with reformed economic policies, largely because of the nascent level of development of economic institutions and infrastructure, technology can often be a great equalizer, and some companies are beginning to invest in that potential. Buchanan Renewables, for example, has been investigating the scratch card technology that cell phone companies use to have consumers prepay for power.

Some even argue that the global financial crisis has created a unique opportunity for impact investing. As traditional investments have floundered, many impact investments appear to be doing better by comparison, even with their relatively modest returns. They may be uncorrelated with the mainstream markets and more tangible than the sophisticated financial structures Wall Street had been selling before. But recessions generate fear, and people withdraw from riskier investments. When people become risk-averse

[11] Zoran Stanisljevic, "Meet the Microbanker: Interview with Scott Budde, Managing Director of the Global Social and Community Investment Group and founder of the Global Microfinance Investment Program at TIAA-CREF" (July 14, 2009), blog post on MicroCapital.org, www.microcapital.org/meet-the-microbanker-interview-with-scott-budde-managing-director-of-the-global-social-and-community-investment-group-gscig-and-founder-of-the-global-microfinance-investment-program-gmip-at-tiaa/.

[12] Ethan B. Kapstein, "Africa's Capital Revolution," *Foreign Affairs* 88(4):119–129.

and liquidity becomes paramount, they are less likely to start pouring dollars into a yet-to-be proven pool of impact investments.[13] This is only one reason to be a little skeptical about impact investing's potential.

The Potential for Hype

Impact investing has not yet developed into a fully functioning market. The Monitor Institute study calls the current period one of "uncoordinated innovation," where much of the activity is occurring on an ad hoc basis instead of through established market institutions.[14] A study by Good Capital notes that collaboration between those active in this field is strained, as is the process for obtaining funding.[15] It is unclear how successful deals have been and difficult to track social outcomes that legitimize the social impact moniker. Furthermore, practitioners are unsure about the depth and quality of deal flow, the willingness of investors to participate in an unproven market, the potentially prohibitive due diligence and monitoring costs, and the dearth of exit strategy options.

As a result, relatively few deals have actually received funding from impact investors. Successful deals are shared anecdotally. As with traditional investments, the antidote to this skepticism is a track record of successful transactions, the ability to benchmark particular opportunities against an industry standard, and markets to trade in. Until such data exist, it will be difficult for impact investing's achievements to approach the expectations outlined above.

Looking to the community development venture capital (CDVC) industry for insights, one can see additional reason for skepticism. Obstacles that have challenged CDVC are very similar to those that pose a threat to impact investing: limited investment opportunities and a lack of profitable exit strategies; the absence of developed financial infrastructure, entrepreneur support networks, and entrepreneurial culture; greater difficulty and travel time for venture capital investors to reach portfolio companies; limited access to specialized work-force and experienced management; and entrepreneurs who do not understand how venture capital works and who are unwilling to give up company ownership.[16] CDVC scholar and Rutgers University professor Julia Sass Rubin claims that CDVC managers are retreating from the CDVC "brand" and instead are preferring to align their funds with the broader category of social venture capital, since the CDVC name carries a tarnished reputation. Professor Sass Rubin has not been able to calculate financial returns of many CDVC funds, as most have been in existence fewer than 10 years and have not exited the majority of their investment, in addition to having received significant operational subsidies from the government.

What Success Looks Like

Determining whether impact investing's staunchest supporters or most cynical skeptics prove to be correct about its future requires a vision of what a successful future is. First and foremost, impact investing can only succeed if it funds enterprises that are financially sustainable and address real social needs. As detailed later in the report, at the moment there are only a handful of successful examples in the sector. Success will require a critical mass of investments to support the hun-dreds of players currently interested in the sector, thousands of future institutional investors, and at some point retail investors like those identified in the "Money for Good" report.

Success will also require sufficient transparency to attract commercial capital to those models capable of producing market-rate returns and philanthropic capital to those models that will

[13] Freireich and Fulton, "Investing for Social and Environmental Impact."

[14] Ibid.

[15] Jed Emerson, Tim Freundlich, and Jim Fruchterman, "Nothing Ventured, Nothing Gained: Addressing the Critical Gaps in Risk-Taking Capital for Social Enterprise," Skoll Centre for Social Entrepreneurship Working Paper (Said Business School, Oxford University, 2007).

[16] Julia Sass Rubin, personal interview, June 25, 2009.

produce below-market returns but high social benefits relative to grant alternatives. For enterprises, a successful impact investing sector will provide a gateway for well-conceived, profitable social ventures to attract the financing necessary to reach scale.

Scale for a particular investment and scale for the sector as a whole will be two different things, but in both cases it means growing large enough to have a systematic, as opposed to isolated, impact. This means expanding beyond one market to an innovative approach applicable across several countries or regions and moving beyond a few showcase projects to being both an identifiable option for investors, as the SRI market has become, and a real factor to consider in development strategies, as microfinance has become. At minimum, this will require billions in invested capital and, ultimately, an infrastructure of financial advisors, intermediaries, exchanges, and monitoring and evaluation mechanisms.

Investment Opportunities

To explore the potential of impact investing, we began by looking at current investment on offers in this new area. From February to July 2009, we developed a database of nearly 200 impact investments and surveyed 43 managers of such businesses about their experience starting and running social impact businesses and projects. Their aggregated responses serve as the basis for our description of the characteristics of impact investment opportunities. The database consists of for-profit businesses and projects that operate in the developing world and that have as their mission explicit social or environmental goals. The database is not exhaustive, but the businesses and projects identified span multiple geographies and industries. What links these investment opportunities together and separates them from traditional investments is that their explicit social or environmental mission is their core purpose and is fully integrated in their core business models. These are not corporate social responsibility (CSR) initiatives that seek to augment the purely commercial activity of a firm with a philanthropic pursuit, nor are they socially oriented arms of firms with a primary focus on profit.

The Management

Generally, the people running these operations fall into two camps: experienced business or international development professionals, and young business professionals starting out on their first venture. Many of the players in the first group came to the sector with a strong belief (grounded in many years of experience) that neither ODA nor nonprofits are effectively or efficiently tackling poverty reduction in the developing world. They strongly believe that these efforts have stunted growth by subsidizing goods and services that should be provided by the local government or private sector, and that poverty alleviation will never be achieved through hand-outs and government props. In response, they have turned to business as a more sustainable strategy to achieve development goals. The second camp, composed largely of recently minted MBAs, has hopped on the social enterprise bandwagon that has steadily been gaining steam since Muhammad Yunus challenged society to develop the sector in his book *Banker to the Poor* in 1999.[17] Top universities like Harvard, MIT, and Columbia are introducing and strengthening entrepreneurship programs and offering specializations in social entrepreneurship, and their graduates are entering the field in growing numbers. The majority of the people surveyed are from the United States and Europe, along with a few developing-country nationals.

A small minority of entrepreneurs surveyed do not see any difference between their "social" business and a "traditional" (profit-maximizing) business. They argued that there is nothing inherently new or different about what they are doing, that businesses have always filled a social need through the provision of products and services,

[17] Freireich and Fulton, "Investing for Social and Environmental Impact," 19.

and that they are simply targeting a different market in "frontier" geographies. According to them, this does not constitute a paradigm shift.

Management players are also divided into "financial-first" and "impact-first," with the former seeking to optimize financial returns with a floor for social and environmental impact and the latter the opposite.[18] A distinguishing feature of social impact entrepreneurs is the financial sacrifice they make in the face of uncertain return, or a potential return that is not nearly as lucrative as traditional market opportunities. The majority of managers self-finance their enterprises (sometimes with the help of family and friends).

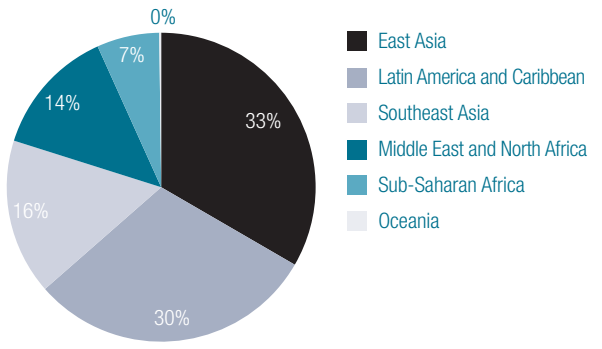
The Geography

The overwhelming majority of projects covered by the survey are operating in sub-Saharan Africa, a result potentially exaggerated by the experience of the researchers, but nonetheless indicative of tremendous activity on the continent. South and Southeast Asia was the second most popular region, followed by Latin America. The Middle East and East Asia represented only a small portion of projects. Comparing the regional concentration of social impact business activity with foreign direct investment (FDI), we observe an inverse relationship. Whereas Africa receives only 5 percent of global FDI flows (figure 1a), it appears to be the most attractive site for social investors (figure 2a), more consistent with development aid (figure 1b). Private equity investments in emerging markets mirror FDI, with roughly 60 percent of invested dollars flowing to Asia (figure 2b). Whether the many social impact projects in frontier markets (such as those in Africa) will get funded is an open question, but there is clearly some hope that impact investors are willing to tread in regions where traditional foreign investors are not.

The Sectors

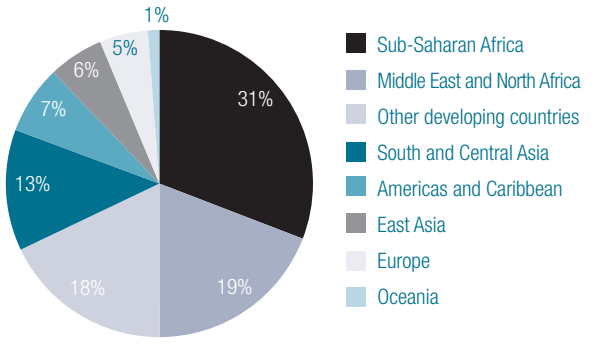
Social impact businesses are engaged in entrepreneurial activity across a variety of sectors. Fifty percent of the projects in the database are concentrated in alternative and clean energy, rural development, and health (figure 3a). Renewable energy and clean technology deals attract both financial-first and impact-first investors: the financial-first are drawn by the potential monetary returns akin to the traditional venture capital sector, and the social-first by the positive environmental impact of energy alternatives and interventions.[19] Rural development projects (which includes agriculture and tourism projects), on the other hand, are more characteristic of programs funded by international development donors.

Figure 1A: Foreign Direct Investment to Developing Countries, 1999–2008 average



Source: UNCTADstat database (www.unctad.org)

Figure 1B: Official Development Assistance to Developing Countries, 2008

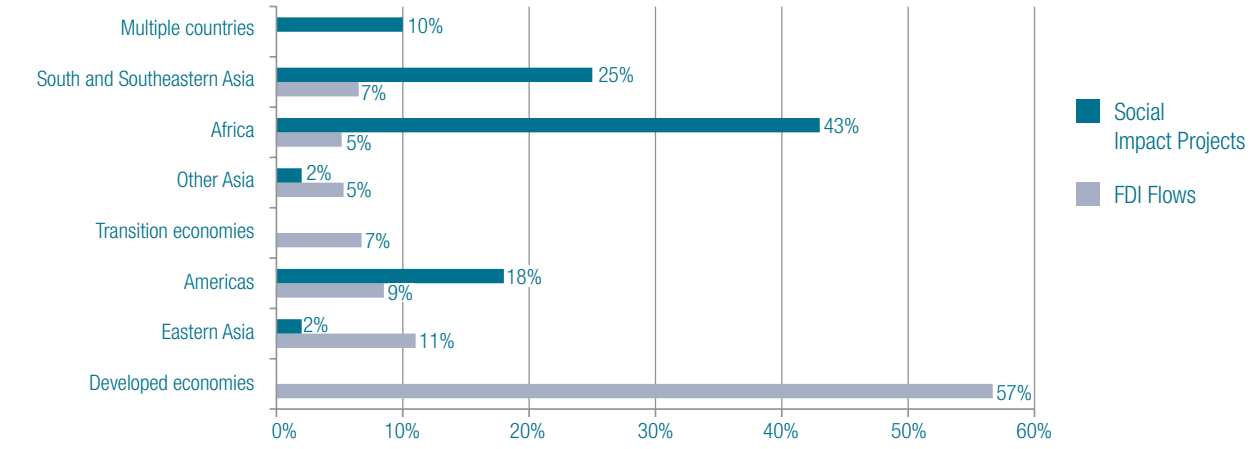


Source: Data from OECD.Stat Extracts (stats.oecd.org)

[18] Definitions borrowed from Freireich and Fulton, "Investing for Social and Environmental Impact."

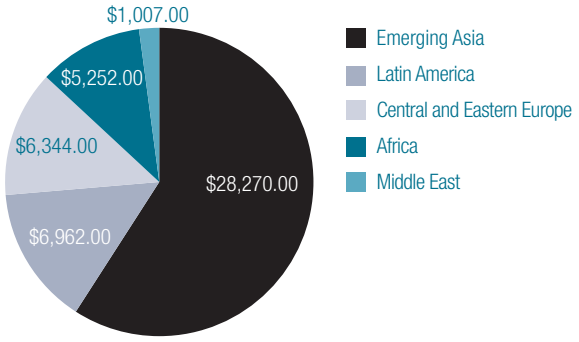
[19] Julia Sass Rubin, personal interview, June 25, 2009.

Figure 2A: Social Impact Investments and FDI Flows



Source: Author's calculations and the UNCTADstat database (www.unctad.org)

Figure 2B: Distribution of Total Emerging Market Private Equity Capital Invested by Region



Source: Data from the Emerging Markets Private Equity Association (www.empea.net)

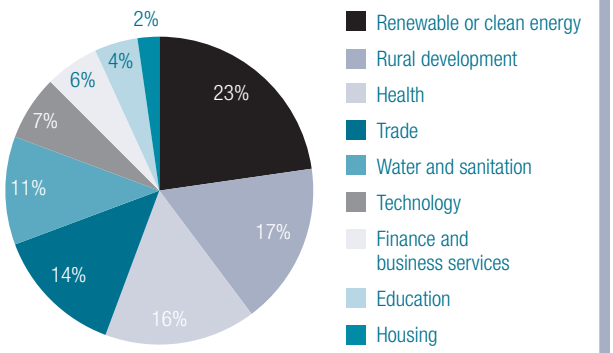
Trade, water and sanitation, and finance and business services constitute an additional 36 percent of social impact projects.

The diversity of target sectors is an advantage of impact investing that might allow for a comprehensive development impact and the scalability of the for-profit social venture model, but also could hinder the consolidation of the impact investing industry as a whole. The variety of sectors especially complicates matters for intermediaries, forcing them to amass a wide range of subject experts to inform investment decisions, making industry-wide social impact comparison a daunting, but necessary, task.

The diversity of sectors also presents a challenge to a critical element of impact investing, measuring social and environmental impacts. Social metrics benchmarking efforts strive to generate apples-to-apples comparisons of the impacts of very different ventures. The Rockefeller Foundation has established the Global Impact Investing Network (GIIN), which is attempting to create industry-wide social metrics reporting standards—the Impact Reporting and Investment Standards (IRIS) initiative. Actually coming to agreement on accepted criteria will be a challenge, however, and may require an iterative process.

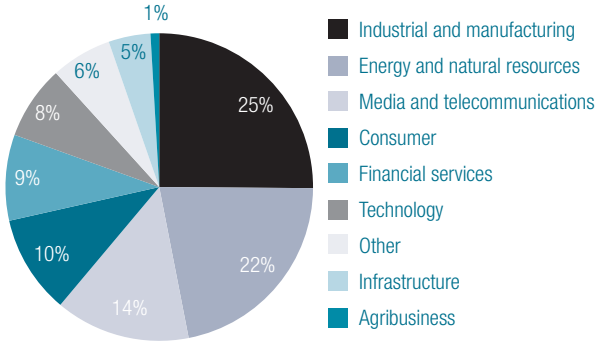
In contrast to impact investments, private equity investments in emerging markets are heavily concentrated in industrial manufacturing, natural resource extraction, and media and telecommunications (figure 3b). While some may argue that telecommunications development in emerging markets is a social venture because of the positive externalities that connectivity provides, particularly in the absence of an extensive grid network, there is clearly a distinct difference between the sectors on which private equity fund managers focus their attention and those that attract impact investors. Again, impact investments are concentrated in sectors not currently serviced by traditional international finance flows.

Figure 3A: Distribution of Social Impact Investments by Sector



Source: Author's calculations; Data from the Emerging Markets Private Equity Association (www.empea.net)

Figure 3B: Distribution of Private Equity Investments in Emerging Markets by Sector



Source: Authors' calculations; Data from Emerging Markets Private Equity Association (www.empea.net)

The Legal Structure

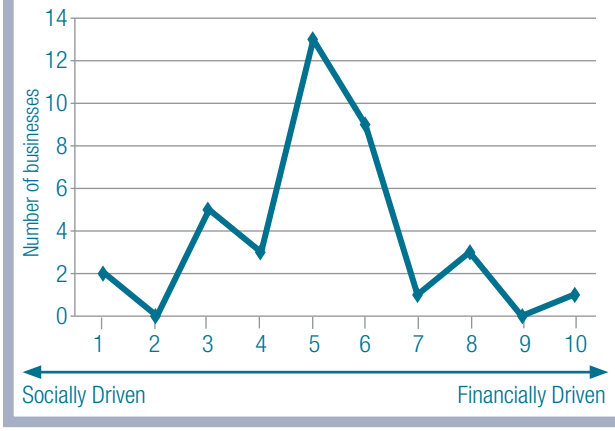
Current legal structures clearly separate businesses (LLCs, C-Corporations) driven by profits from nonprofits (501(c)3s) that provide social services. Businesses cannot offer tax deductions for donations and have a fiduciary responsibility to maximize profits for shareholders. Nonprofits, on the other hand, are allowed to generate revenue and can turn a profit, but the surplus money must be plowed back into their core programs and cannot be distributed to individuals or stakeholders. This binary system and structural rigidity has led many social businesses to incorporate both entities into their business models: a for-profit business for investment and revenue generation and a nonprofit counterpart to serve public needs that can benefit from some or all of the business's earnings.

A group of experts are now pioneering a new legal structure called a low-profit, limited liability corporation, or L3C. Currently, five states offer this structure, the main added value of which is simplifying the process for foundations to make program-related investments (PRIs). Such investments in for-profit ventures have been constrained by the complex legal requirements imposed by the Internal Revenue Service. Because PRIs by definition must receive below-market rates of return, they can leverage or provide more security to more commercially oriented money, bringing much more funding to the table. This includes pensions and endowments, which are interested in achieving social impact but have a fiduciary responsibility to maximize financial return.

The Social-Financial Balance

The firms interviewed have a strong commitment to maintaining their social mission while achieving financial sustainability. On a scale of 1 to 10, with 1 concerned solely with social mission, and 10 concerned solely with profit maximization, the majority of participants rank themselves as 5, equally split between financial and social goals (figure 4). Achieving this balance often requires making decisions that suboptimize profits. For instance, when the Liberia Eco Homes project acquired land from the National Housing Authority, it could have used the opportunity to build higher-end housing and maximize profits. Instead, the investor, Broad Cove Partners, has worked with the architectural firms, Constructs LLC and Joe Addo Studios, to design housing made of environmentally friendly local materials that is affordable to Liberians earning as little as US$300 per month. Neelam Chhiber of Industree, an artisanal home furnishings company in India, says that instead of being customer-focused, his business is producer-focused and seeks foremost to build its suppliers' capacities through skill development. Chris Benz of the online marketplace Craft Network claims that, while traditional businesses have the luxury

Figure 4: Social-Financial Balance of Surveyed Firms



Source: Authors' survey

of making suppliers borrow money to front orders, his rural artisan suppliers are not in the position to take out commercial loans, so he often provides a portion of payment before actually completing an order. Cordelia Salter's business eShopAfrica is a revolving door of website maintenance assistants who, once trained in their jobs, leave to pursue employment with other organizations that can provide a higher salary. Other businesses are achieving social impact, but with a primarily commercial orientation. Take, for example, Stephen Keiley, whose company, TerraBuilt, produces a soil-based brick-making machine that can facilitate reconstruction in conflict areas. While ultimately achieving the social goal of providing the displaced with shelter, Stephen claims his venture is a "bonafide, traditional, practical business" whose primary objective is to maximize profits.

Financing (or Lack Thereof)

Lack of options for finance was an almost universal concern for participants in the survey; 44 percent reported that financing was the biggest challenge facing their business. This is consistent with the findings of the RISE "For-Profit Social Entrepreneur Report: Balancing Markets and Values" from March 2006, which indicated that fundraising assistance was the biggest need of social venture CEOs.[20] As relatively young businesses, most social enterprises are not suitable for bank loans, but with often limited upside potential, they do not fit the mold for venture capital either. Typically, management teams committed to their mission empty their own pockets (and those of their friends and family) to capitalize. TXTEagle, TerraBuilt, Veragua Rainforest, Coastal EcoVentures, ZMQ Software Systems, CleanGold, the CraftNetwork, and Spartacus Capital represent a handful of the business surveyed that, to date, have relied almost entirely on their own coffers for initial capitalization. With the majority of projects in their first few years of operation, they have yet to prove their financial viability, but they require additional capital nonetheless. Seventy-two percent of businesses in our database are not currently profitable, with the majority forecasting profitability within the next one to two years. Therefore, they do not have the current cash flow to service a commercial loan. Less than 20 percent expect returns in excess of 30 percent, making few viable candidates for traditional venture capital funding. This leaves practitioners with few finance options, a problem that could be solved with the introduction of debt and equity impact investment vehicles.

Current and Future Financing

In many respects, financing a social impact business is no different from a traditional startup. Thirty-two percent of surveyed projects initially self-financed with the help of family and friends. Fourteen percent secured funds from private investors, 13 percent sustain themselves through revenue from their business operations, and 12 percent rely on grants. As the businesses grow beyond the idea stage, however, those more strapped for funds are looking anywhere and everywhere for money. Thirty-one percent were interested in finding private and angel investors, 16 percent would like grant support from foundations, and 15 percent were looking to tap DFI.

[20] Catherine Clark and Selen Ucak, *RISE For Profit Social Entrepreneur Report: Balancing Markets and Values* (New York: Research Initiative on Social Entrepreneurship [RISE], Columbia Business School, 2006), http://manoverboard.com/media/report-rise-2006.pdf.

Forty-four percent of survey participants were looking for both equity and debt investors, with 22 percent specifying just equity, and 12 percent just debt. Some of the participants who are seeking only debt are unwilling to relinquish ownership and sign on equity partners because of concerns about losing control of the blended social-financial mission of their business. This reason, as well as perceived unattractiveness and cost, has led many founders not to seek funds from venture capital groups.

Most senior managers (49 percent) said they would be interested in paying for the services of a financial advisor or investment bank to help secure financing. An additional 33 percent expressed interest if the fee structure involved no up-front costs and compensation was in the form of a percentage of the funds raised. Together, 82 percent expressed interest in seeking outside help for fundraising or help connecting with potential investors.

The Current Track Record

To date, some social impact businesses and projects have indeed attracted capital. In our survey, 71 percent sought funds from the private sector, some successfully and others not. Ten of the forty-three surveyed projects report being profitable.

Impact investing pioneers like Acumen Fund and the Calvert Foundation have been involved since the late 1990s and early 2000s. However, it is still too soon to demonstrate sustained financial performance. Acumen has an investment horizon of 5 to 10 years, and only about 10 of its (past and current) investments have been in place for 6 years. Acumen has realized exits on half of these, and has achieved targeted returns on them.

For the rest of its similar-vintage investments, Acumen is either structuring an exit or remains a committed investor. Most of its current portfolio of approximately 30 investments are too young to assess performance definitively.[21]

Intermediaries are reluctant to share rates of return, and portfolios are often mixed with debt, equity, and grant funding. Although the pool of intermediaries is small, it is growing. Collectively, they have invested in a number of companies operating in the developing world. Other social impact funds, such as those financed by the Overseas Private Investment Corporation (OPIC), have recently raised capital and are just starting to make initial investments. Apart from Acumen, 6 intermediaries cumulatively include more than 40 invested companies. To date, we have a record of completed deals, but little hard data on how successful those deals have been financially.

The roots of impact investing can be traced back to the CDVC industry in the United States, which has been helping to provide financing to businesses whose growth has the potential to create good jobs for people with limited job opportunities. Although it is still too early to make declarative statements on CDVC funds (most were begun in the early 1990s), a study showed that gross IRR for two CDVC funds

[21] Brian Trelstad, personal interview, April 22, 2009.

that had been operating for 10 years or more were about 16.5 and 11.8 percent, respectively. Eleven minority business enterprises achieved gross IRR of 6.6 and 8 percent.[22]

Social Return on Investment

Only two businesses surveyed said they are not tracking their social and environmental impacts; 95 percent do try to keep records. Social valuation is far from a perfect process, however, with actors employing in-house analysis of social and environmental impacts as opposed to following established standard. In our survey, not one of the projects claimed to be using the Roberts Enterprise Development Fund or National Equity Fund frameworks, the two leading sources of social return on investment calculation. Only one project underwent a third-party social audit before attempting to seek venture capital and other private investors. According to the manager, the social audit significantly undervalued her business; she ultimately re-evaluated with the help of a friend who runs a venture capital firm in India. She claims the value added by that firm helped leverage her negotiations with investors and led to a significant overture by a mainstream retailer. Other businesses claim to be tracking metrics directly related to the development impact they hope to achieve, such as number of bed nets sold.

Successful Transactions

Certainly, there have been some significant successes in the social impact sector. Perhaps the most notable financial success was the IPO of Compartamos, a microfinance institution in Mexico. In 2007, it sold just under 30 percent of its shares on the Mexican stock exchange for US$468 million.[23] The offering was 13 times oversubscribed, and more than 5,900 institutional and retail investors in Mexico, Europe, South America, and the United States bought the stock.[24] Since then, the return on equity has been more than 40 percent.[25] Water Health International, a company that provides clean water systems for rural communities, raised more than US$10 million in a series D round of financing from Dow Venture Capital and SAIL Venture Partners. It also received an additional US$15 million from the IFC.[26] And Grameen Phone, the largest cellular service provider in Bangladesh, sought to raise an unprecedented US$300 billion in an IPO, which because of the global economic crisis was later scaled back to US$125 billion in late 2008.[27]

It remains to be seen, however, whether or not the large mass of businesses and projects entering the market now will prove to be lucrative. With all eyes examining each drop from the eyedropper, there is fear that a failure of one investment project could send a negative ripple effect through the whole system. Anecdotal evidence shows that social business success is not much different from that of traditional businesses and tends to abide by the one-three ratio: one-third turn a profit, one-third break even, and one-third never leave the red. The Global Social Business Incubator, for example, claims that one out of three of its participants is able to attract investors. Clearly, not all the businesses and projects will be prudent investment opportunities, and the need for grants and donations will certainly persist, especially in financially unattractive sectors like education.

[22] Brian T. Schmitt, "Financial Returns and Double-Bottom Line Venture Capital—What Do We Know?" (The Community Development Venture Alliance), 6. Available at www.cdvca.org/images/stories/mit/CDVCA_200411_Double-bottom_Line_VC_Financial_Returns.pdf.

[23] Lucy Conger,"The Compartamos IPO: Pushing the Envelope on Doing Well by Doing Good," The Inter-American Development Bank (2008), www.iadb.org/NEWS/detail.cfm?language=English&id=4571.

[24] Ibid.

[25] Elisabeth Malkin, "Microfinance's Success Sets Off a Debate in Mexico,"*The New York Times,* April 5, 2008. www.nytimes.com/2008/04/05/business/worldbusiness/05micro.html.

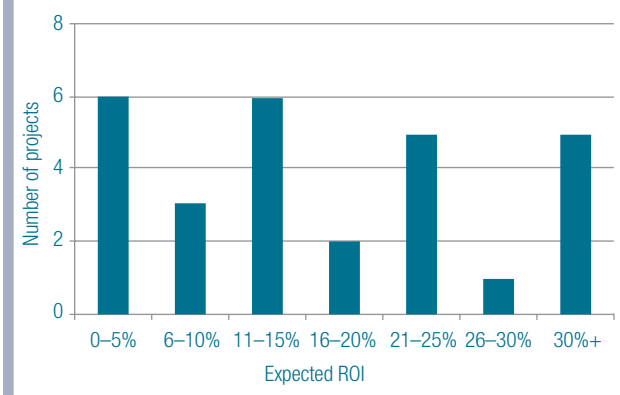
[26] Ruchika Sharma, "WaterHealth International Gets $15 Million Project Finance from IFC" (February 17, 2009), http://www.vccircle.com/500/news/waterhealth-international-gets-15-million-project-finance-from-ifc.

[27] "Grameenphone Pre-Public Offer Receives Strong Report," Grameenphone press release, December 4, 2008, www.grameenphone.com/index.php?id=434.

Expected Rates of Return

Management teams expect a return on investment that ranges from 0 to 30 percent (see figure 5). While management expectations cannot be taken at face value, several institutional investors with strong track records for picking deals have begun to enter the sector. For instance, OPIC has made initial commitments to eight deals in the database, and the IFC is talking to six. Draper Richards, Legatum, and the Global Environment Fund, among others, are all making investments in this sector after having achieved investment success in more traditional arenas. The challenge for this sector is not to get caught in a chicken-and-egg cycle, where most investors stay away because too few investments have succeeded, and too few investments succeed because access to capital remains strained. Avoiding this dynamic requires more transparency on the part of investors to highlight both successes and failures.

Figure 5: Expected Rates of Return



Source: Author's surveys

The Microfinance Experience

Many impact investors look to the returns experienced in the microfinance sector to give them confidence in their own potential. For instance, the Ignia Fund's Michael Chu started his newest investment vehicle after realizing triple-digit returns (126 percent) from his investment in Compartamos when he was CEO of Acción, a leading microfinance organization. Of course, Compartamos was an outlier, but overall, microfinance investments have achieved respectable, if not outstanding, returns. Unitus Capital reports that net returns for microfinance investment vehicles (MIVs) averaged 6.3 percent through 2008. Those focused on debt achieved 4.9 percent average IRRs, while more risky equity-based vehicles were 12.5 percent. A synthetic vehicle that invested in publicly traded microfinance institutions, likely the highest performers, would have achieved a 101 percent IRR from 2002 through 2008.[28]

One cannot generalize the microfinance experience to all impact investing, however. Microfinance was initially heavily supported by public and quasi-public funds before it began to receive significant private capital investment. Even now, public funding accounts for 25 percent of MIV financing.[29] The microfinance industry used that period of heavy public support to develop models that worked commercially and to establish top-tier institutions that could meet rigorous investment criteria. Thus, when private investment began to flow into microfinance, there were already a significant number of institutions that had years of demonstrated performance, which helped to lower the perceived risk of the sector. For instance, the low default rates in the industry—on average less than 2 percent—were well established before the large flood of private investment.

In contrast, as noted above, the track record for impact investing in other sectors is short. Few impact investment funds can boast a significant number of high-performing portfolio companies that have withstood the test of time. There are some exceptions. The Small Enterprise Assistance Fund (SEAF) has had a series of investment facilities over the past 20 years that have achieved double-digit returns (the actual numbers are

[28] Unitus Capital. "Introduction to Impact Investing," PowerPoint presentation.

[29] "The State of Microfinance Investment: The 2009 MIV Survey," MicroRate (August 2009), www.sevenfund.org/grant-winners/pdf/The-State-of-Microfinance-Investment-09-Summary-Paper.pdf.

proprietary). Like microfinance vehicles, however, it used large amounts of public funding from development finance institutions, including USAID, OPIC, and the IFC, to perfect its model. Even with its long history, private money constitutes only a small portion of SEAF's financing sources. Moreover, the story of microfinance is clear and easy to grasp—getting poor people access to credit. Heavily encouraged by the World Bank's CGAP, organizations like the Microfinance Information Exchange (MIX) and MicroRate developed databases to measure microfinance institution performance across a series of established indicators, such as default rate, efficiency, and borrowing costs. Such simple and easy-to-measure criteria will be difficult to establish for the impact investment sector, because it encompasses several sectors with very different profiles, though efforts are under way to do so by the Rockefeller Foundation and the Aspen Network of Development Entrepreneurs.

Investors

Since the Acumen Fund was founded in 2001 as the first multisector fund explicitly dedicated to investing for social impact (see case study), the number of organizations in the impact investing field has blossomed. The Aspen Network of Development Entrepreneurs (ANDE) has more than 70 members, 50 of which are funds focused on impact investing. The recently launched invitation-only Global Impact Investing Network (GIIN) has more than 20 members, all of which are expected to be active investors in the field. Appendix A identifies 124 funds and foundations that have stated an interest in impact investing. These lists are certainly not exhaustive, as new funds in the sector are regularly being launched. The source of capital for these funds is manifold. Brian Trelstad, Chief Investment Officer of Acumen Fund, identified several:

- Financial institutions in the United States, often compelled by Community Reinvestment Act requirements to invest in distressed communities

- Pension funds and screened funds that are looking to diversify their risk and fulfill the social obligations of their clients and members, such as TIAA-CREF
- Groups of high-net-worth individuals or single high-net-worth individuals
- Governments, through their development finance institutions such as OPIC
- Foundations, using either program-related or mission-related investment (PRI or MRI) strategies
- Individuals at the retail level, either donors such as those who give to Acumen Fund, or investors such as those who invest in Calvert Foundations Community Investment Notes or Microplace.[30]

Table 1 below shows a similar typology of potential impact investors based on the working group's analysis of the market.

The foment in impact investing is not surprising, given both the success of investments in microfinance and the growth in the larger pool of SRIs.

As figures 6a and 6b indicate below, assets invested in SRI vehicles have grown to nearly US$4 trillion in the United States and Europe.

More surprising is how few deals have been completed given the number of investors supposedly seeking to put social impact money to work. Part of the reason is that many of the investment vehicles are still in their fundraising stage, but there are structural reasons as well. As noted above, the majority of social enterprises in our survey expected to receive returns of 15 percent or less, with a third expecting returns in the single digits. In our discussions with impact investors, only two—Acumen Fund and Root Capital, which are both nonprofits financed by donations or concessional loans—said they could accept such low returns on a regular basis.

The others are not necessarily failing to live up to their social ideals. Rather, there are practical reasons for seeking higher-returning investments. In the first place, an investment that expects to generate a single digit return is not guaranteed to do so. Its expectation is based on the investment

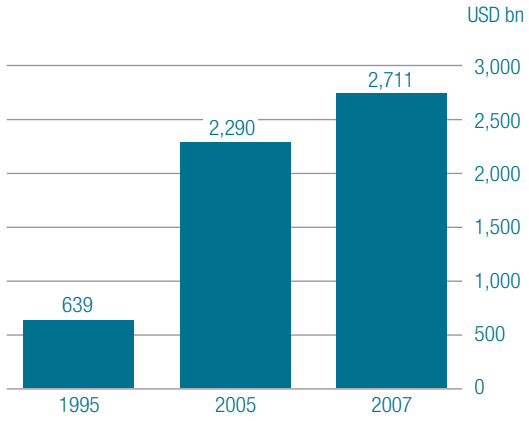
Table 1. Typology of Potential Impact Investors

Early-stage investors → Later-stage investors

	Ultra-High-Net-Worth Individuals	Development Finance Institutions	Foundations	Values- and Faith-Based Investment Networks/ Funds	Retail Investors	Large Corporations/ Financial Institutions	Public Institutional Investors/ Sovereign Wealth Funds
Primary Goal	Application of business principles to philanthropic pursuits	Achieve development results without sacrificing financial sustainability	High social impact with the discipline of an investment	Diversified portfolio of investments consistent with social values	Achieve social impact – view investment as akin to a donation	Support for corporate social responsibility (CSR) programs	Deployment of set percentage of capital in socially responsible manner
Risk/ Return Expectation	Moderate to high, willing to take more risk for social impact, but expect a return	Moderate, need to preserve Institutional stability, but often "funding of last resort"	Moderate to high, sometimes can forgo return for social impact	Low, may be willing to trade off return for social impact, but seeking safe investments	Low, because vehicles available to retail investors cannot be too risky by law	Moderate to low, not willing to take inordinate risks outside core business	TBD
Examples	Bob Johnson, John McCall MacBain, George Soros	OPIC, IFC, FMO, Proparco, DEG	Rockefeller, Kellogg, Gates, Skoll, Omidyar, Google	TIAA-CREF, Thrivent, MMA Praxis, GuideStone, Amana, Saddleback	Buyers of/ Donors to Calvert Community Investment Notes, Microplace, Kiva	Cisco, Storbrand, Shell, Chevron, Starbucks	CalPERS, Government Pension Fund of Norway, Abu Dhabi Investment Authority

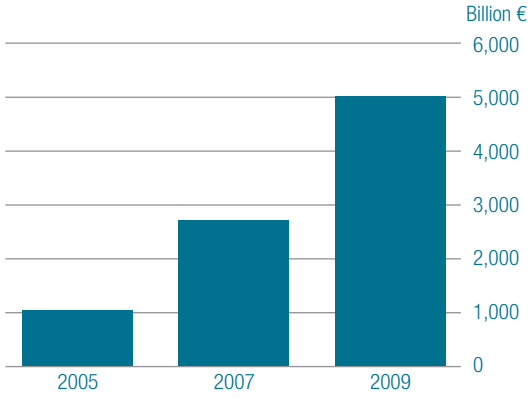
[30] Brian Trelstad, "The Nature and Type of 'Social Investors.'" Acumen Fund Note (April 2009), www.acumenfund.org/uploads/assets/documents/KFP-impact-investing-1_5HgFXhoh.pdf.

Figure 6A: Socially Responsible Investing Assets in the United States



Source: Social Investment Forum, 2007 Report on Socially Responsible Investing Trends in the United States*, Executive Summary (Washington: Social Investment Forum), iii, figure b.*

Figure 6B: Socially Responsible Investing Assets in Europe



Note: The survey that produces these data has expanded from 9 countries in 2005 to 14 in 2009.

Source: Eurosif, European SRI Study 2010*, Revised Edition (Paris: Eurosif), 11, figure 1.*

performing to plan. If it fails to meet its benchmarks—and all investors are trained to assume it could happen—then an investment with a single-digit expected return may have a negative actual return—in which case it will quickly go out of business and provide neither social nor financial benefits. Moreover, for-profit impact investing vehicles funded by investors, as opposed to donors, must receive gross returns sufficient to pay their management fees (typically 2–4 percent) and the carried interest of the management team (typically 20 percent of the profits above a specified benchmark). Thus, to earn even a modest single-digit return for the investors, for-profit investment vehicles must achieve double-digit gross returns. For this reason, Brian Trelstad of Acumen Fund has noted: "There are virtually no social investment funds that have moved a material amount of commercial capital; the risk return trade-off is not yet sufficiently attractive for purely financially motivated investors."[31] Yet, if this sector is to reach significant scale, it will need to develop models that attract commercial capital, just as the microfinance sector has. This does not mean investments in the sector will consistently rival the returns of the most profitable commercial vehicles—though lately many have—but it does mean the sector will need to demonstrate "sufficiently attractive but perhaps not-quite risk-adjusted commercial financial returns."[32]

Another structural issue that inhibits the flow of funds from impact investors is the lack of intermediation in the sector. As a study by Good Capital and Social Edge concluded, the impact investing sector suffered from several "systematic points of friction," resulting in many worthy candidates failing to receive financing.[33] These points of friction include the following:

- The high cost of due diligence relative to the size of the deals and limited ability to share due diligence
- The difficulty in finding other funders to provide follow-on funding, which is often an inefficient process—referrals are often ad hoc
- Inconsistent metrics between funders
- Inconsistent portfolio management processes
- Outcomes beyond funding sometimes not tracked.

[31] Brian Trelstad, "The Nature and Type."

[32] Ibid.

[33] Gary Bolles and Kevin Jones, "Enabling the Social Capital Funding Eco-System," presentation (November 4, 2009).

The GIIN and ANDE, among others, are currently seeking to address several of these issues. Specifically, GIIN is focused on standardizing metrics through its IRIS project, and ANDE has sponsored several workshops on the same subject. Several of the other issues (such as developing a more efficient process for finding additional funders and rationalizing the cost of due diligence) require development of an infrastructure similar to the one that exists in commercial capital markets, including investment banks and brokers, capital markets, and market makers.

Metrics and Impact Measurement

As noted above, almost all enterprises seeking financing from impact investors have some mechanism for tracking their social or environmental impact. Unfortunately, at this point there is very little standardization among the different measures various enterprises are using, even those in the same sector. Therefore, the GIIN's first order of business has been creating IRIS as a standardized impact measurement system. Recently, B Lab, a nonprofit that certifies corporations as meeting minimum standards for social and environmental performance, announced it had received support from several members of the GIIN and the U.S. government to establish the Global Impact Investing Rating System (GIIRS) to further standardize impact measurement.

Yet there is significant tension between creating a system sensitive to the nuances of numerous different business models, and one that can help differentiate the value of different social and environmental interventions. The current set of IRIS standards asks for participants to report on as many of their 170 different data elements as they can. These range from the businesses development objectives to number of employees to characteristics of the population it serves to number of community service hours its employees contribute. Future iterations of the IRIS taxonomy will whittle down the requested indicators to those that are the most frequently reported. There is a danger that extensive reporting requirements will become an undue burden for the social enterprises, distracting them from the task of growing their business and achieving their social objectives. At OPIC, a 16-point development matrix created significant pushback from OPIC clients. Moreover, it is not clear that the results of the data collection will be meaningful to investors.

A different approach could focus on the one or two most important social or developmental objectives of the enterprise and ensure that they are measured rigorously. To the extent these objectives are at the core of the enterprise's mission, which they should be as potential impact investments, tracking them would be a prerequisite for managing the business well and would likely be built into the processes and procedures of the business. Such an approach would not immediately allow comparisons across different impact investments the way one can compare financial metrics such as liquidity, cash flow, and internal rate of return. Yet over time, metrics and methodologies that attract the most investor interest could be disseminated as best practices, beginning with each sector. So the metrics in the health sector that appealed most to the market would eventually become a common standard in that area. In the meantime, impact investments would have to be sold as "story bonds," requiring more explanation than commoditized investments, and therefore offering the investor somewhat less liquidity. How much less, and how much less investment funding will be available as a result, is a question worthy of further research.

Another approach could be to focus on expected social return for each investment per dollar invested. Thus, a health project would look at the years of quality-adjusted life saved per dollar of investment. While this would not allow for a comparison against a rural development or renewable energy investment, one could compare the result with other investments in a similar field and with the alternative of granting the funding to a charity in the same sector—the best alternative

charitable option (BACO). As Paul Brest, Hal Harvey, and Kelvin Low note, this guarantees a certain amount of rigor in determining social impact.[34]

Market Infrastructure

The lack of market infrastructure in the impact investing sector represents much of the remaining challenge to its development. As noted above, a significant number of funds are already in and continuing to enter this space. Yet there are few markets and market makers. This hinders the ability of funders to be confident in the valuation of their investments, their ability to exit their investments successfully, and the ability of the investees to finalize each funding round.

Several new players are seeking to address this gap, including new investment banks like the Social Investment Bank in the UK and Unitus Capital and Intellicap in India; new advisory service providers like Marmanie and Total Impact Advisors; and new social investment exchanges, such as Mission Markets, a web-based exchange for impact investors, and NEXII, a collaboration between the South Africa Social Investment Exchange (SASIX) and the U.S.-based Global Alternative Trading Engine (GATE). Even established financial institutions, such as JP Morgan, Deutsche Bank, and Standard Bank, have created social investment units.

While these developments are promising, significant hurdles must be overcome for these new players to create a functioning capital market with robust liquidity, seamless marketing of transaction, and appropriate regulations. In the first instance, investment banks and exchanges require licensing by the local securities regulating body, such as FINRA in the United States or the FSA in the UK. While some have obtained the necessary licenses—and clearly the social arms of large financial institutions already have them—there appear to be many more that have not. Moreover, the process is designed for purely commercial firms that most likely will have larger and more profitable clients than the nascent impact investing sector.

Second, as one of the first social exchanges, the Global Exchange for Social Investment (GEXSI), discovered, at this point few impact investments are ready to be traded as commodities. GEXSI found it had to create its own advisory service to provide coaching and development services to its clients, reinforcing the point that impact investments are still more akin to "story bonds," than the typically liquid, easily traded traditional commercial securities.

Policy Challenges and Opportunities

Given the early stage of this market, it faces significant challenges. Securities regulations designed for investments of a greater scale and potential for profit are particularly onerous when applied to the smaller and less profitable impact investing sector. As noted, the sector faces a cyclical challenge wherein private investors will not likely invest at scale until there is a proven track record, but a proven track record can only happen when a critical mass of capital is available to invest. Foundations might be willing to venture into this uncharted territory, but complicated tax regulations inhibit them from making program-related investments in social impact businesses.

Yet, just as the public sector nurtured microfinance and certain small and medium enterprise finance vehicles, it has the potential to contribute to the development of this sector as well, and in partnership with the current players. Below are some recommendations that could advance the development of the sector.

[34] Paul Brest, Hal Harvey, and Kelvin Low, "Calculated Impact," The Stanford Social Innovation Review Winter 2009, 50–56.

Recommendations

We offer six recommendations to help impact investment grow and become an effective force for development. We divide them below into those for practitioners, for development finance institutions, and for regulators.

For Practitioners

Increase Transparency in the Field. The lack of information regarding social investments that do and do not succeed inhibits the flow of capital into the sector. Traditionally, private equity investors keep information about their portfolio companies confidential for fear of giving competitors an advantage. With capital plentiful in the commercial private equity sector, there was little reason not to maintain this practice. After all, maintaining close hold on information is one of the advantages of being private.

For the social impact sector, whatever advantage such secrecy gains individual firms is likely lost to the sector as a whole in reduced capital flows. The emerging industry organizations, like GIIN and ANDE, should develop methodologies for circulating information regarding performance in the sector without imperiling the competitive advantages of the firms themselves. In the absence of concrete data, current explanations of sector performance inevitably rely on cheery anecdotes and case studies to outline social impacts. Descriptions of financial success (or failure) remain disconcertingly elusive. If the goal of practitioners is to treat impact investments as a unique and legitimate destination for investment capital, the sector should strive to become more transparent and approach analysis with a fact-based view. If one hopes to attract serious individual investors, pension funds, PRIs, and university endowments, it is imperative to move beyond qualitative descriptions and into calculable results. Good Capital and Xigi.net have proposed a process to increase data sharing in the sector and the development of lessons learned.[35] Their concept involves a data portal into which impact investors and enterprises, industry organizations, and government agencies would upload information that could be aggregated, analyzed, and disseminated across the sector. They call the portal Kanect. Such a tool would be tremendously helpful, but only insofar as industry participants use it. The industry organizations should make participation in such tools one of the responsibilities of membership.

Standardize the Language. One of the obstacles to consolidation is the lack of consensus on terminology and language. Are you a double bottom-line business? Triple bottom-line? Sustainable? Blended? A social enterprise or venture? An impact investment? As the "Money for Good Initiative Report" noted, "there is no common definition of impact investing among individuals, financial advisors, or even those currently in the impact investing universe."[36] For instance, even people who are Ashoka fellows or otherwise affiliated with organizations actively marketing these terms seem not to know what they mean. Among the businesses we surveyed, there was no consistent definition: 17 percent of projects identified *triple bottom-line* as a term that most resonated with their business, making that term the most popular among our sample; the second most popular was *sustainable*, at 16 percent. This is consistent with the findings of the Columbia Business School's RISE Capital Market report of 2003.

Social entrepreneurship itself can be a bit of a misnomer, since colloquial connotation trends toward nonprofits instead of for-profits. The sector is still experimenting with different language options, none of which has gained critical mass support, and within the social entrepreneurship sphere there is significant blurring between nonprofit and for-profit participants. As long as the sector lacks a clear label for its activity, it will have a difficult time attracting new investors to its opportunities.

As noted above, we propose that the overall sector take the name "impact investment." While

[35] Bolles and Jones, "Enabling the Social Capital Funding Eco-System."

[36] "Money for Good" (see note 4).

different entrepreneurs and investors have varying objectives for their activities in this area, whether it is improving the environment, combating poverty, serving the poor, or a host of other worthy social objectives, all are trying to have some sort of impact beyond a simple financial return and are willing to hold themselves accountable for it. That is the key distinguishing characteristics from commercial investment. The term "impact investment" captures this breadth of activity, avoiding unnecessarily narrow definitions and predeterminations of what is socially beneficial and what is not.

There is still much work to be done to define how much of an impact should truly classify an investment as being part of the sector. The Money for Good Initiative recommends separating the impact investing segment that can expect a market return from those investments likely to be consistently below market. "This distinction can help clarify the market while allowing both types of opportunities to flourish."[37]

For Development Finance Institutions

Develop Clearer Pathways for Financing. The inability to access financing at scale is a major constraint to the development of the field. Future research should explore the market institutions that can help address this gap, but an easy step that can be taken in the interim is for those institutions seeking to finance socially impactful investments to outline clearer processes for accessing their funding. The DFIs can lead the way, establishing windows for social impact deals and making it clear when a project has passed their financial criteria, which can open the doors for other investors. The Skoll Centre for Social Entrepreneurship at Oxford's Saïd Business School claims that demand will inevitably spawn the creation of new investment instruments to provide risk-taking capital to fund the expansion of promising organizations.[38]

An example for such a window is OPIC's Small Business Center and Enterprise Development Network. OPIC created the center to encourage businesses outside the Fortune 1000 to apply for OPIC services. Recognizing that such businesses often needed assistance with the OPIC process, OPIC also created a network of business consultants, the Enterprise Development Network (EDN) to support them. The results have been dramatic—even before OPIC launched the EDN, it had increased the number of projects from small and medium businesses from about a quarter to 75–80 percent. A recent example is the private sector window for the Global Agriculture and Food Security Facility at the IFC, which is dedicating US$200 million to investments in the rural development sector. Initial documentation suggests the facility will be less stringent with regard to expected rates of return than typical IFC underwriting standards.

Seed Impact Investment Vehicles. As noted, the commercial market in microfinance only developed once the public sector had helped microfinance institutions build a track record of success. The impact investing sector could benefit from similar support. Unlike microfinance, the sector need not use grants—in fact, the provision of grant funding to enterprises designed to be profitable could be debilitating—though certain support services like technical assistance may require such free money. Equally important is seed capital to encourage the development of impact investing vehicles that are commercially viable. In 2007, OPIC launched the Africa Social Development Fund call to identify investment funds seeking both positive financial returns and extraordinary social impact in sub-Saharan Africa. The call generated more than 30 responses, 4 of which were selected. Similar proposals, in partnership with other DFIs and major foundations, could target other regions or particularly high-impact sectors. For instance, a private sector working group has proposed the DFIs coordinate a global call for investment funds interested in rural development as part of the G-8's Global Food Security initiative.

[37] ibid.

[38] Emerson, Freundlich, and Fruchterman, "Nothing Ventured, Nothing Gained."

For Regulators

Simplify the Process for Program-Related Investment. The Internal Revenue Service permits foundations to make PRIs instead of grants if the investments further the foundation's charitable purpose and are not expected to achieve a market rate of return. Otherwise, such investments would not count as part of the 5 percent that endowment foundations must distribute each year to charitable causes. These criteria create sufficient ambiguity to deter many foundations from making such investments.[39]

Several states have passed laws to allow for new corporate structures, such as low-profit limited liability companies (L3Cs), that specifically identify their commitment to social, as well as financial returns. This allows for investments in such companies to be designated *prima facie* as PRIs. Were such vehicles recognized in the federal tax code, the process for PRIs could be much simpler.

Review Securities Regulations as They Apply to the Impact Investing Sector. Recent history suggests viewing with caution and skepticism any proposal to lessen regulatory oversight of the financial sector. However, current regulations, let alone future ones the global financial crisis might encourage, create a significant cost burden for financial service firms seeking to specialize in impact investments. A review of measures that could lessen this burden without lessening oversight of intermediaries may be warranted. Specifically, the requirements for obtaining licenses and registration could be modified to recognize that many of the potential players in this new market may come from backgrounds other than financial services and will be performing only limited activities typically associated with a financial professional. Though not designed specifically for impact investing, the SEC's approval of the new Series 79 license that applies to people performing only investment banking functions and relieves applicants of having to meet all the requirements of the Series 7 license, is the type of regulatory change that may be appropriate for this new market.

Conclusion

There are at least 200 potential for-profit impact investments that span the developing world. What remains to be seen is the success that these deals can achieve, in terms of both their development impact and their ability to perform financially. With clearly established social and financial outcomes, private investment capital in social causes will quickly be able to dwarf aid and other assistance efforts. Sectors such as clean energy and technology may have more potential for lucrative returns; others such as education might not be appropriate for for-profit models. Thus far, however, impact investing has not been afforded the space or the resources to develop.

A huge information gap exists between the businesses and the investors. Investors and intermediaries are struggling with how to engage productively with entrepreneurs on the ground, from collecting financial data to cataloguing the more elusive social and environmental impacts generated. Creative solutions to motivate both parties to engage in information sharing will be needed. Part of the current fragmentation can be chalked up to growing pains as the industry settles on appropriate metrics, creates ways to perform due diligence and monitor progress that aren't prohibitively expensive, and educates investors about the sector. If these growing pains are overcome, the potential for impact investment to be a major financing source for development and a real option for investors in multiple assets classes is immense.

[39] Arthur Wood and Maximilian Martin, "Unfreezing the Foundation Asset Landscape to Create a Liquid Capital Market," in *Viewpoints 2008: Building Change Communities* (UBS Philanthropy Services, 2008), 104–107.

Appendices

Appendix A. Funds and Foundations Active in Impact Investor Market

Absolute Return for Kids
Acumen Fund
African Agricultural Capital
African Agriculture Fund
Africap
AfricInvest Capital Partners
Africa Middle Market Fund
Agora Partnerships
Agri-Vie
Alitheia Capital
Appropriate Infrastructure Development Group
Artemisia Brazil
Ashmore
Assetswise Capital
ATMS Foundation/AMSCO
Avantage Ventures
Aventura Investment Partners
Bamboo Finance
BidNetwork
Business Partners Int
Calvert Foundation
Capitalworks Equity Partners
Capricorn Investment Group
Citi Foundation
Citi Venture Capital International
Deutsche Bank
Developing World Markets
E+Co.
East Africa Capital Partners
Endeavor
Energy Access Foundation
Equilibrium Capital
Ethos Private Equity
Fanisi Fund
Finance Alliance for Sustainable Trade
FSG-Social Impact Advisors
Fundación Bavaria
Fundación Bolivia Exporta
FUNDES
Fusion Venture Partners
Generation Investment Management
Global Alternative Energy Fund
Global Environment Fund
Good Capital
Google.org
Golden Mean Capital
Grameen Capital
Grassrooots Capital
Grassroots Business Fund
Gray Ghost Ventures
GroFin Capital
GrupoEcos
Health in Africa Fund
Heart Social Investments
i3 Advisors LLC
IGNIA Partners, LLC
ImagineNations
Innosight Ventures
InReturn Capital
Inspired Evolution Investment Management
International Housing Solutions
Investment Fund for Health in Africa
J.P. Morgan
JCS Investments
KickStart
Kuv Capital
Leapfrog Investments
Legatum Ventures
LGT Venture Philanthropy
Lundin for Africa
Lunt Family Office (ARMONIA)
Manocap
Maris Capital
Media Development Loan Fund
Medu Capital
Mennonite Economic Development Associates
New Ventures - World Resources Institute
Oasis Capital
OikoCredit
Omidyar Network
Pamodzi
Pamoja Capital
Prudential
PymeCapital
Rainforest Alliance
Rianta Capital
Root Capital
Root Change
SA Capital Limited
Salesforce.com Foundation
Sanlam Private Equity, SP Aktif
Santa Clara Global Social Benefit Incubator
Sarona Asset Management
Shared Interest
Shell Foundation
SHOREBANK/NCIF
Skoll Foundation
Small Enterprise Assistance Funds
SNS Asset Management
Social Equity Venture Fund (S.E.VEN Fund)
Social Venture Capital Foundation (SOVEC)
SOLyDES
Soros Economic Development Fund
Spring Hill Equity Partners
Stiefel Family Foundation
Swisscontact
TBL Invest BV
The Annie E. Casey Foundation
The Aspen Institute
The Bill & Melinda Gates Foundation
The Gatsby Charitable Foundation
The Lemelson Foundation
The Rockefeller Foundation
Thousand Hills Venture Fund
TIAA-CREF
TLG Capital
TRANS-CENTURY
Triodos Investment Management
Tuninvest Finance Group
Unitus Capital
VillageReach
Villgro
VisionSpring
Vox Capital
Wolfensohn & Company

Appendix B. Case Studies

Mobile Banking in Uganda

MAP International seeks to transform banking services in Uganda and throughout the developing world through public-private partnerships with the Ugandan government, banks, and telecommunication providers that will allow people in rural areas to access bank accounts and pay bills remotely on their mobile phones. In a country where only 5 percent of the population has a bank account, MAP hopes to introduce a Central Bank–approved biometrically coded identification/bank card and aims to have 2 million Ugandan citizens using the program within the first two years of operation.[40] "Uganda is a young, growing and dynamic economy," says President Yoweri Museveni. "We have abundant natural resources. What we lack are two things—access to capital to support businesses and entrepreneurship. MAP is showing us the way forward."[41]

Electricity in Liberia

The first large-scale power plant in Liberia is being built by John McCall MacBain, a Canadian investor and philanthropist committed to promoting Liberia's economic development. The 35-megawatt power plant will be fueled by sustainable energy from Liberia's vast supply of rubber trees. The enterprise, known as Buchanan Renewables, is a triple-bottom-line investment seeking financial returns, social returns, and environmental returns. Not only will the project employ thousands of Liberians to operate and supply the plant with fuel, it will also provide the economy with a critically needed power supply and open up thousands of hectares to agricultural development as past production rubber wood trees are removed and replaced with new saplings. On the environmental front, the plant will utilize a renewable, carbon-neutral fuel source: woodchips from nonproducing and low carbon–sequestering rubber trees, and has ensured sustainability by planting two trees for every one that comes down. Says McCall MacBain: "I thought I would help this country by giving money as grants, but with this investment I am already employing 500 people, each of whom supports another 10 at home, and we are just getting started."[42] Not only is Buchanan Renewables facilitating the electrification of the nation's capital, it has also absorbed key socially related costs along the way, such as removing wrecked ships from the Monrovia port, to support economic development.[43]

Eye Care in Developing Countries

Deutsche Bank, in partnership with the International Agency for the Prevention of Blindness (IAPB) and Ashoka, has pledged to make a US$20 million investment in eye-care hospitals in developing countries. The Eye Fund will support the development of affordable, sustainable, and accessible eye care for the world's poor by providing loans that will finance the scaling up of eye-care hospitals in developing countries, all while providing a near-market return for investors. The financial model will provide eye-care organizations with investment capital channeled to enhance their programs at an interest rate close to only 6 percent, thus promoting increased outreach to the poorest patients on a significantly increased scale.[44]

[40] See www.mapinternational.net.

[41] MAP International, "Transforming Financial Services for Under-served Markets" (2009), 3.

[42] John McCall MacBain, personal communication, July 10, 2008."

[43] See www.buchananrenewables.com.

[44] See www.eyefund.info.

Affordable Housing in South Africa

The supply of affordable housing in South Africa is constrained by the lack of bridge financing available from private banks. In 2003, the Open Society Institute (OSI) agreed to provide a four year, US$5 million investment guaranty (alongside a US$15 million guarantee from OPIC) to support a revolving loan facility for small and medium size private construction firms to finance low income home construction. The availability of the OSI/OPIC guaranty provided the credit enhancement needed to bring a major local financial institution—Rand Merchant Bank—into the affordable housing market. Moreover, as a consequence of this success, it is expected to be easier in the future for NURCHA, an innovative construction finance company, to attract private banks into lending for low income home construction. From 2003 through January 2007, more than 30,000 housing units were constructed using NURCHA financing guaranteed by OSI/OPIC. Based on NURCHA's budget estimates, the OPIC facility should ultimately finance the construction of 67,000 homes.[45]

Water and Sanitation in India

WaterHealth International (WHI) provides innovative business solutions to one of the world's most desperate health crises: the lack of safe, clean, affordable water. Their model incorporates an innovative, cost-effective technology designed for the poor into a franchise model to streamline marketing and distribution and assure uniform water quality and service. The purification technology, called UVWaterworks, is an ultraviolet water disinfection system that eliminates water-borne pathogens. WHI has unleashed the potential of this technology by developing a franchise model that makes distribution and marketing easy for local entrepreneurs. On average, franchisees get a full return on their investment within 12–18 months. WHI has attracted major investments from both philanthropic and venture capital funds, including Acumen Fund, the IFC, Dow Venture Capital, ICICI Bank, and Plebys International LLC. Globally, there are more than 600 installations of its water purification systems, with more than 200 operating in India.[46]

Acumen Fund

The Acumen Fund, a nonprofit organization founded in 2001, was the first organization formally dedicated to impact investing in global SMEs. It also pioneered an investment tracking system called Pulse that has become the basis for the Rockefeller Foundation's IRIS initiative. Currently, Acumen Fund supports more than 35 firms with equity, debt, and grant money. These businesses are highly concentrated in India, Kenya, and Pakistan, with typical capital commitments ranging from US$300,000 to US$2.5 million and a payback or exit in roughly five to seven years. Among its investments is A to Z Textile Mills, a long-lasting insecticide treated net manufacturer in Tanzania; Waterhealth International, a company that brings clean water to rural villages in India; and Voxiva, a company that uses cell phones to collect healthcare data.[47]

[45] See www.opic.gov/projects/profiles/nurcha.

[46] See www.waterhealth.com.

[47] See www.acumenfund.org.

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