



amplifyⁱⁱ

the next mile of
impact investing for INGOs

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for INGOs

Amplifyⁱⁱ is a joint effort of more than 55 international non-governmental organizations working together to bring the scale, skills, and resources of the international social sector to amplify the impact of impact investing.

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INGO Impact Investing Network Survey Participants



letter of welcome from the editors

THE INGO Impact Investing Network was formed in 2015 by Aspen Network of Development Entrepreneurs, GOAL, Humentum, Mercy Corps, and Pact, as a small consortium of INGOs working together to gather and share knowledge about how INGOs are using private investment capital to advance their work in solving pressing global development challenges. Since that time, recognizing opportunities to accrue new value to their missions through impact investing, more than 55 international NGOs have joined and participated in activities, information sharing, and regular network forums.

In 2016, the Network published its first report, entitled *Amplifyii: The INGO Value Proposition for Impact Investing*. The report outlined the key areas where we saw INGOs adding value to the rapidly growing impact investing ecosystem and named points of challenge where INGOs needed to grow in order to achieve the impact they sought.

Now, two years later, with this report, entitled *Amplifyii: The Next Mile of Impact Investing for INGOs*, we are telling the story of how INGO offerings to the impact investing ecosystem are maturing and what this new activity means for the process of disruption and innovation currently underway in the international non-profit space.

Our hope is that this data and the ensuing insights and lessons learned add value to the conversation about how the diverse array of stakeholders involved in impact investing can continue to grow their collaboration, moving more capital towards impact around the world.

This is the story of how INGOs are taking impact investing the next mile.

Sincerely,

Tom Dente, Humentum

Susan Barrows Libby, Kito Global

Shikhank Sharma, Independent Analyst

Stephanie Marienau Turpin, FHI 360



#amplifyii

Base of the Pyramid (BoP): The term describes groups of people in emerging markets who earn less than \$3,000 a year [2002 purchasing power parity].¹

Blended Finance: According to OECD, blended finance is the strategic use of development finance for the mobilization of additional finance towards sustainable development.²

Development Impact Bond (DIB): A DIB is a performance-based investment mechanism that finances development programs with money from private investors who earn a return if the program is successful, paid by a third-party donor.³

Finance-first: Investors who prioritize the financial return objective over the social or environmental objectives of an investment.¹

Gender-lens investing: A form of investing in which investors seek specifically to generate both a positive financial return on their investment, and a beneficial impact on the lives of women.⁴

Impact-first: Investors that target social or environmental good as their primary objective, above achieving a financial return.¹

Impact Investment: According to the GIIN, impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.⁵

International Non-Governmental Organization (INGO): For the purposes of this report, INGOs are defined as international organizations committed to achieving development outcomes, whether they are incorporated with a for-profit or non-profit status. They typically work in multiple countries and are funded through government or foundation grants and contracts, as well as by donations from private individuals. Common areas in which INGOs work to create greater and more positive impact include: poverty alleviation, health, and environmental conservation.

glossary

Investment-ready: A subjective term that describes investments that investors perceive to meet the requirements of the capital they are seeking to deploy, particularly in terms of return expectations and risk tolerance.

Missing Middle: The lack of small and medium enterprises and their resulting contribution to the GDP and employment in low-income countries as compared to high-income countries.⁶

Patient Capital: Capital invested over the long-term in which investors are willing to forgo a short-term financial return, with the expectation of larger financial or social returns in the long-term.

Pioneer Gap: The lack of impact investments for early-stage companies serving poor customers, due to perceived high risk and expected low returns.⁷

Small and Growing Business (SGB): According to ANDE, SGBs are commercially viable businesses with five to 250 employees that have significant potential, and ambition, for growth. Typically, SGBs seek growth capital between \$20,000 to \$2 million.⁸

Small and Medium Sized Enterprise (SME): Enterprises that employ less than 250 employees, although this number varies widely based on countries and regions.⁹

¹ Humentum [formerly InsideNGO]. Impact Investing Glossary. Retrieved from <http://www.icnl.org/globalforum2015/wp-content/uploads/2015/04/Glossary-of-Terms.pdf>

² OECD. Blended Finance. Retrieved from <http://www.oecd.org/development/financing-sustainable-development/development-finance-topics/blended-finance.htm>

³ Center for Global Development. Development Impact Bonds. Retrieved from <https://www.cgdev.org/topics/development-impact-bonds>

⁴ Wharton Social Impact Initiative. Gender Lens Impact Investing. Retrieved from <https://socialimpact.wharton.upenn.edu/wp-content/uploads/2017/06/GLI-Infographic-ver-2-1.png>

⁵ Global Impact Investing Network. What You Need to Know about Impact Investing. Retrieved from <https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing>

⁶ Entrepreneurial Finance Lab at Harvard University. Finance and the Missing Middle. Retrieved from <https://sites.hks.harvard.edu/cid/efi/finance.html>

⁷ Dichter, S., Katz, R., Koh, H., & Karamchandani, A. [2013, Winter]. Closing the Pioneer Gap. Stanford Social Innovation Review.

⁸ Aspen Network of Development Entrepreneurs. What is a Small and Growing Business [SGB]? Retrieved from <https://www.andeglobal.org/page/AboutANDESGBs>

⁹ OECD. [2005]. OECD SME and Entrepreneurship Outlook [p. 17]. Paris: OECD.

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letter from endorsers

Together, we recognize the INGO Impact Investing Network for its efforts to produce *Amplifyii: The Next Mile of Impact Investing for INGOs*. This report builds upon the inaugural report, *Amplifyii: The INGO Value Proposition for Impact Investing*, which outlined the INGO sector’s self-assessment of its impact investing activity and provided a basis for further analysis and discussion about where INGOs could have the greatest contribution in the impact investing ecosystem. This within-sector collaboration represents the collective approach that is required across the broader ecosystem of impact investing actors.

Impact investing research, discussion, and literature has been noticeably void of insights about the potential assets, capabilities, and networks that INGOs bring to impact investing. A key first step toward increasing impact investing dialogue and engagement among investors, banks, corporations, universities, and social enterprises with INGOs is for the sector to develop a deeper understanding of the current landscape of INGO impact investing activity.

INGOs have deep and trusted relationships with communities in developing countries; maintain broad geographic footprints; have world-class technical expertise in social, economic, and environmental development and humanitarian response; and understand the needs of local communities. The future trajectory of impact investing and associated societal prosperity will benefit from the insights and data contained herein.

With two years and 45% more INGOs participating in the survey, this report provides a deeper look at how INGOs engaged in impact investing are taking their efforts the next mile.

external endorsement



executive summary

In recent years, international non-governmental organizations, traditionally known for implementing donor-funded programs for social and environmental impact around the world, have begun to make a distinctive imprint on the impact investing ecosystem. By leveraging assets unique among other stakeholders in impact investing, INGOs add value that differentiates them from other investors and intermediaries.

INGOs' main strengths lie in their understanding of local context and operating realities in emerging markets, global footprint, ability to leverage grant or concessionary funding, grassroots connections with potential customers, and long-standing commitment to impact first. Much of this remains unchanged from the value proposition laid out in the 2016 report, except that there are now more proof points of what this value looks like when put into practice, many of which will be explored through the chapters and case studies scattered throughout this report.

Yet, the story of INGOs in impact investing is evolving in a number of important ways:

INGO involvement is **growing**.

Since the INGO Impact Investing Network launched in 2015, there has been explosive growth in interest and activity in impact investing among INGOs. For this year's survey, 45 INGOs submitted responses, a 45% increase from the 2016 survey. These organizations collectively represent \$10.5 billion in annual revenue with 98,000 employees globally. INGOs are increasingly playing the role of investor and currently manage at least \$916.7 million in assets.

INGOs are **focusing** on the unique niche they can fill.

In their early explorations of impact investing, INGOs brought their traditional resource development lens to the ecosystem, seeing impact investments as potential sources of revenue for their organizations. As their understanding of the field has matured, INGOs have begun to be involved in increasingly sophisticated ways, including structuring complex blended finance deals, creating multi-stakeholder social impact bonds, and providing nuanced technical assistance to social businesses. Network conversations center on creating new approaches to facilitating capital flows to high impact businesses.

INGOs are increasingly focusing their investing and technical assistance activity on difficult to reach markets or hard to structure investments, with the justification that their role is to de-risk high impact investments and attract additional capital that would not flow to that type of deal without the INGO's involvement. Examples of the types of investments INGOs often target include companies in the pioneer gap or missing middle, impact-first companies generating below market rate returns, early stage companies requiring technical assistance to become investment-ready, or companies operating in frontier markets, fragile states or conflict zones.

INGOs are **evolving**, with impact investing as just one example of the business model innovation underway.

The way international development is funded and delivered is in the midst of a profound period of disruption that is pushing INGOs to experiment with new business models. In addition to their impact investing activity, INGOs are designing next generation corporate partnerships, launching new revenue models for their organization's existing services, and innovating new products and services. As the traditional lines between sectors increasingly blur, INGOs involved in impact investing are defining themselves less and less by where they came from and more and more by what they can do and where they want to go. Impact investing is just one piece of the exciting story of INGO transformation.

INGOs are taking impact investing the next mile to extend impact investing's reach to new companies and markets and to further the innovation already underway within the non-profit sector.

how to read this report

This report is arranged into two sections. In **Part One**, the editors overview trends in impact investing among INGOs, drawing on data from a recent survey of 45 INGOs engaged in impact investing. **Part Two**, a series of chapters, authored by leaders in impact investing, delves into key topics of interest for INGOs. These chapters look more deeply at specific assets INGOs bring to the space, challenges they face, and lessons they have learned over the past few years of engagement. Throughout the report, case studies of what INGOs are doing in impact investing brings the data and lessons to life through real life examples.

Survey methodology

Similar to the 2016, for the purposes of this report, INGOs are defined as international organizations committed to achieving development outcomes, whether they are incorporated with a for-profit or non-profit status. They typically work in multiple countries and are funded through government or foundation grants and contracts, as well as by donations from private individuals. Common areas in which INGOs work to create greater and more positive impact include: poverty alleviation, health, and environmental conservation.

Through an extensive survey, 45 INGOs reported on their impact investing strategy and work. At the beginning of the survey, respondents self-selected themselves into one of the following two categories which were defined as:

1. **Defining Strategy** – Organizations that are in the process of developing a strategy or business plan for their impact investing work. Currently, they do not have an active fund or active social enterprises.
2. **Actively Engaging** – Organizations that have engaged in impact investing work and/or might be scaling this engagement. This engagement may range from managing an active fund to operating social enterprises to running an incubation or acceleration program.

Based on their selection of the above-mentioned categories, the respondents received a set of questions across the four approaches to engagement in impact investing amongst INGOs. These approaches were identified and defined in the 2016 Amplifyⁱⁱ report –

- **Making Investments** – Investing in impact enterprises, either directly, through a fund, through other intermediaries, or through a microfinance institution.
- **Establishing Social Enterprises** – Developing social enterprises or monetizing existing assets or programs that were developed through donor-funded projects to receive investments and generate income.
- **Delivering Technical Assistance** – Providing capacity development services for social entrepreneurs, impact investors, or intermediaries.
- **Ecosystem Building** – Using advocacy and convening power to support the development of infrastructure for mission-aligned investing.

Overall, the data collected this year is in alignment with the data from 2016. Some additional questions this year help provide additional nuance to areas such as impact measurement and ecosystem building. Wherever relevant, the report notes any interesting trends or changes across the two surveys.

part one

INGOs in impact investing: presence & purpose



Two years ago, when the first [Amplifyⁱⁱ report](#) was released, INGOs were fairly new entrants to the impact investing ecosystem. As a group, INGOs were just beginning to build the skillsets and teams they needed to deliver on their impact investing strategies and were working to articulate their value to the larger investing market.

Since that time, investment activity and engagement has been growing and maturing. Now, the sector has more and more examples of successful INGO-led investments and initiatives. INGOs are an expected part of the impact investing conversation, whose contributions are better understood and valued by a broad range of stakeholders. INGO leadership teams and Boards of Directors now often champion impact investing and the opportunities it presents for the social sector. In many ways, impact investing at INGOs has gone mainstream.

INGOs bring a unique set of assets to impact investing that distinguish them from other investors and intermediaries. Chief on that list of differentiating strengths are: their global presence; experience operating in emerging markets around the world, including fragile states; expertise in high-impact sectors like agriculture and health; knowledge of best practice in measurement and capacity development; ability to leverage blended capital; and impact-first focus.

Much of this remains unchanged from the value proposition in the 2016 report, except that there are now more proof points of what this value looks like when put into practice, many of which will be explored through the case studies scattered throughout this report. These core INGO assets are unique among the diverse array of players in impact investing and are adding important value to the ecosystem.

However, what INGOs are using these unique assets to do is incredibly varied. Across the Network, INGOs are investing patient capital, developing pipeline for other investors, launching incubators and accelerators, creating seed and early-stage investment vehicles, conducting advocacy for improved access to finance, launching impact-themed funds, investing in under-banked markets, and structuring development-impact bonds (DIBs)—just to name a few! This report will go into greater depth on four categories of approaches INGOs are adopting on page 16, revealing more about how INGO assets are being deployed to drive capital to impact businesses.

Just as in their traditional development work, INGOs are operating all over the world, with a focus on emerging markets. The top two regions for impact investing work are South, South East Asia and the Pacific [69%] and East Africa [67%], followed by West Africa [40%], South America [38%], and Central America & the Caribbean [36%].

In selecting both the geographies and impact areas where they work, INGOs are targeting the markets and sectors they know best from their decades of grant-funded experience. The top reasons behind the sector and geographic focus of impact investing work in order are:

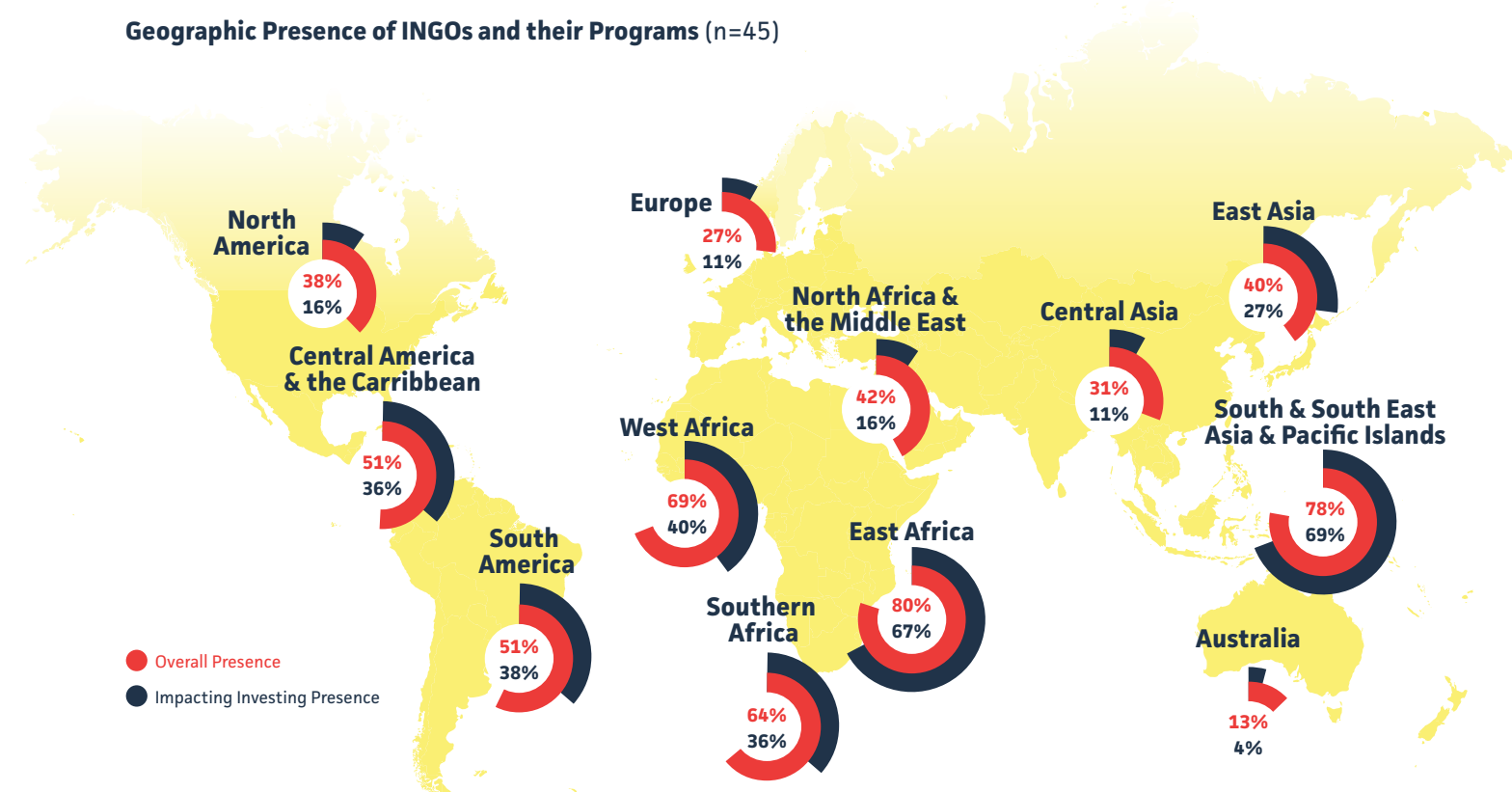
- Mission alignment
- Core competency and technical expertise in the sector
- Market opportunity
- Current geographic presence
- Existing local infrastructure to support entrepreneurship and impact investing

Accordingly, the top sectors for impact investing work are Sustainable Agriculture [60%] and Livelihoods [56%], followed by Microfinance/Financial Inclusion [38%], Renewable Energy and Climate Change [33%], and Health & Wellness [33%].

“Investors may need to accept a higher risk in order to address the challenges faced by communities in some of the poorest and most marginalized areas of our globe. Greater traction in this direction will require the collaboration and wisdom of INGOs committed to impact investing.”

PHIL WILKERSON, TEAR AUSTRALIA

Geographic Presence of INGOs and their Programs (n=45)





CASE STUDY:
Palladium's Impact Investing in West Africa

In November 2017, Palladium Impact Investments made its first loan to a promising business in West Africa, PEG Africa – a leading off-grid solar company based in Ghana and Cote d'Ivoire that provides solar home systems on credit to households in West Africa. For this deal, Palladium contributed \$800,000 to a \$7.5 million loan syndicate.

Palladium's financing is helping accelerating PEG's growth in Ghana and Cote d'Ivoire, reaching 500,000 more customers and growing its core operations to provide affordable energy for those who need it. Many of PEG's customers are in poor, rural areas and, with no assets or credit history, are often considered too risky for banks or microfinance programs. They often could not afford PEG's solar home systems outright, so PEG created an innovative business model that provides solar home systems on credit, allowing customers to pay as they go in smaller increments. PEG focuses on helping off-grid households gain ownership of productive assets that they want and need. In the context of solar home systems, every payment is a payment towards outright ownership. This model is cheaper for customers, allows them to grow their credit, and provides a pathway to the ownership of an asset to provide further financial security.

Palladium's partnership with PEG and other co-investors strongly supports plans to invest in more growing businesses in West Africa – particularly Ghana and Nigeria.



"We have been investing in fragile countries for 20 years. We are often the first international lender in certain markets or segments. Our investments often have a catalytic effect, attracting other investors to the same market or investee."

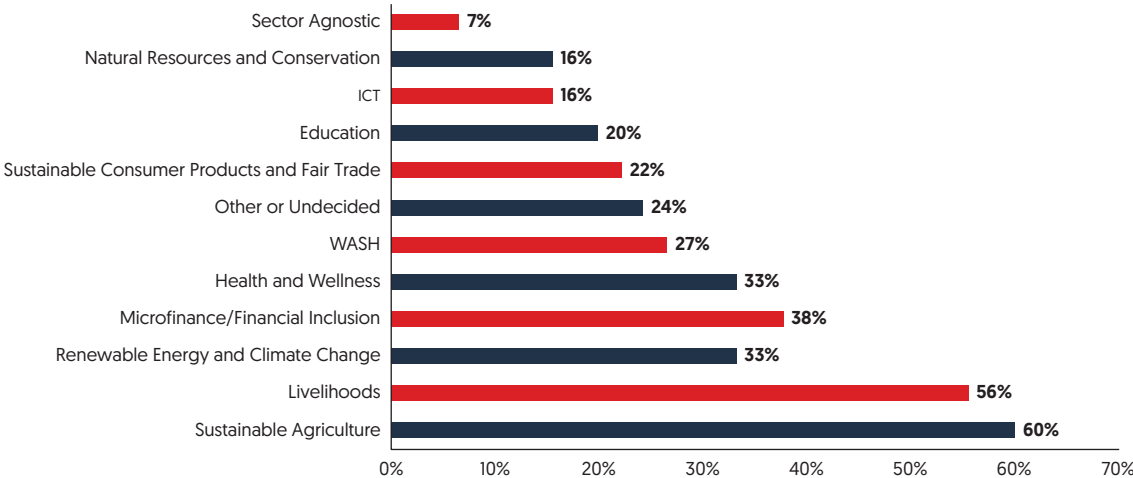
ROMY MIYASHIRO, CORDAID INVESTMENT MANAGEMENT B.V.

Active in markets around the world and a large number of industries and impact areas, INGOs in impact investing are leveraging their unique assets for diverse impact, just as they were in 2016. Yet the story of INGOs in impact investing is evolving in a number of important ways.

Drawing from the survey data, as well as conversations within the INGOs in Impact Investing Network over the past two years, this report has surfaced several key findings about how INGOs in impact investing are changing:

- INGO involvement in impact investing is growing
- INGOs are focusing on the unique niche they can fill
- And INGOs are evolving, with impact investing as one example of their business model innovation

Impact Investing Sector Focus (n=45)



INGOs in impact investing are
growing

Since the INGOs in Impact Investing Network launched in 2015, there has been explosive growth in interest and activity in impact investing among INGOs. For this year's survey, 45 INGOs submitted responses, a 45% increase from the 2016 survey. These organizations collectively represent \$10.5 billion in annual revenue with 98,000 employees globally.

As INGO involvement in impact investing has grown, the understanding of what this movement of capital can mean for the social sector—and how to harness it for impact—has matured.

Survey responses now show that 78% of organizations are actively engaged in impact investing, with only 22% self-reporting as being in the 'defining strategy' stage. This represents a 20% increase in the percentage 'actively engaged' as compared to 2016. In fact, of the organizations that were in the 'defining strategy' stage in 2016 and responded to the survey in 2018, 66% are now 'actively engaged'.

The survey data represents a large increase in the number of full-time equivalent employees involved in impact investing as well, up to 204 people, excluding a few notable outliers that would push this number into the thousands. Since the 2016 survey, the data shows that the average number of employees working full-time on impact investing per organization has nearly doubled.

While the reasons for engaging in impact investing have stayed the same across 2016 and 2018, in the INGOs in Impact Investing Network meetings and discussions, members have mentioned that their leadership teams are growing their understanding of why it is important to engage in impact investing, increasingly seeing it

2016
31 Survey Respondents



Defining Strategy **42%**
Actively Engaged **58%**

2018
45 Survey Respondents



Defining Strategy **22%**
Actively Engaged **78%**

**45% increase in survey respondents*

not as a way to replace grant revenue, but instead as an approach area that can amplify their impact. The top three reasons are:

- To support businesses in target geographies with access to finance
- To expand and scale current programs
- To diversify funding sources

While the realization that impact investing is unlikely to replace donor funding in the short- to medium-term has taken some of the sheen off the impact investing conversation in INGOs, expectations have changed. Now, many more of the Network conversations center on new approaches to facilitating capital flows to impact businesses and potentially envisioning a new, longer-term perspective on resource development.

INGOs in impact investing are *focusing*

While the core value that INGOs bring to impact investing remains the same as it was in 2016, what is evolving is how INGOs are using these assets to address various gaps in the impact investing market in a practical way. Increasingly, INGOs are focusing their investing and technical assistance activity on:

- Companies in the ‘pioneer gap’ or ‘missing middle’ that are difficult for more traditionally-structured investment funds to work with. Through focused technical assistance, a comfort with smaller ticket sizes, and the ability to leverage de-risking blended capital, INGOs are able to reach companies other investors cannot.
- Impact-first companies that have proven impact models but are generating below market-rate returns. Seeing recoverable grants or concessionary loans as an attractive alternative to grants, INGOs are able to more sustainably create impact in this space.
- Companies that are not yet ‘investment-ready.’ More and more INGOs working with high-potential, but very early-stage companies who need a good deal of technical assistance to be ready to receive an investment or even require a more hands-on investor throughout the investment period.
- Companies operating in frontier markets, including fragile states or conflict zones. INGOs go where other investors can’t, utilizing their organizational footprint and local knowledge to efficiently place investments in markets others would find too risky.

“I have a hard time understanding why INGOs would be in this space if they are making the same investments as traditional investors. Our role should be to de-risk underserved parts of the market, attracting new capital that would not flow to those businesses without us.”

MATHU JEYALOGANATHAN, WORLD VISION CANADA



CASE STUDY: World Vision’s & VisionFund’s Small and Growing Business Fund

Three years ago, World Vision and its microfinance subsidiary VisionFund, launched the Small and Growing Business (SGB) Fund. The fund targets customers that are just beyond microfinance with demand for loans between 5,000 – 25,000 in addition to a need for business support and coaching.

By working with VisionFund, World Vision can accurately identify existing high-potential microfinance clients that are looking to expand, use local staff to foster existing relationships and work with businesses that have a strong track record of performance and payment, business growth and management abilities. World Vision works with clients by utilizing the business model canvas from the loan application stage through to post-disbursement to help them better understand their entire business model. This support also functions as a risk mitigation tool to ensure that the loan capital is being appropriately deployed.

Due to the high transaction costs of addressing this key segment, the Small and Growing Business Fund uses a blended financing strategy – a combination of capital financing (80%) and philanthropy (20%). The financial capital (fixed term unsecured investment) is directed to funding the growth of a business. Philanthropic capital is earmarked to provide business-management training. This also supports ongoing rigorous impact measurement through real time mobile data collection and other technology development.

Since launch, the fund has supported more than 700 businesses in Mexico, Ghana, Sri Lanka and Myanmar.

“We believe the traditional INGO model of program delivery and advocacy can and should be coupled with market-led, private sector approaches that create and strengthen local social enterprises.”

NAZANINE SCHEUER, SAVE THE CHILDREN

“We chose challenging markets in emerging economies where girls are often marginalized.”

ROBERT HAYNIE, SPRING ACCELERATOR

Certainly, this does not mean that this type of investment is the only space within impact investing where INGOs can be involved, but INGOs are clustering in this segment of challenging markets and smaller, riskier investments, while examples of other types of investing activity tend to be more scattered, indicating that there is unique value they are adding to this segment.

INGOs in impact investing are *evolving*

The way international development is funded and delivered is in the midst of a profound period of disruption that is pushing INGOs to experiment with new business models. The disrupters in the international non-profit sector are too numerous to exhaustively outline here, but include: changing donor priorities, the rise of local civil society in many markets with the capacity to replace INGO services, changes in technology that remove the need for intermediary implementing organizations, the rise of new donor governments like China and India, scandals in the aid world that have eroded public trust, and the entrance of many new private sector players to international development, including multi-national corporations and social enterprises. In the face of so much change, many INGOs are no longer expanding their direct service delivery, but instead are seeking new roles where they can add mission-aligned value to an increasingly complex ecosystem of actors.

In addition to their impact investing activity, INGOs are designing next generation corporate partnerships, launching new revenue models for their organization’s



CASE STUDY: The Grassroots Business Fund (GBF)

The Grassroots Business Fund (GBF) was founded in 2004, as an initiative of the International Finance Corporation (IFC) to pilot grassroots business investments and field-tested capacity building approaches. GBF spun off from IFC in 2008 to become an independent entity, whose mission is to grow viable, sustainable, and inclusive businesses that generate earnings or costs savings for people in Africa, Asia and Latin America.

GBF focuses on supporting High Impact Businesses (HIB) – defined as small and medium enterprises engaging in far-reaching supply chains or sourcing, producing and marketing goods from and/or for underserved communities. Other examples include companies providing services specifically designed to meet the needs of underserved populations, particularly in rural areas.

GBF operates under a hybrid business model using a private investment fund and a not-for-profit organization. The former channels investors’ capital to provide private investments to companies, while the latter manages the funds, provides Business Advisory Services (BAS), and fosters the impact investing ecosystem.

In 2011, GBF launched its first private investment fund, a \$49M, 10-year limited life fund, which provides long-term mezzanine investments to HIBs. GBF has invested over \$41.3M in 62 transactions and is currently pursuing regional investment vehicles in Latin America and Africa. Over the life of the fund, GBF’s clients have delivered an estimated \$280M of economic value to over 16 million people worldwide.

existing services, and innovating new products and services. Although this report is primarily concerned with impact investing, members of the Network are often the same teams leading these parallel initiatives. INGOs are experimenting with earned income business models that complement their donor-funded work and hiring new staff to support these efforts.

As the traditional lines between sectors increasingly blur, more and more INGOs are playing the role of investor, advisor, and facilitator for all kinds of collaboration in emerging markets. INGOs involved in impact investing are defining themselves less and less by where they came from and more and more by what they can do and where they want to go. Impact investing is just one piece of the exciting story of INGO transformation.

Why do INGOs matter in impact investing?

While INGOs conduct many different types of investment activity, increasingly, they are filling a specific niche that provides distinctive value to the impact investing ecosystem. By investing in difficult to reach companies, markets, and industries, INGOs are leveraging assets unique within the impact investing ecosystem.

- **Global presence, networks, and local knowledge:** With offices and staff all over the world, including in some of the most challenging operating environments, INGOs have a footprint quite different from the average investor that can be leveraged to work effectively with hard-to-reach companies in emerging markets.
- **Sector expertise:** INGOs have experience building programs and conducting research on impact areas as diverse as agriculture, basic education, and global health. Their deep knowledge of best practice can lead to more sustainable impact.
- **Measurement:** With decades of experience measuring their impact in a variety of impact areas and geographies, INGOs bring a uniquely informed perspective to the conversation about the best way to measure impact.
- **Capacity development:** Many INGOs have made capacity development for their local partners a core tenant of their value proposition on their grant-funded work. This same skillset can be adapted to provide value to investee companies through technical assistance.
- **Blended finance:** INGOs know how to access and leverage grant and philanthropic capital, which can be used to de-risk investments or provide technical assistance or other support services to impact businesses.
- **Impact Focus:** INGOs were built for impact. Their activity within the impact investing ecosystem tends to be highly impact-first.

Why does impact investing matter to INGOs?

The traditional INGO, headquartered in the United States or Europe, and operating throughout the developing world, funded by private donations and government grants, is in a period of profound disruption. As INGOs seek to evolve, impact investing provides a new pathway to advance their missions.

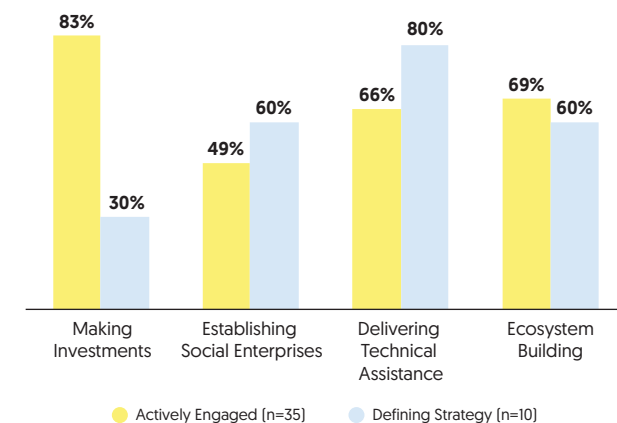
- **Access to private capital:** As grant funding changes and competition increases, impact investing offers a way for INGOs to experiment with how they can use private, return-seeking capital for impact.
- **New partners:** Unlikely alliances with investors and companies push INGOs beyond their list of usual partners, creating new opportunities for cross-fertilization of ideas.
- **New approaches:** To end global poverty, INGOs must find ways to effectively support small and growing businesses in target markets, encouraging job creation and economic growth.
- **Experimentation with new business models:** As INGOs evolve, they are in an exciting period of experimentation as they test new business models that can create mission-aligned impact and sustain their operations. Impact investing offers one vision for what may come next.

approach areas

The 2016 Amplifyⁱⁱ report identified four ways that INGOs were engaging with the field of impact investing, which included making investments into businesses creating impact aligned with their missions; receiving investments in social enterprises they had started themselves; providing technical assistance to entrepreneurs, enterprises, or investors; and building the ecosystem for impact investing.¹⁰

Based on the 2018 survey data, making investments (80%) is the most popular approach being used or explored, followed by delivering technical assistance (78%), ecosystem building (67%), and, finally, developing revenue generating ventures (56%). The breakdown based on 'Stage of Engagement' is below:

Impact Investing Approaches



This section provides a deeper look at each of these approach areas, comparing data from 2016 and 2018, to better understand the niche INGOs are filling and how their contributions may be changing.



CASE STUDY: AV Ventures Investment in Dragon Farming Limited

AV Ventures LLC (AVV), ACDI/VOCA's impact investment subsidiary, recently made its first investment to Dragon Farming Limited (DFL), an agribusiness SME that processes soybeans into feed for poultry farmers. With support from the USDA-funded Ghana Poultry Project, AVV works with DFL in its efforts to enhance Ghana's poultry sector. Feed is the largest operational cost for poultry farmers, and reliable local sources of affordable and high-quality feed are crucial to the sector's long-term competitiveness. Working with the USAID-funded Agricultural Development and Value Chain Enhancement II (ADVANCE II), DFL sources soybeans primarily from smallholder farmers through grain aggregators in Ghana and neighboring countries.

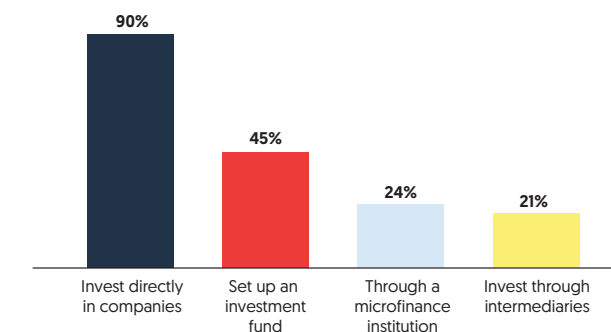
AV Ventures' investment in DFL is two phased – the initial loan will be used for working capital. In the coming months, AVV will disburse a larger revenue-based facility to allow DFL to install a new production line and upgrade storage facilities and clean energy heating systems. The larger investment will be used to double DFL's total installed capacity and expand its purchases from Outgrower Businesses (OBs) – nucleus farms with networks of smallholder farmer suppliers. DFL's larger facility may require co-investment, and AVV is in talks with two members of the INGO Impact Investing Network about potential investment partnerships in AVV's pipeline.



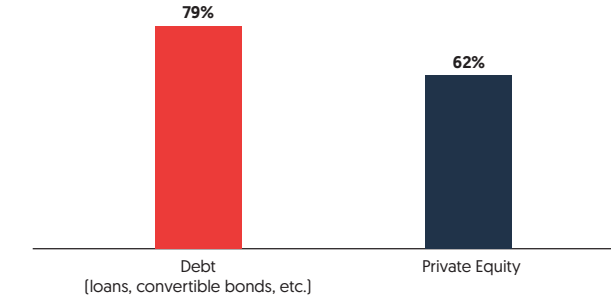
making investments

The most common way that INGOs are engaged in impact investing is through making investments themselves. Among 'actively engaged' survey respondents, 83% (n=29) are currently making investments. Survey respondents currently manage a collective \$916.7 million in assets. As the survey includes only 45 INGOs and not the whole sector, it is safe to assume that the total pool of INGO-managed investment capital is much larger.

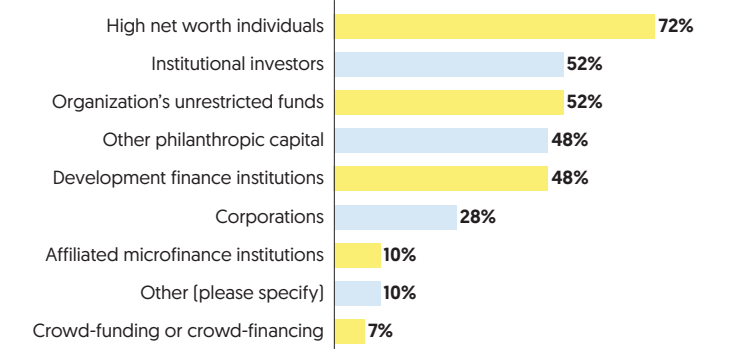
Investment Making Strategy (n=29)



Asset Class for Making Investments (n=29)



Sources for Raising Capital - Making Investments (n=29)



The vast majority are 'directly investing in companies' (90%), rather than working through intermediaries or microfinance institutions. Just under half are 'setting up an investment fund' (45%).

The main asset classes INGOs are using to make investments are debt (79%) and equity (62%), which is largely consistent with the 2016 data.

Funding Sources – INGOs show a great deal of flexibility in accessing different types of capital with varying terms and return expectations to make their investments. The top three sources of raising funds for making investments are – high net worth individuals (72%), organization's unrestricted funds (52%), institutional investors (such as family foundations, pension funds, etc.) (52%).

Investments Sizes – The investments being made by survey respondents range from \$10,000 to \$20 million with the average size of investments being \$702,500, well below the \$3.2 million average deal size reported by impact investors in the GIIN 2018 Annual Impact



CASE STUDY: Transformational Investing for Save the Children's Next 100 Years

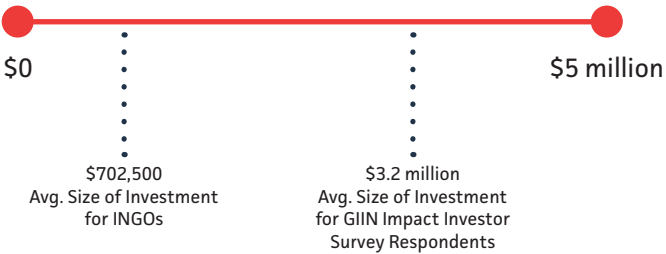
Since its founding in 1919, Save the Children has been at the forefront when it comes to developing innovative initiatives that aid the world's children, empower girls and women, and help communities thrive.

Through its Social Venture Incubator, Save the Children seeks opportunities to support social enterprises arising from innovations: 1) identified by its field staff or 2) brought by external entrepreneurs focused on and driven by development-sector challenges. Although Save the Children recognizes that social enterprise includes business models and products or services that go well beyond technology, technological innovations are integral to many of the potential enterprises it evaluates. To discover and support the innovations with the greatest potential to scale, the Incubator collaborates with technology and sectoral experts to identify the most difficult problems Save the Children staff, stakeholders and customers/communities face and create market-driven solutions that promote the health, education, and well-being of children and their families in the world's most challenging regions of the world.

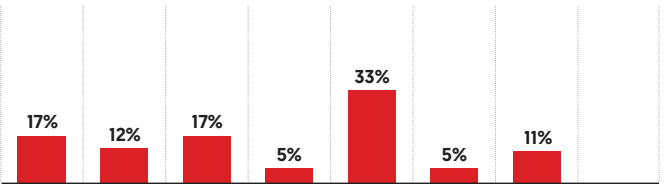
¹⁰ See: Ecosystem Map, Pages 16-17, Amplifyⁱⁱ: The INGO Value Proposition for Impact Investing

Investor Survey.¹¹ The following graph represents the distribution of the average, maximum, and minimum size of investments made by the INGO survey respondents.

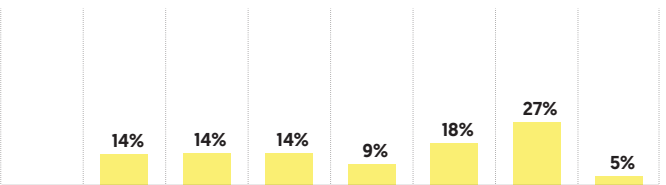
Investment Sizes



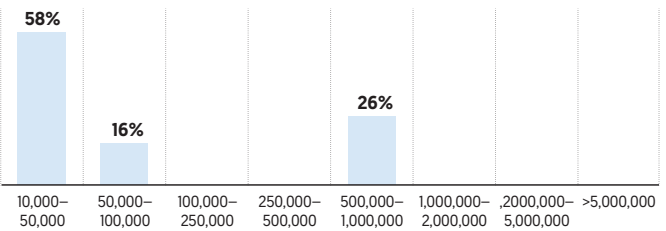
Average Size of Investments (n=18)



Maximum Size of Investments (n=22)



Minimum Size of Investments (n=19)

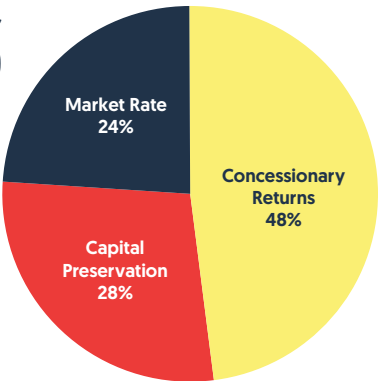


Deal Sourcing – Survey respondents report that they are able to use their organizations’ global footprint as an advantage in sourcing deals. The majority source deals through in-country pipelines [93%], personal networks [83%], and international/regional networks and conferences [52%]. Other important sources that respondents named include fund co-managers or co-investors, as well as accelerators and incubators.

Due Diligence – Most of the respondents have internal capacity to conduct due diligence [83%] with very few outsourcing it to external brokers [10%]. Some use a hybrid of both internal and external brokers. The full due diligence process ranges from 1-12 months but on average due diligence takes between 4-6 months.

A majority of the survey respondents [72%] expect some returns, with 48% expecting concessionary returns. This trend has shifted from 2016 when a larger percentage of the respondents aimed for ‘capital preservation’ [44%] while only 54% were expecting some form of returns.

Expectation of Returns (n=29)



CASE STUDY:
Rare – Meloy Fund

The Meloy Fund for Sustainable Community Fisheries is a pioneer impact investment fund that incentivizes the development and adoption of sustainable fisheries by making debt and equity investments in fishing-related enterprises that support the recovery of coastal fisheries in Indonesia and the Philippines.

The Fund is projected to have a positive impact on the lives of 100,000 fishers and their household members, and place 1.2 million hectares of coastal habitats (including coral reefs, seagrass, and mangroves) under improved management.

The Fund is an initiative of Rare, a global conservation organization dedicated to helping communities around the world protect and maintain their natural resources in harmony with their environment. The Meloy Fund partners with Rare’s global fisheries recovery program, Fish Forever, to break apart the tragedy of the commons which, under open-access regimes, has led to rampant overfishing and destructive fishing for decades. As a result of placing local ownership of fisheries in fishers’ hands for the first time, financial incentives can be directed to safely motivate the adoption of sustainable behaviors.

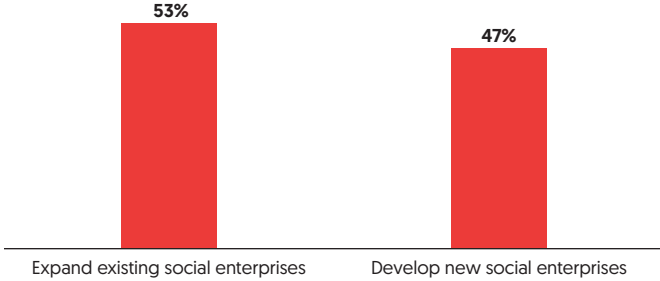
establishing social enterprises

Within impact investing, some INGOs are establishing social enterprises, or revenue-generating businesses, as a way to attract impact capital to their work and create new value for their clients. Within ‘actively engaged’ respondents, just about half [49%, n=17] are establishing social enterprises.

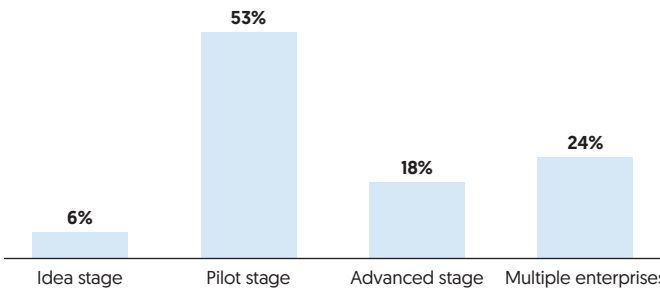
The biggest purpose for which the survey respondents have received investments for developing their revenue-generating venture is to ‘expand existing social enterprises’ [53%] that are being operated by the INGO, followed by the ‘development of new social enterprises’ [47%].

The majority of the social enterprises being operated by the INGO respondents are at a pilot stage [53%]. About a quarter [24%] of the respondents have multiple social enterprises at various stages of development from idea stage to advanced stage [post revenue and growing].

Purpose for Receiving Investments (n=17)



Enterprise Growth Stage (n=17)



CASE STUDY: CARE’s Scale X Design Accelerator

It can take decades for a promising idea to achieve widespread impact. In 2016, CARE launched the Scale X Design Accelerator [SXD] to radically disrupt and improve this timeline. The goal? To tackle the world’s biggest problems at scale by arming CARE’s development practitioners and other nonprofit partners with the skills, mentorship, resources, and connections they need to do so.

Teams with innovative, proven and scalable ideas are selected to participate in a year-long program that builds core skills for scaling innovations while delivering tailored attention and support to tackle their biggest barriers to scale. SXD draws inspiration from private-sector approaches to rapidly design, test, iterate and scale bold new ideas. After grounding their work through core learning labs, teams participate in CARE’s Scale X Design Challenge, where they pitch their ideas — and their vision for scale. Teams continue their journey with elective labs, mentorship and continued support.

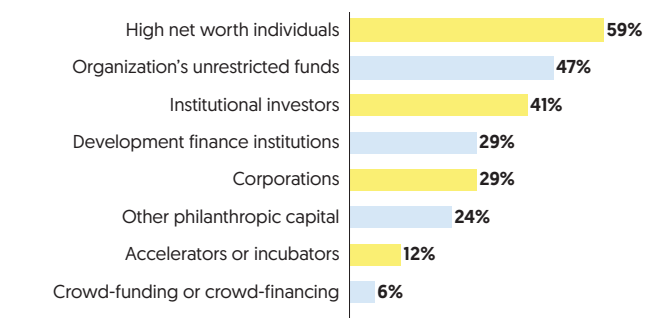
While SXD is open to teams scaling via any model, social enterprise models have seen particular success. However, CARE has seen a need to develop an incubation pipeline for these teams. In response, CARE has developed a comprehensive pipeline with CARE Social Ventures — that incubates social ventures after SXD to maturity.

Similar to the INGOs raising funds to make investments, INGOs raising funds for their own businesses show remarkable flexibility in working with many different types of capital, with a range of terms and return expectations. The top three reported sources of raising investments for social enterprises are high net worth individuals [59%], the organization’s own unrestricted funds [47%], and institutional Investors [41%]

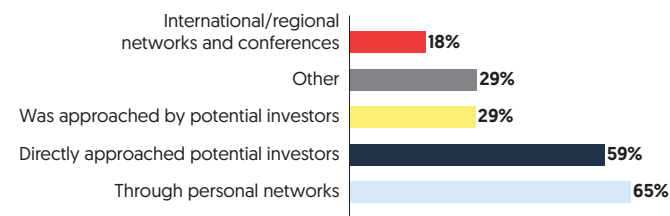
Most survey respondents were able to find these investors either through existing networks [65%] or by directly approaching high net worth individuals, foundations, or corporations [59%]. In some cases, the investments are being raised through donor funds of the INGO.

¹¹ Global Impact Investing Network. [2018]. Annual Impact Investor Survey [p. 7, Rep.].

Funding Sources for Developing Enterprises (n=17)



Means of Identifying Investors (n=17)



providing technical assistance

Another important way that INGOs are adding value to the impact investing ecosystem is by providing technical assistance to entrepreneurs, enterprises, and impact investors, whether alongside an investing strategy or as a stand-alone offering. Within “actively engaged” respondents, 66% (n=23) are delivering technical assistance. The technical assistance programs include accelerator and incubator programs, highly-skilled volunteering programs, entrepreneurship fellowships, innovation challenges, and fee for service advisory.



CASE STUDY: Partnering with Companies to Create Sustainable Impact for Smallholder Farmers through the Clinton Giustra Enterprise Partnership (CGEP)

CGEP works to improve the livelihoods of smallholder farmers in a sustainable way by building agribusinesses that address the sourcing needs of large buyers: supermarkets, retailers, fast food chains, and hotels. Buyers face quality related challenges in sourcing directly from smallholder farmers. Meanwhile, smallholder farmers often do not have the working capital and adequate knowledge regarding good agricultural practices, inhibiting their ability to trade with large buyers.

In El Salvador, the largest supermarket chain, Super Selectos, was looking to increase its local sourcing and to contribute to local economic development. CGEP, through its agribusiness Acceso, worked with Super Selectos to understand their produce and pricing requirements, then worked with farmers to improve their agricultural productivity and commercialize 60+ fruits and vegetable products for Super Selectos.

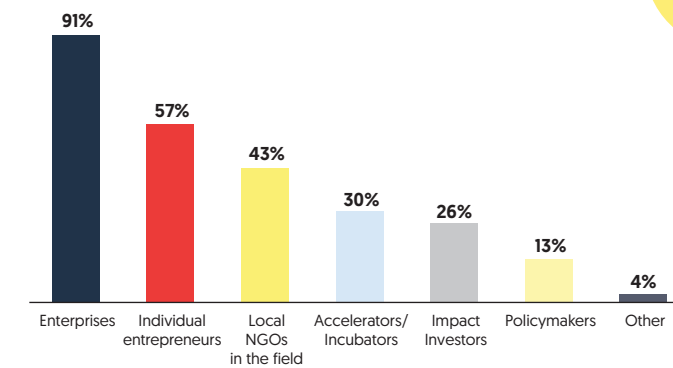
As CGEP has begun to engage with impact investors to raise capital for the next phase of Acceso's growth domestically and regionally, investors have been interested in understanding CGEP's commercial relationships with buyers. CGEP also continues to engage its buyers as it looks to expand or replicate in new geographies.



"We provide consulting and advisory services to the private sector through a fee for service model offering a unique, child and youth centered framework that fosters social enterprises"

NAZANINE SCHEUER, SAVE THE CHILDREN

Focus of Technical Assistance (n=23)



While a majority of respondents are targeting entrepreneurs and enterprises with their technical assistance, a smaller portion (26%) are working with impact investors on topics such as impact measurement, deal sourcing, and balancing social impact and financial returns. The distribution of groups to which INGOs were providing technical assistance remains quite similar to the 2016 numbers of 94% working with entrepreneurs/enterprises and 28% working with impact investors.

The top three areas for technical assistance to entrepreneurs and enterprises are: operations management (87%), impact measurement (83%), and product development and marketing (70%).

Forty percent of respondents providing technical assistance reported charging a fee for their technical assistance, while others support their work with donor funds or provide it alongside an investment through their management fee, with the hopes of realizing higher returns on that investment in the future.

For more information on this topic, see the chapters on Post-Investment Technical Assistance on page 32 and on INGO-run Accelerators & Incubators on page 45.

Technical Assistance to Entrepreneurs/Enterprises (n=23)

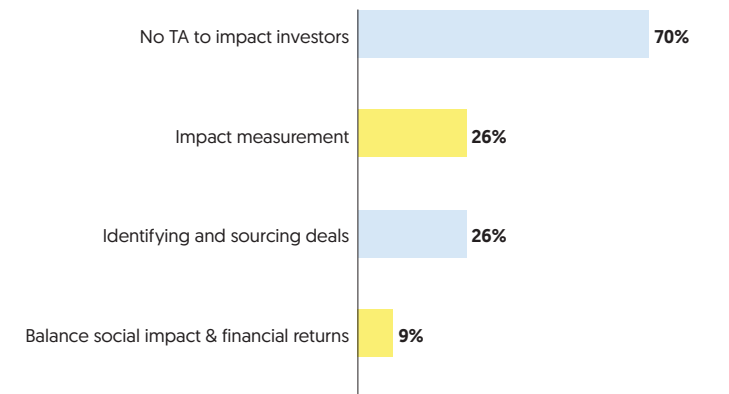


CASE STUDY: VSO and the Growing Together Project

In 2014, Voluntary Service Overseas (VSO) and Syngenta launched a partnership to empower smallholder farmers to increase their yields and income and create thriving agricultural communities. Four years on, the partnership has engaged 74 volunteers from Syngenta's business alongside a host of international and Bangladeshi volunteers to co-create the Growing Together project in North West Bangladesh. The project has seen farmers triple net incomes, increase yields by 20% and significantly reduce the use of chemical fertilizers and pesticides. Under the Growing Together project, a social business called Joikko has been co-created which is a small franchise of six farmer centers that provide farmers with access to agronomic training, machinery, quality seeds and financial services through a collaboration with Bank Asia. The Farmer Centres also facilitate contracts with national and international buyers. By growing and selling together farmers have improved the quality and quantity of their yields and are able to negotiate better prices for their collective crops. Over the next two years, Joikko intends to scale to twenty farmer centers reaching 100,000 farmers. To enable this VSO has engaged Accenture Development Partnerships to develop a Joikko investor prospectus and is currently piloting impact investment at small micro-finance scale. This enables VSO to trial new ways of working in a lower risk environment before pursuing larger scale impact investments.



Technical Assistance to Impact Investors (n=23)



building the ecosystem

Finally, a number of INGOs are seeking to engage in impact investing through building or influencing the growth of the ecosystem, whether through research or advocacy. Within “actively engaged” respondents, 69% (n=24) are engaged in ecosystem building activities.

Of these respondents, most are seeking to influence impact investors (42%) and policymakers (33%).

The survey respondents mention a wide range of assets, programming, and partnership building and sustaining abilities that allow INGOs to facilitate the growth of the



CASE STUDY: World Vision & VisionFund Partnering with Australian Government to Scale SGB Fund

With pilots in four countries showing the potential for social impact through the World Vision and VisionFund partnership in the Small and Growing Business Fund, the next step funded by with the Australian Government is to prove the scalability of the model – considering desirability, operational feasibility, and commercial viability. Within the three-year project, World Vision and Vision Fund will develop, test and identify an optimum business model for providing support to SGBs (particularly women) in the most missing middle in Myanmar and Ghana, that is effective, scalable and inclusive and can be replicated in other contexts. Through the project 2,000 SGBs will benefit from much-needed financing and business support, leading to the creation of 6,500 new jobs and increased incomes and improved livelihoods for 60,000 people across two countries.

The project will use a robust quasi-experimental research approach to test several loan and business support services to gather insight into which non-financial elements of the loan product deliver the most value to SGBs in enabling them to effectively grow their business. Through this innovative project, World Vision and Vision Fund aim to demonstrate to the wider market that lending to SGBs is financially attractive, sustainable, and delivers considerable social impact with the intent to crowd-in other entities and impact investors.

impact investing ecosystem. INGOs are using those assets to both grow the field and *influence* how it evolves.

INGOs who are willing to be the first to invest in different markets to de-risk the enterprises and scale their operations helps create an entry point for private sector actors. Their grassroots presence in communities gives them hyper-local knowledge of the market, sometimes gathered over decades of engagement in certain regions. In some cases, INGOs have been able to use their convening power to bring together aid agencies, nonprofit, private, and civil society actors to engage entrepreneurs in multi-actor initiatives and create comprehensive projects that support entire entrepreneurial ecosystems in communities and regions.

INGOs also have considerable experience in engaging governments and conducting advocacy on behalf of marginalized communities and populations. In the impact investing space, they are engaging in high-level panels and conversations with actors such as the World Bank and foundations. They are lobbying governments and aid agencies to finance and support SMEs – for example, the creation of the Canadian DFI (Development Finance Institution) was a direct result of advocacy by INGOs such as EWB Canada.¹² INGOs are facilitating dialogue between government and investors to attract more capital to different countries and regions. They are directly engaging entrepreneurs with policy makers to advocate for policies that create a favorable business environment and increase the enterprises’ access to different resources and/or technologies. In some cases, INGOs such as Oxfam are advocating amongst peers and the impact investing ecosystem at-large to think critically about impact investing, be more impact-focused, and not risk discrediting the sector by having unrealistic expectations on returns.¹³

Leveraging Investment through Development Impact Bonds: The Utkrisht Impact Bond Experience

As donor funding for development continues to decline, new ways to finance priority development initiatives, such as those put forth in the Sustainable Development Goals, while also encouraging greater value for money, are increasingly necessary. To face this challenge, USAID, UBS Optimus Foundation, Palladium, Population Services International (PSI), Hindustan Latex Family Planning Promotion Trust (HLFPPT), and Merck for Mothers have designed the Utkrisht (Hindi for excellence) Impact Bond to leverage private capital from investors to reduce maternal and newborn deaths across the state of Rajasthan in India. It plans to improve the quality of care provided in private health facilities where a significant proportion of women seek maternal and newborn health care, and maternal mortality is highest.

Despite progress over the past quarter century, India’s maternal and newborn mortality rates are still higher than countries at similar levels of development. Private health facilities fill gaps in state provisions and are used by expecting mothers of all socio-economic backgrounds but have not been a focus of increased quality. While the government of India and the state of Rajasthan are scaling up health insurance reforms, increased public sector funds are insufficient to rapidly improve the quality of care available at private providers and improve maternal and newborn health outcomes at these facilities in the near future.

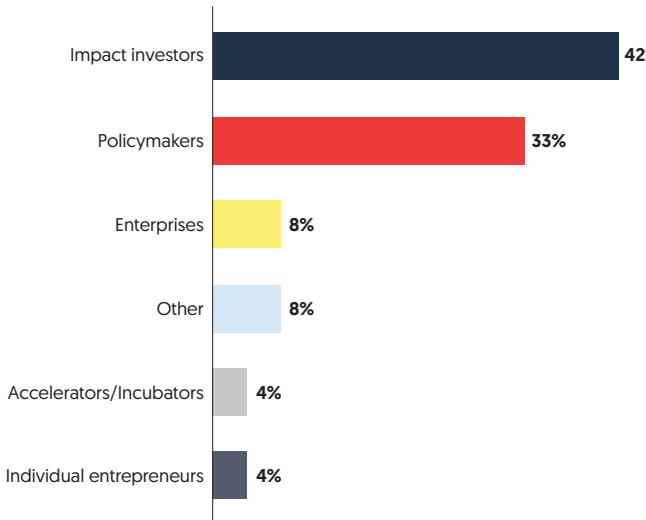
Development impact bonds are well positioned to fill this funding gap through an innovative performance-based financing mechanism, where investors commit private capital to fund program interventions upfront. They only receive their capital plus an agreed upon return on investment from outcome funders when desired outcomes are achieved and verified. The program intervention that forms the basis for the Utkrisht Impact Bond relates to measurable improvements in health worker skills and infrastructure, with payment triggers pegged against achievement and maintenance of quality certification.

Palladium is the implementation manager of this DIB, with upfront funding provided by UBS Optimus Foundation and outcome funding provided by Merck through its Merck for Mothers programme and USAID. PSI and HLFPPT are service delivery providers, and Mathematica is the independent verifier of the program. This three-year project launched in November 2017 will use the Engage, Launch, and Support quality improvement framework to map, engage private providers, and provide capacity building support. To ensure sustainability, the performance-based payment responsibility is expected to transition from USAID and Merck for Mothers to the state of Rajasthan by 2021, so that the public-private partnership is fully funded through domestic resources.

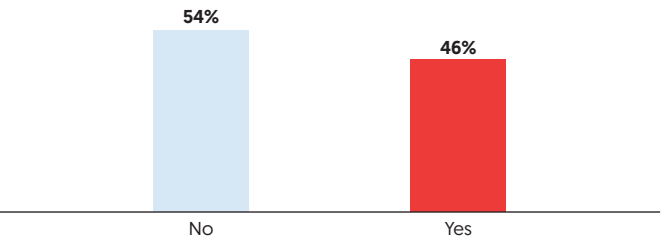
“The Alliance’s work to shed light on the market – from high-level sectoral information to granular consumer-level data – ensures that companies and investors, as well as donors and governments, have a sufficiently sophisticated understanding of the clean cooking sector such that they can make informed investment and policy decisions.”

PETER GEORGE, CLEAN COOKING ALLIANCE

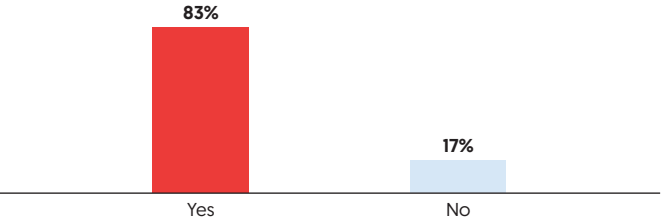
Stakeholders INGOs are Most Seeking to Influence (n=24)



Engaged in Advocacy (n=24)



Engaged in Research (n=24)



“Nexus encourages the transfer of knowledge and best practices between its members and similar players, i.e. entrepreneurs and projects developers delivering low-carbon solutions for vulnerable and rural populations. We organize knowledge sharing events for peer-to-peer exchanges and facilitate discussions between financiers and entrepreneurs.”

CLAIRE DUFOUR, NEXUS FOR DEVELOPMENT

¹² EWB Canada. [n.d.]. What's Next for FinDev Canada? Retrieved from <https://www.ewb.ca/en/news-and-events/news/whats-next-for-findev-canada/>

¹³ Oxfam, & Sumerian Partners. [2017, April]. *Impact Investing: Who are we serving?*



CASE STUDY: GOAL Acts as Social Broker for Impact Investments

GOAL is an international NGO that has been working in Latin America since 1998 and is currently undertaking a number of multi-lateral funded programs focused on building resilience in the Blue Economy. This work, funded by the InterAmerican Development Bank and the Nordic Development Fund, aims to strengthen the small-scale [artisanal] fisheries market systems and improve management of marine coastal resources.

GOAL's work in the sector came to the attention of an international impact investment fund that contacted GOAL with the objective of developing investable fishery-related projects.

As a result, GOAL has brought the impact investor and a local food processing company together to develop a viable market channel that will enable small-scale and artisanal fishers to supply traceable and sustainably sourced produce to formal markets, both regionally and internationally. This is being done in partnership with three community enterprises, six fishery collection centers and eight artisanal fishery associations.

The proposed investment is being brokered by GOAL – who is acting as a social broker – rather than a financial broker. GOAL has no vested interest in the venture, but it will achieve its own developmental mandate via the investment, as it will directly benefit the seventeen local fishery organizations involved in the project and contribute to the conservation of fragile marine ecosystems and communities in the region.



In addition to the INGO Impact Investing Network, INGOs are actively participating in impact investing professional associations, networks, and initiatives such as the Aspen Network for Development Entrepreneurs (ANDE), Global Impact Investing Network (GIIN), Impact Management Project, Asian Venture Philanthropy Network (AVPN), European Venture Philanthropy Association (EVPA), among many others. Not only are they participating at these venues, they are also creating and sharing knowledge products, helping craft industry standards, and tools grounded in evidence on areas such as gender lens investing (see: MEDA GEM Framework on page 36), sustainability sector investing standards (see Meloy Fund 'Principles for Investment in Sustainable Fisheries'¹⁴), and streamlining and standardizing impact measurement. They are engaged in research initiatives such as the Global Accelerator Learning Initiative (GALI) and are consistently engaged in thought leadership in the field. And finally, through venues such as the INGO Impact Investing Network, INGOs are sharing white papers, results of early pilots, critical lessons and insights, and advice with peers to help progress the sector.

defining strategies

Based on the responses from approximately one-fifth (22%) of the participants that chose the "Defining Strategy" category, if there were a simple message from INGO participants' experiences in developing their impact investing strategies it may be: leverage your core expertise and capabilities to better deliver your mission. In defining their strategies, survey participants are focused on leveraging their strengths in geographies where they have presence and in sectors where they have domain expertise. In creating impact investing strategies that support their missions, participants reported reviewing several factors including overall trends in global impact investing and innovative finance as well as the growth in social enterprise models. They also examined the entrepreneurial ecosystems

in geographies where they work and looked laterally to see how other social sector organizations are experimenting with new models.

With this context, participants then applied multiple factors behind choices in pursuing strategies in select geographies and sectors. They reported balancing existing capabilities including current geographic presence, core competency and technical expertise with mission alignment. In addition, these INGOs indicated they determined their areas of impact investing focus with a pragmatic review of whether there was existing local infrastructure to support entrepreneurship together with a view of the overall market need or opportunity in a particular geography and sector.

Given their existing focus on leveraging existing capabilities in support of their impact investing strategies, INGOs in the "Defining Strategy" category reported a wide range of sector interests, with livelihoods, sustainable agriculture, microfinance/financial inclusion, renewable energy, and health and wellness being most prominent. Each of these areas offer examples and models of success from peer organizations that are actively engaged in the space. Southeast Asia, East Africa, East Asia and Central America were the primary geographic areas of interest as participants developed their Impact Investing strategies, reflecting both the existing needs, as well as opportunities to engage the local capabilities and networks that INGOs have in place.

Finally, in defining their strategies, INGO survey participants cited multiple approaches, with all indicating that delivering technical assistance was their favored approach, with ecosystem building and establishing social enterprises also considered by a majority. Making impact investments was noted as an approach, but given the expertise required compared to traditional INGO strengths and models, was cited by the smallest number of participants.

See page 55 for a suggested framework for how INGOs who are defining their strategy may assess their organizational readiness to engage in impact investing.



CASE STUDY: TEAR Australia's Impact Investing Journey

As a relatively small INGO with a 47-year history in partnered integrated community development programs, the concept of impact investing challenged staff to think more broadly about poverty reduction. A year was set aside for a senior staff member to learn from others more experienced in the sector and assist the organization as a whole to understand how impact investing strategies will contribute to the organization's purpose and mission. During this time of learning, TEAR Australia also worked with a long-term and respected implementing partner in India as they developed their ideas of establishing a social enterprise to assist women facing poverty and lacking employment opportunities.

That process has taken considerably more time and financial resources than had been anticipated. Cross border legal transactions and differing business advice at times hindered the process of establishing a commercially-viable and investment-ready social enterprise. However, the work is progressing with a determination to prove social impact and financial viability.

TEAR Australia has found that it is critical to collaborate with established commercial and legal advisers who understand the impacting investing space and are prepared to walk the journey of learning with the INGO. Moving forward, TEAR Australia has committed organizational resources to enable skilled staff to work with existing development and humanitarian partners interested in broadening their approach to poverty reduction. Specifically, TEAR Australia will facilitate capacity development opportunities for social entrepreneurs within partner organizations. At the same time, TEAR Australia will collaborate with other organizations seeking enterprises that have the potential to scale both the social and financial impact of their work.



Women attending an information session on the social enterprise work of TEAR Australia's partner in India.

¹⁴ Principles for Investment in Sustainable Fisheries – <http://www.fisheriesprinciples.org/>

challenges and failure

While there are significant opportunities presented by impact investing, there are also a host of challenges that INGOs face while engaging in this space. The top challenges survey respondents across most approaches named were ‘identifying and acquiring funding’, ‘organizational staff capacity’, ‘legal barriers’, and ‘communicating strategy’.

These align closely with the top ranked challenges and obstacles identified by the participants with regards to engaging in the impact investing ecosystem at-large.

- **Internal Capacity and Organizational Culture** – Together, these signal that although impact investing is much more common within INGOs, the teams needed to deploy this work may initially do so under the weight of insufficient internal funding and inadequate staff and board-level support.
- **Legal Barriers** – This aligns fairly closely with a challenge in the wider field of impact investing, as many countries do not yet have robust legal frameworks for investments that consider both

financial and social returns. Further, legal teams that normally support INGOs (internally and as paid advisors) may not have investment expertise. There may be an opportunity to develop cross-sector collaboration and platforms to produce and share knowledge related to legal and regulatory environments in different markets.

- **Stakeholder Communications** – There is a need for a robust internal communications strategy and transparency surrounding the development of impact investing work and its purpose and alignment with the organization’s overall mission and work. Additionally, as INGOs continue to evolve in the impact investing space, external stakeholder communications will need to be supported within broader Communications teams and initiatives.

Similar to the wider impact investing market, INGOs also face challenges related to deal flow and effectively conducting impact measurement.

Of the eight challenges that the survey participants ranked, ecosystem-wide support and resistance from private investors to engage were ranked at the bottom. Reports like this one, combined with the growing body of case studies of INGOs in impact investing can shine a bright light on this work helping investors and other ecosystem actors to continue to better understand and appreciate the value INGOs can bring.

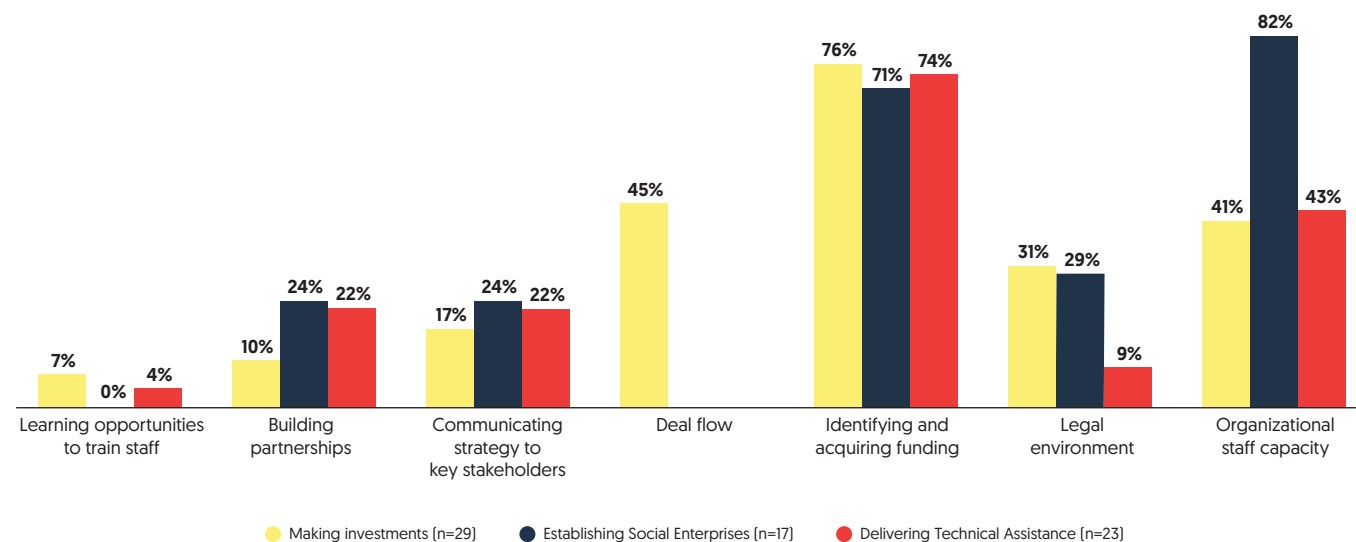
This report includes chapters on some of these challenges, including building internal capacity on page 38, stakeholder communications on page 53, impact measurement on page 41, and regulatory environments on page 29.

There is a marked difference between INGOs’ willingness to share challenges, and their willingness to openly share failures. As INGOs are under increasing scrutiny from their constituencies, funders and the public, there is a sector-wide reluctance to sharing perceived failures. Though the INGO sector likes to talk of celebrating failure, hosting Failure Fests and increasingly being willing to conduct post-mortems on failed initiatives in order to pivot with new learning, the willingness to be candid about failed impact investments is a challenge in and of itself. Overall, the reluctance cited is that by openly discussing failed impact investments, the “owner” of these efforts will be penalized by reduced or eliminated future funding. Investment initiatives such as the [Open Road Alliance](#) are making this reluctance less appealing, as they offer funds to bridge one-time gaps which may mean the difference between success and failure of an initiative. Hopefully the willingness to share examples of failure in impact investments will begin to shift as activity continues to grow and failure becomes normalized.

“In developing its access to capital interventions that support the growth of innovative clean cooking enterprises, the Alliance developed in-house investment capability. It hired several professionals with impact investment, as well as traditional investment banking and private equity experience into its market development team to ensure it would identify high-potential, sustainable businesses, and be able to effectively support them with technical assistance.”

PETER GEORGE, CLEAN COOKING ALLIANCE

Challenges Faced Across Impact Investing Approaches



part two

member chapters

The Effects of Impact Investment Laws and Regulations on INGOs

By Ana María Garcés Escobar, New Markets Lab, with contributions from Katrin Kuhlmann & Megan Glaub, New Markets Lab and Marc Schleifer, Center for International Private Enterprise

Laws, regulations, and policies all shape the enabling environment for investment – including impact investment. However, there is rarely (if ever) a law specifically related to impact investment as a whole. Instead, laws and regulations typically govern the different categories of actors involved in impact investing, the investment environment as a whole, or the different sectors that are the targets of investments. Typically, the actors within impact investing fall within three categories: 1) investors, which act as suppliers of investment capital, 2) investees, which receive an investment, and 3) intermediaries, which facilitate interactions between investors and investees, often delivering technical assistance. This means that depending upon an INGO's role in the investment process, different rights, obligations, and considerations will apply. Given that the possibilities to participate in the impact investment space are so numerous, this chapter focuses on highlighting emerging topics and trends. While the chapter provides illustrative examples of the general legal considerations that might arise, INGOs should seek legal counsel related to their specific roles as investors, investees, or intermediaries.

For INGOs, the underlying non-profit corporation status is fundamental to all decisions related to impact investment. In the US, for example, NGOs must articulate a clear mission in order to incorporate and register with the appropriate state authorities; must conform to IRS rules for tax-exempt status (if eligible); and must have the appropriate licenses and permits to comply with various federal, state, and local rules.¹⁵ Further requirements apply to INGOs domiciled outside the US, which again vary by

state.¹⁶ Some countries, such as China and Russia, have requirements that are particularly stringent for INGOs and domestic civil society groups. For example, the Chinese Law on the Management of Domestic Activities of Foreign Non-Governmental Organizations (Foreign NGO Law), adopted in late April 2016, involves registration, state management and supervision, a requirement for local partners, pre-reporting and approval of planned activities, post-activity reporting, and restrictions on financial activities, among others.¹⁷ Pakistan,¹⁸ India, and Hungary are among the range of other countries that have recently adopted similar laws,¹⁹ and these legal requirements should be carefully considered by INGOs venturing into the impact investment space.

Considerations for Investor INGOs

INGOs can act as suppliers of impact investment capital in different ways. For example, they can create a separate entity (called off-balance sheet investment), and they can provide grants to impact businesses (called on-balance sheet investment).²⁰ There are several successful examples within each of these scenarios. For example, Mercy Corps launched the Social Venture Fund in 2015, a for-profit subsidiary impact investment fund designed to help early-stage entrepreneurs overcome barriers to growth by providing capital and tailored post-investment support.²¹ Heifer International has an Impact Venturing Prototype that connects farmers and cooperatives with access to capital, enabling them to develop their businesses more efficiently.²² Accion International created the Accion Venture Lab, a US\$10 million fund that provides seed funding and technical

¹⁵ USA Government. *Starting a Nonprofit Organization*, Last updated May, 2017. Web.

¹⁶ Gene Takagi, *Nonprofits — International Charity Activities*, Neo Law Group, Nonprofit Law Blog, August 13, 2015. Web.

¹⁷ Mark Sidel, *Regulation of Nonprofit and Philanthropic Organizations: An International Perspective*, NPQ, July 25, 2016. Web.

¹⁸ Nadia Navivwala, *Pakistan Uses Regulations to Tighten Grip on INGOs*, Devex, October 2017. Web.

¹⁹ Krisztina Than, *Civil Organizations in Hungary Brace for Government Crackdown on NGOs*, Reuters, April 2018. Web.

²⁰ Cameron McCully, Jess Newman, Michael Schember, Georgiana Vancea, *Helping Nonprofits Select Impact Investing Structures*, MIT Management Sloan School, May 2016.

²¹ Mercy Corps. *Social Venture Fund: 2017 Annual Impact Report*, 2017. Web. Mercy Corps is an NGO that aims to alleviate suffering, poverty and oppression by helping people build secure, productive and just communities.

²² Heifer International, *Impact Ventures*, accessed August 2018. Web. Heifer International works to help small-holder farmers access different types of capital in order to connect them with larger markets.

assistance to promising start-ups whose goal it is to broaden financial inclusion. This list is by no means exhaustive, and there are other ways INGOs could act as investors. Depending on the exact structure an INGO chooses, different regulatory nuances apply.

The legal framework pertaining to investors in a general sense focuses mainly on the regulation of risk allocation and the expected returns of the investment. Each type of supplier faces different regulatory considerations that limit the available instruments and targets of their investments. Investors using pension funds, for example, cannot invest with below-market rate returns, which limits some possible investments. Similarly, foundations tend to focus on either grants or Program Related Investments (PRIs). Generally, the term PRI legally applies only to private foundations, which excludes other types of investors from their use. However, public charities, community foundations, and other tax-exempt entities, like INGOs, sometimes refer to PRIs as investments aimed primarily at advancing a charitable purpose. INGOs that want to participate in the impact investment space as investors should seek legal counsel to help them identify the relevant national and local rules in order to design the investment vehicle that best suits their intended purpose.

Considerations for Investee INGOs

In general, most jurisdictions have not enacted specific regulations that apply to INGOs looking to receive impact investments. A possible explanation for this is the lack of a generalized definition of impact investment. Nevertheless, actors in the impact investing ecosystem, including INGOs, have to deal with several regulatory requirements if they want to receive investments. These legal requirements vary considerably from country to country and sometimes state to state.

INGOs hoping to attract impact investments should also be mindful of possible “mission drift” as they scale,²¹

which may have legal implications. Because impact investment often involves more than one round of investment, a mission-oriented legal structure and a careful drafting of legal documents for investment deals are prudent.²² Measuring impact is also a central aspect of impact investing and has received considerable attention from stakeholders. Consequently, investee INGOs will likely need to design tangible measurement indexes that are closely monitored throughout the investment, either by internal or external systems.²³ Again, to avoid potential sanctions or even loss of non-profit status, organizations should seek legal counsel that can help them consider structural questions and navigate the local requirements for accounting and reporting of any investment-derived income that might fall outside of their charitable purpose.²⁴

Considerations for Intermediary INGOs

In addition to acting as investors or investees, INGOs sometimes participate in the impact investment space as intermediaries or facilitators. Intermediary INGOs typically deliver technical assistance, facilitate the interaction between investors and impact businesses, and assist in ecosystem building through advocacy and promotion of policy reform.²⁵ INGOs can also act as facilitators of impact investments by attracting capital for specific impact investments, although additional regulatory implications can arise for this type of intermediation.²⁶ INGOs may have an advantage in

engaging in these activities if they have a significant local history, an extensive local network, and strong local knowledge in countries that are a focus for impact investing.²⁷ Further, local expertise and understanding of local community interactions may make INGOs uniquely well equipped to design adequate measurement ratings, as discussed above.²⁸

Although regulatory instruments that specifically target impact investing intermediation by INGOs do not seem to exist, organizations should still bear in mind the general regulatory requirements for INGOs in each country. There are often also national initiatives to promote social entrepreneurship more generally, which may have a bearing on impact investing.²⁹ For example, a 2014 French law to promote the social and solidarity economy (SSE) provides a common enabling regulatory framework applicable to the many legal entities that fall within the SSE categorization.³⁰ The law’s specific objectives include allowing cooperatives to work more efficiently, facilitating access to finance, and improving the legitimacy of SSE actors.³¹ Similarly, in 2016, the US Treasury expanded the types of investments that could be considered PRIs by including new examples of qualifying investments.³²

Conclusion

There is tremendous potential for INGOs to facilitate impact investments due to their local experience, networks, and knowledge. Generally, while there are no singular instruments that regulate the participation of INGOs in the impact investing space, jurisdictions will also have a range of relevant laws and regulations that will affect how INGOs participate in the economy. Therefore, INGOs should be cognizant of the regulatory frameworks relevant to their activity in order to ensure that they are in full compliance and that entering the impact investment space does not jeopardize their mission or legal status. Finally, INGOs may wish to engage with policymakers through policy dialogue and advocacy to strengthen the legal and regulatory infrastructure surrounding the impact investment space. impact investments.

²¹ Carl Valenstein, *Is Your NGO Ready for Impact Investment*, Morgan Lewis, May 2011. Web.

²² Marta Maretich, Jed Emerson, and Alex Nicholls, *Governing for Impact: Managing Mission- Driven Organizations Through Stages of Growth and Investment*, Oxford University Said Business School, 2016. Web.

²³ Carl Valenstein, *Is Your NGO Ready for Impact Investment*, Morgan Lewis, May 2011. Web.

²⁴ Ibid.

²⁵ INGO Impact Investing Network, *Amplify Impact Investing Report*, 2016. Web.

²⁶ Cameron McCully, Jess Newman, Michael Schember, Georgiana Vancea, *Helping Nonprofits Select Impact Investing Structures*, MIT Management Sloan School, May 2016.

²⁷ Adva Saldinger, *INGOs thinking about impact investing? Consider this*, Devex, July 2016. Web.

²⁸ Rangan, K.V., S. Appleby, and L. Moon, “The Promise of Impact Investing,” Harvard Business School, Background Note No. 512-045, 2011.

²⁹ OECD/EU, *Boosting Social Enterprise Development: Good Practices Compendium*, OECD, 2017. Web.

³⁰ Ibid.

³¹ Ibid.

³² Exception for Program Related Investments, 26 C.F.R. § 53.4944-3 [2016].

Post Investment Support Maximizes Outcomes

By Mercy Corps Ventures

Early-stage businesses need more than just capital to grow and scale up their impact — they also need business and technical support to realize their vision. INGOs have unique assets that make them well-placed to provide such support. In fact, the real value INGOs add to investees comes through their post-investment engagement, versus the capital they provide. INGOs operate in many geographies, in diverse sectors, and reach millions of people. By the nature of their work, they have on-the-ground experience, extensive programming, a global network, and deep technical know-how. INGOs often have strong relationships with local communities, giving them insight into how markets operate at a local level and strong relationships with governments, private sector entities, and other actors. This local knowledge coupled with global expertise can set INGOs apart from other investors. This chapter will provide a primer on how to effectively leverage those unique assets to provide post-investment support, drawing from the approach of Mercy Corps' Social Venture Fund (SVF).

Getting Started with Post-Investment Support

Post-investment support (PI) is the support, customized or out-of-box, that an investor provides an investee, often alongside co-investors, after they make a capital investment. PI should be entrepreneur-centered and demand-driven, since at its core it entails responding to the needs of an investee and identifying opportunities to help it unlock its potential for growth and impact.

Tailored PI is a critical success factor for early-stage ventures. It's at this stage that investors help companies refine their approaches so that they can grow as businesses and maximize their social impact. For later stage companies with more developed models, PI can still help ventures overcome business hurdles associated with growth. Investors vary in how active they are in supporting companies and in which business aspects

they provide support, but the bottom line is that well thought out support, aligned with an enterprise's key needs, can help generate value for both business and the investor.

- **Direct engagement:** For some impact investors, PI is very hands-on. Investors help investees formulate their governance structure, set impact goals and performance indicators, refine their business models, identify and segment their customers, or help with financial modeling. Investors often deliver structured pre-planned support in these identified areas of need; but, because businesses often operate in risky environments, many of these forms of engagement are employed on an as-needed basis and serve to address immediate needs. For example, as SVF was supporting investee FarmDrive's strategy, the startup asked for immediate assistance on their financial model. SVF reviewed and updated the model, coordinated with a pro-bono team to design it, and ensured that the model reflected FarmDrive's financial projections. Regardless of engagement style and timeline, direct consulting serves to de-risk business models and help companies survive, grow, and attract future investments.
- **Network linkages:** After identifying the needs of the company, investors will often seek out experts from their networks to assist investees. These experts can be sourced both internally and externally. INGOs may leverage their organizations' own platforms and assets by connecting an investee to one of their programs or an in-house technical expert. For example, SVF linked one of its investees, Vega Coffee, with the Mercy Corps Colombia (MCC) country team in order to help Vega expand into Colombia and to help women coffee farmers in MCC's existing network gain the knowledge needed to roast and package coffee beans for Vega. Or, an investor might link an investee to a corporate partner or other organization that could provide technical assistance. SVF-linked investee Suyo, a company that leverages mobile technology to formalize property rights for low-income families in Colombia, to MasterCard, which helped Suyo refine its cash transaction strategy.

The Ingredients for Effective Post-Investment Support

PI is a balancing act. The needs of startups change constantly, and so investors have to be agile and juggle many factors: varying levels of urgency, internal and external resources, input from other investors at the table, and fluctuating entrepreneur demand. Navigating these challenges is a continually refined skill, and transparency and communication with the entrepreneur are critical tools for resolving pressure points that arise. INGOs should keep the following points in mind when delivering post-investment support:

- **Balance ad-hoc and systematized support:** Investors often oscillate between two PI styles: reactive ad-hoc assistance, and structured engagement agreed to in advance by both the investor and investee. While leaning heavily on either style works for different investors at different points in the PI lifecycle, SVF has decided to take the middle ground: structured support with some ad hoc engagements. This requires creating a well communicated system based on investor-investee alignment so that investors have a timeline for engagement as well as an easier time providing the more urgent and ad-hoc support that investees often need. After working with an investee to identify key needs, an investor should build a support plan that specifies what kinds of technical assistance it will provide, such as strengthening corporate governance, advising on financial modeling, or crafting an impact management system. Once a pathway to manage and deliver these services is solidified, investors can start linking investees to their platforms and leveraging partners that are experts in their fields. Continually tracking alignment through regular check-ins ensures that both parties are on the same page, and that swift and effective support can be provided in more urgent situations.
- **Balance external and internal resources:** INGOs with extensive networks have many contacts that could add value to entrepreneurs. Because entrepreneurs are stretched thin juggling countless needs, determining who can provide the most meaningful and nimble aid or partnership is a crucial role for investors. Engaging directly with entrepreneurs can give INGOs a better idea of whether their internal resources would be



CASE STUDY: Mercy Corps Social Venture Fund

In 2015 Mercy Corps launched its Social Venture Fund to invest in and support early-stage, for-profit social ventures pioneering new pathways out of poverty. As of mid-2018, SVF had made 12 investments ranging from \$50,000-\$250,000 in innovative startups operating in financial services, agriculture, last-mile logistics, and youth employment. SVF's value to social ventures comes not only from the capital it provides but also from its post-investment support and how it leverages Mercy Corps' global resources to help its portfolio companies grow and scale.

For example, through Mercy Corps' AgriFin program, investees Arifu and FarmDrive were integrated into DigiFarm, a new product co-developed with Saficom providing mobile financial and advisory services to smallholder farmers in Kenya. Investee Vega Coffee was able to easily expand its operations to Colombia through Mercy Corps' existing network of coffee cooperatives, allowing long-time Mercy Corps beneficiaries to increase their incomes up to 4x. SVF is currently building up its Venture Growth unit to strengthen its capacity to provide tailored post-investment support to companies - de-risking their business models for future investors while helping them accelerate their impact.

most valuable or whether connecting them with experts in their network could prove more beneficial.

- **Get to know co-investors and find where you fit into the equation:** Investor-investee relationships don't exist in a vacuum. Navigating input from other investors that have risked their capital can be tricky, so determining the expertise and resources of other investors, understanding their engagement level and timeline, and identifying who takes a backseat or holds the reins can all contribute to success. As always, putting the entrepreneur in the center of the PI process should underlie all co-investor dynamics.
- **Understand how much is too much:** Investors can't be everything to everyone. They have limited time, capacity, and dollars, as well as other companies in their portfolios, so they must prioritize the support they provide to enterprises. This is where it is important for investors to navigate ad-hoc and systematized support, internal and external resources, co-investor abilities and dynamics, and varying levels of engagement with investees. These are all pieces of the PI puzzle. Based on their understanding of

the puzzle, investors can decide whether they want to provide light-touch support across their entire portfolio or heavy-touch to select investees. For PI to be successful, entrepreneurs must commit to fulfilling their role in the engagement. If the investees are not consistently prioritizing the work, then the investor should be ready to discontinue it.



CASE STUDY: FINCA Ventures' Investments Increasing Access to Products and Services for the BOP

FINCA Ventures, an impact investing initiative of FINCA International, provides patient capital and pre- and post-investment support to early-stage social enterprises serving the bottom of the pyramid (BOP). Over the past eighteen months, FINCA Ventures has made seven investments in six companies spanning energy, sanitation, education and agriculture. One of the earliest investments for FINCA Ventures was in Amped Innovation, a company that designs solar-powered home energy systems and productive use appliances to help those living under \$4 per day grow their wallets.

FINCA Ventures invested in Amped Innovation for several reasons. Amped has a remarkable team that is committed to building the highest quality, most cost-effective products that are affordable to a BOP market. Also, the modular design of Amped's products and focus on income-generating, productive use appliances better position a low-income, off-grid family to climb the energy ladder. Further, the collaboration between FINCA and Amped demonstrates how financial services are crucial to unlocking energy access. Not only is FINCA an investor in Amped, but also its distributor and end-user financing provider in Uganda, leveraging pay-as-you-go (PAYGo) technology to make Amped's products accessible to customers. After making an initial investment in early 2017, FINCA Ventures completed a follow-on investment in Amped in mid-2018.



INGOs have much to gain from providing effective PI. INGOs that are able to engage with entrepreneurs directly and connect them with their networks can learn first-hand what constrains businesses from generating impact, which innovations hold the most promise, and how to avoid pitfalls in the future, making them smarter investors. Engaging in hands-on support also strengthens INGOs' ability to create impactful programs within their own organizations (if learnings are shared internally). PI is as critical for the entrepreneur's success as it is for the INGO's ability to build a robust and impactful portfolio.

Post-Investment Support: A Social Venture Fund Example

SVF's success in linking two of its East African investees with a Mercy Corps program called AgriFin Accelerate exemplifies how INGOs can add unique value as impact investors. SVF has invested heavily in startups within the agriculture and financial services sectors in East Africa. These include Arifu and FarmDrive, which respectively provide mobile phone-based learning tools and credit profiles to smallholder farmers. The AgriFin program wanted to bundle value-add services and deliver them to farmers over mobile phones, and was working with Safaricom, the largest mobile network operator in Kenya, to do just that through co-developing a new platform called DigiFarm.

SVF linked its investees to AgriFin, which worked to integrate their services into the platform. As a result of this linkage, Arifu and FarmDrive are poised to have a significant impact. While the aim is to register one million farmers nationally by the end of 2018, Kenya's smallholder farmer segment consists of an estimated seven million farmers. With each farming household consisting of around five to six family members, DigiFarm can affect the lives of around 42 million people once fully functional and deployed nationally.

Because of the projected demand stemming from their integration into DigiFarm, SVF is helping these companies prepare to scale. SVF has helped deliver support in designing digital products, optimizing credit scoring algorithms, and operational support to help these investees incorporate scalable tech solutions as a foundation for growth. By leveraging an INGO's platform and networks, SVF has supported its investees on their path towards groundbreaking impact.

Gender Lens Investing

By Yanyan Gai, Carolyn Burns, and Nicole Heaney, Mennonite Economic Development Associates (MEDA)

Women's elevated economic positioning will continue to be a key driver of macroeconomic growth. Women already have a larger economic influence in the education, health, and nutrition sectors than men.³³ It is estimated that if women realized their full economic potential, which means that if women had access to the same equal economic opportunities as men, women could add USD \$28 trillion in global GDP growth by 2025.³⁴

Investors have responded to women's greater economic clout by concentrating their efforts under the umbrella term gender lens investing (GLI). Although often narrowly defined as financing women-owned and/or operated businesses, GLI can be pursued through myriad approaches to address discriminatory power structures, thus redefining social norms. The Wharton School of the University of Pennsylvania and its collaborators describe GLI as "a form of investing in which investors seek specifically to generate both a positive financial return on their investment, and a beneficial impact on the lives of women."³⁵

Gender lens investors apply a gender lens into their investment decision-making processes with the intention of affecting the lives of women and girls through a systems-level approach. At its core, GLI can effectively mobilize investors' support for women entrepreneurs, employees, business leaders and community members as seen in the following examples:

- **Investing in products and services that benefit women entrepreneurs:** Calvert Impact Capital supports women entrepreneurs through its investments in clean energy companies. Its investee, Off Grid Electric, provides affordable and accessible electricity to homes through its solar model.³⁶ This helps women entrepreneurs access a reliable energy supply, thereby enabling them to balance their business and household responsibilities.
- **Investing in businesses that create economic opportunities for women employees:** Root Capital reaches small-holder farmers through its investments in agribusinesses. Its investee, APROCASSI, gives co-operative members the opportunity to produce coffee, sell it in retail outlets, and supply international grocers.³⁷ This provides women employees with greater financial security, strengthening their confidence to participate in economic activities.
- **Investing in training opportunities that build the capacity of women business leaders:** The International Finance Corporation and Goldman Sachs support women leaders through mentoring and networking opportunities as well as financial inclusion programs. Their fund, The Women Entrepreneurs Opportunity Facility, enables participants to access financial and leadership coaching to start and expand their businesses.³⁸ Its reach to women from 56 countries has mainstreamed women-focused business advisory services.

³³ Abney, D., & Laya, A. G. (2018, January). This is why women must play a greater role in the global economy. Retrieved from <https://www.weforum.org/agenda/2018/01/this-is-why-women-must-play-a-greater-role-in-the-global-economy/>

³⁴ McKinsey Global Institute. (2015, September). *How advancing women's equality can add \$12 trillion to global growth*(Rep.). Retrieved from <https://www.mckinsey.com/featured-insights/employment-and-growth/how-advancing-womens-equality-can-add-12-trillion-to-global-growth>

³⁵ Wharton Social Impact Initiative. *Gender Lens Investing 101*. Retrieved from <https://socialimpact.wharton.upenn.edu/genderlensinvesting/gender-101/#1496262689448-4adabe58-7ala>

³⁶ Calvert Impact Capital. [n.d.] Retrieved from <https://www.calvertimpactcapital.org/initiatives/gender>

³⁷ Root Capital. [n.d.] Retrieved from: <https://rootcapital.org/meet-our-clients/stories/aprocassi-changing-the-lives-of-women-in-peru/>

³⁸ Goldman Sachs. [n.d.] Retrieved from <https://www.goldmansachs.com/citizenship/10000women/index.html#>



CASE STUDY: MEDA's Gender Lens Investing Practice

In 2017, MEDA received funding from USAID to partner with five private equity funds to pilot a novel gender lens investing (GLI) approach with their portfolio companies in India and Indonesia. MEDA's approach, known as the Gender Equality Mainstreaming (GEM) Framework, involved assessing investee companies in gender equality and then identifying, implementing, and measuring gendered business strategies. Companies that received GEM-focused technical assistance reported better analysis of the positive relationship between their financial and gender-specific environmental, social and governance (ESG) performance data and expect to achieve business outcomes (e.g., revenue growth, client satisfaction, staff retention etc.).

In 2018, informed by the GEM Framework pilot's success, MEDA revised the GEM Framework so that industry practitioners can use it. The GEM Framework now offers a suite of helpful tools, tips, explanations and case studies to evaluate and upgrade gender equality in business operations. External GLI funds and capacity builders have since adopted it. Plans are also underway to apply the GEM Framework in MEDA's market systems development programs. An online GEM self-assessment provides companies with a streamlined gender score and recommended business strategies to improve gender outcomes that align to the ESG investment standard.



- **Investing in programs that benefit women and girl community members:** The UBS Optimus Foundation and the Children's Investment Fund Foundation enable women and girl community members to become education champions. Their involvement in the Educate Girls Development Impact Bond provides women with a platform to demonstrate their capacity to lead others as volunteer classroom teachers and girls to become educational role models.³⁹ Its reach of 140 villages has elevated women and girls' role in their local communities.

These cases illustrate that GLI is not about redirecting philanthropic dollars earmarked for gender-related causes, but rather aims to unlock capital from a wide mix of investors. Bloomberg reports that there are now over \$2.2 billion in assets focused in GLI, demonstrating that GLI is gaining great momentum as a stand-alone impact investment strategy.⁴⁰

However, GLI still faces challenges in becoming a mainstream investment model.⁴¹ On one hand, some traditional investment professionals still trust 'the invisible hand' to allocate capital towards the most efficient usages. As a result, they do not see the need to bring gender considerations into their investment decision-making processes. On the other hand, INGOs that advocate for women and girls' empowerment consider capital markets an untrustworthy mechanism to achieve positive development outcomes. INGOs may also lack the in-house capacities to implement impact investment programs.

These challenges create opportunities for investment savvy INGOs to bridge the gap between capital markets and the development industry by implementing GLI initiatives.

GLI presents INGOs with an opportunity to achieve both their financial and social goals by:

- **Diversifying their revenue sources beyond grant-based funding:** Executing GLI programing can help NGOs achieve both a return on invested capital and earn overhead fees by providing technical assistance (e.g., unconscious bias training to business leaders, anti-discrimination campaigns to encourage job seekers to consider employment opportunities in non-traditional gender fields, etc.).

- **Increasing women entrepreneurs' ability to access external funding:** Financially supporting women-led ventures helps to fulfil INGOs' desire to produce greater economic prosperity.
- **Highlighting women business leaders' leadership skills:** Running technical assistance programing that encourages businesses to embrace a more diverse workforce aligns with INGOs' efforts to promote a stronger and more accountable business community.
- **Enhancing women suppliers' ability to secure more contracts:** Helping women-led businesses to establish more inclusive value-chains satisfies INGOs interests in creating more supportive business environments.

GLI offers INGOs an opportunity to exercise their financial freedom by putting their capital towards riskier ventures and working through investment and/or technical assistance programs that can benefit women and girls at a systems-level. This flexibility enables INGOs to focus on long-term results and to be more intentional about their investments.

INGOs can help to redefine the narrative of GLI beyond a women- and girls-counting exercise by supporting a wide range of GLI opportunities. By demonstrating a proof-of-concept, INGOs can signal to mainstream investors that GLI is an attractive investment model which serves both a financial and social purpose. In addition, INGOs can leverage their positive public image to guide business leaders to embrace strong gender strategies and normalize large capital flows into GLI investment opportunities.

Furthermore, INGOs can use their broad professional networks and coalition-building skills to facilitate connections between nontraditional partners. Since GLI is an emerging thematic area with diverse actors, it will require substantial education and awareness efforts to ensure that all parties understand each other's complimentary impact and return objectives. INGOs are well-poised to host events on how to operate multi-stakeholder programs which address GLI and capital market objectives at systems-level.

If INGOs and investors are serious about improving the lives of women and girls, then GLI needs to become a standard tool in their development toolbox.

Creating a GLI strategy can be operationalized with support of the following tools and frameworks:

- Calvert Impact Capital's Gender Equity Investing Framework
- Enclude's Gender Benchmarking Tool
- MEDA's Gender Equality Mainstreaming (GEM) Framework
- SPRING Accelerator's Investor toolkit with a focus on girls and young women
- Project Rose's Tracker of funds and products investing with a gender lens mandate in global public debt and equity securities
- Project Sage's Global scan of private equity, venture capital and private debt funds with a gender lens
- SEAF's Gender Equality Scorecard
- The GIIN's Gender Lens Investing Strategies Database

³⁹ Educate Girls. [n.d.] Retrieved from <https://www.educategirls.ngo/>

⁴⁰ Chasan, E. *Investment assets that put women first surge past \$2.2 billion* (2017, November 16) Retrieved from <https://www.bloomberg.com/news/articles/2017-11-16/investment-assets-that-put-women-first-surge-past-2-2-billion>

⁴¹ Quinlan, J., & VanderBrug, J. (2017, April). *Gender Lens Investing: Uncovering Opportunities for Growth, Returns, and Impact*. Stanford Social Innovation Review. Retrieved from https://ssir.org/articles/entry/gender_lens_investing_uncovering_opportunities_for_growth_returns_and_impac

Beyond Building Capacity: Leveraging Impact Investing to Transform INGOs into Tri-Sector Organizations

By Brian Vo and Katherine Hallaran, Pact Ventures

Internal capacity continues to be the most challenging impact investing barrier INGOs face. While meaningful progress has been made over the last two years through key hires, trainings, and partnerships, INGOs are recognizing the need to evolve their skillsets beyond just “investing” to add growing value to investee social enterprises.

Teams are increasingly serving as thought partners and coaches to management teams on a range of business building topics (i.e., growth and go-to-market strategies, scalable operating infrastructure, etc.). In so doing, INGOs are providing a suite of business expertise to help social enterprises solve development challenges through new approaches, localized context, and sustainable business models. If INGOs also consider themselves social enterprises, is there a broader strategic opportunity to leverage those same skills to cultivate new approaches to problem solving in their own organizations?

Evolving the right to play

As the impact investing landscape becomes increasingly sophisticated, the INGO approach must continue to evolve to provide differentiated value.

Pact Ventures sees INGOs’ unique value proposition and right to play as stemming from core INGO assets: ability to design interventions for local contexts, aggregation of difficult-to-access data, measurement and evaluation of outcomes, and a footprint with breadth (global) and depth (last mile). If INGOs can integrate the business-building skills needed by investees into the INGO’s core business, they can fundamentally reshape how they, as INGOs, approach development. Core program design

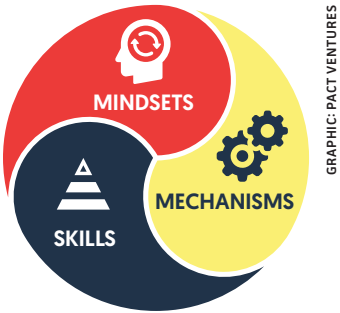
methodologies already recognize the complexity of social challenges and the interdependencies between areas like health, livelihoods, and financial inclusion (i.e., integrated program development). By also integrating economic principles like markets, customer needs, and profit seeking capital, INGOs can align drivers of social impact with the flywheel of private capital.

If INGOs do not keep up with this pace of innovation, they risk impact investing remaining a niche, siloed effort.

Building more than just skills to unlock new models

If impact investing efforts remain siloed (or minimally engaged with core assets), INGOs risk repeating the trajectory of corporate social responsibility (CSR), which, as Michael Porter and Mark Kramer summarized, resulted in “a hodgepodge of uncoordinated ... activities disconnected from the company’s strategy that neither make any meaningful social impact nor strengthen the firm’s long-term competitiveness.”⁴² To internalize skills and perspectives from their impact investing teams into their core business, INGOs will need to align three critical components: skills, mindsets, and mechanisms.Ω

- **Skills:** Beyond the finance/investment and business-building skills that INGO impact investing teams are accumulating, INGOs need translation capabilities to serve as the connective tissue



between the language of business and development programming.

- **Mindsets:** Program and implementation groups need to see markets and business as mechanisms that can be leveraged for intentional impact and incentivizing behavior (corporate and individual).
- **Mechanisms:** New infrastructure for flexible contracting, implementation, and partnerships are needed to adapt to the nuances of the underlying social challenge.

Transforming into a tri-sector organization

	From...	To...
Skills	<ul style="list-style-type: none">• Building cost-reimbursable budgets• Program design built on social interventions and systems	<ul style="list-style-type: none">• Projecting profit and loss• Program design that uses markets and economics for systemic change
Mindsets	<ul style="list-style-type: none">• Designing program interventions• Business as “bad”	<ul style="list-style-type: none">• Building revenue, operating models• Business as a predictable force that can be channeled for impact
Mechanisms	<ul style="list-style-type: none">• Operating with donor requirements• Accounting for LOE (level of effort)	<ul style="list-style-type: none">• Incentivizing performance and collaboration• Value-based pricing

What could a tri-sector organization look like? How can INGOs leverage their impact investing teams to design and deploy new models for impact?

True congruence across skills, mindsets, and mechanisms will progress INGOs beyond just collaborating with the tri-sector. Integration of these skills will enable INGOs to become tri-sector organizations themselves, equipped to bring an exhaustive set of capabilities to bear.



CASE STUDY: Pact Ventures’ Tri-Sector Experiment

By approaching development problems through the lens of creative financing vehicles and market-based incentives, Pact Ventures was launched to attract public, private and social investment to drive Pact’s social impact in its areas of expertise (health, digital and financial inclusion, energy access, sustainable supply chains).

Pact’s core program teams recognized that its livelihoods and health programming consistently experienced similar challenges: beneficiaries had difficulty accessing cheap, reliable energy. Pact Ventures then evaluated different investment and partnership solutions, which led to its first direct investment with Amped Innovation, a solar home system (SHS) manufacturer with products designed for bottom of the pyramid (BoP) customers. The decision to invest in Amped was made easier given a trusted partner, FINCA Ventures, was an early investor. Pact Ventures appreciated the chance to invest with and learn from FINCA Ventures.

Pact is leveraging its Amped investment to distribute SHS products to its beneficiaries. Fundamentally, Pact is leveraging its impact investments to shift the paradigm of our relationship from donor-beneficiary to provider-customer. By tapping into economic forces, it is creating a market mechanism that can listen and adapt to the voices of its beneficiaries in a way it never could before: customers can vote with their wallets and provide feedback with their feet.

As Pact integrates Pact Ventures, private capital, and market forces into its core work, it is creating the future tri-sector Pact.

See also *FINCA Ventures’ Case Study*, page 34

INGOs recognize that the classic development model by itself was insufficient to solve thorny social challenges, so they have in-sourced new finance and business skills to tackle the same problems differently. INGOs have now accumulated strong talent from various disciplines. For that talent to work in sync with the core of these organizations, INGOs need to craft a common language to foster common mindsets and create new rule books as mechanisms to foster collaboration. To truly leverage their unique position to solve social challenges at scale by deploying capital, INGOs must now train themselves to become trisector organizations.

⁴²Porter, Kramer [2006]. HBR: Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility.

Social Impact Measurement

What the Amplify Survey Data Says

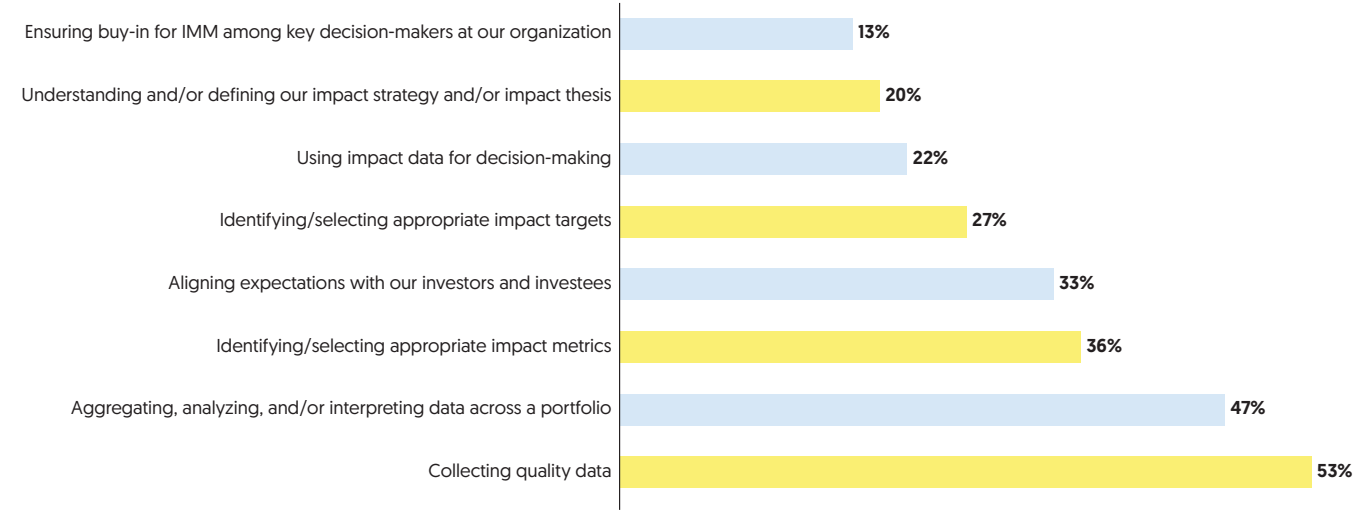
This iteration of the survey allowed for a deeper dive on the topic of impact measurement, which often features as one of the top strengths of INGOs because of their extensive experience measuring social and environmental impact of their programs. Yet when it comes to impact investing, the majority of the survey respondents are either piloting/adapting their impact measurement strategy (38%) or still defining/developing a strategy to measure impact (29%).

Needless to say, INGOs are using a wide variety of tools, approaches, and frameworks to design their strategy to measure impact. The most widely used approaches/frameworks include ‘Theory of Change’ (73%), ‘IRIS Metrics by GIIN’ (56%), ‘ESG’ (Environmental, Social, and Governance Measures) (33%), ‘Acumen Lean Data’ (36%), and ‘Social Return on Investment’ (SROI) (24%).

In addition to the options presented in the figure, survey respondents reported additional approaches/frameworks such as IFC Performance Standards, Integrated Cost-Benefit Analysis, Transformational Evaluation, Sustainable Development Goals, and Social Value Investing.

Finally, when asked about challenges faced in impact measurement, the survey respondents were asked to choose from options signifying internal challenges in impact measurement that were adapted from the GIIN report, ‘State of Impact Measurement and Management Practice’.⁴³ Interestingly, the INGO responses closely match the responses of the impact investing sector actors at-large in the GIIN report. The top three challenges were: Collecting quality data (53%), Aggregating, analyzing, and/or interpreting data across a portfolio (47%), and Identifying appropriate impact metrics (36%).

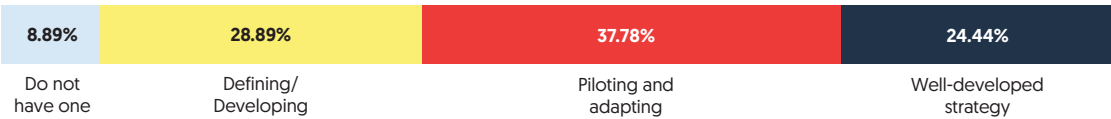
Internal Challenges of Impact Measurement (n=45)



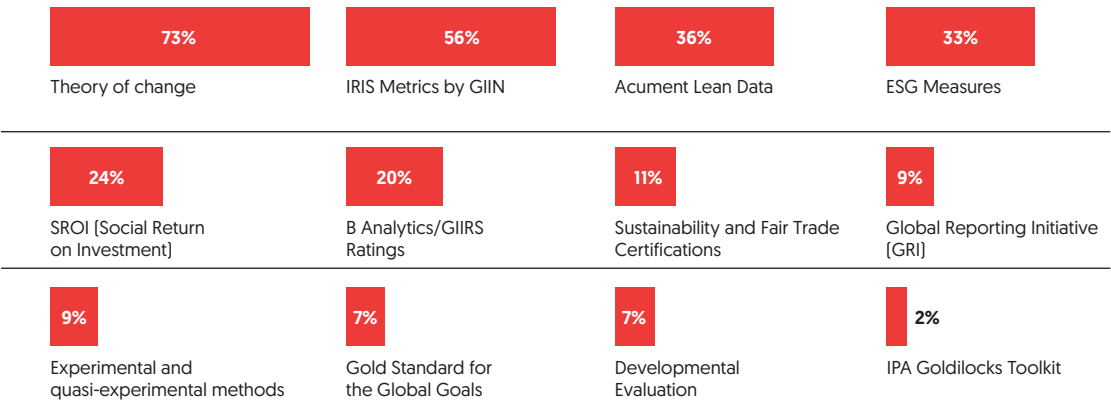
Making Results-Based Financial Decisions

By Brianna Losoya-Evora, Aspen Network of Development Entrepreneurs and Joshua Folkema, World Vision

Stage of Impact Measurement Strategy (n=45)



Measurement tools, Approaches, and Frameworks Being Used (n=45)



A key contribution INGOs make to the impact investing sector is their knowledge of impact measurement approaches, an area of expertise that may be newer to impact investors entering the market from a finance-first background. Yet, there are debates within the social sector about the best ways to measure impact and a variety of tools and frameworks available to do so, with variable applicability to financial decision-making.

For many years, players in the social sector have debated the degree to which investment decisions should depend on impact measurement frameworks such as cost-benefit analysis. Advocates maintain that their use would facilitate higher levels of professionalism and better utilization of funds. Opponents argue that such economic frameworks are unsuitable for the evaluation of social projects, or that limited availability of data or uncertainty about the appropriate theoretical design renders such analysis unreliable. Furthermore,

constraints on funding and institutional financing structures limit the appetite of institutions in a wide-scale utilization of these tools. Despite these challenges, increased demand for accountability and innovative financing mechanisms, such as impact investing, has driven the social sector towards expanded use of economic tools for reporting and decision-making.

Economic Analysis Frameworks in Social Impact Measurement

Aspen Network of Development Entrepreneurs (ANDE) has hosted ‘Metrics from the Ground Up’ annual conferences since its inception in 2009, with the objective of creating a dialogue on social impact measurement among the various stakeholders in ANDE’s network and beyond. Several themes related to use of economic tools and frameworks, and integration of impact metrics with financial and operational considerations have emerged from these gatherings:

Integrating Impact, Financial, and Operational Metrics

In 2014, ANDE reported that the focus of measurement in the sector was shifting from accountability, to standardization. While the IRIS catalog of impact metrics was a great step in achieving this goal, this may have been ahead of the maturity of the measurement sector. Recent initiatives and platforms have taken a step back to gain consensus around how the sector defines impact, and how to build an impact approach that allows an organization to go from output to outcomes.

The Impact Management Project

The Impact Management Project (IMP) is a collaborative effort by over 700 organizations, from different disciplines and geographies, to agree on shared fundamentals for how to measure and manage impact. IMP is a convention and can be adapted into any existing measurement framework. The Investor’s Impact Matrix, developed through IMP, allows an investor to map a portfolio of investments by its impact goals. By comparing the performance of companies in an impact investor’s portfolio, impact investors can use the rating as a basis for making results-based financial decisions .

Navigating Impact Project

The Navigating Impact Project developed by the GIIN (Global Impact Investing Network) provides investment themes through which to explore possible impact approaches. This approach allows the investor to either take a deep dive into one investment theme (e.g.: Affordable Housing), or to look at the probable outcomes within multiple investment themes and assemble a combination of strategies that complement their portfolio goals. Each strategy within a theme includes an overview of the strategy, an evidence map, a core set of IRIS metrics that are shown to indicate progress toward that strategy’s objectives, and curated resources that can help measure and manage toward the strategy.

PRISM

PRISM is an impact fund rating platform which reveals different facets of impact performance at a granular level. It goes beyond aggregating the development outcomes of portfolio firms as a measure of fund’s performance. PRISM uses a FSIC (Fund Sustainability, Intent, and Contribution) score and a PIA (Portfolio Impact Assessment) score to measure the performance of a fund and a portfolio company, respectively. These scores are adjusted and aggregated to report an overall score representing the fund’s performance.

- Integrating impact metrics with financial and operational ones is critical to allowing results-based financing decisions.
- There appears to be a trade-off between the economic rigor of a measurement approach and the practicality of implementing that framework.
- Aligning frameworks and standardizing indicators will be essential if the sector ever hopes to impact performance analyzed alongside financial performance.

The first two themes provide a helpful starting point for analyzing three existing frameworks that propose a solution to making results-based financial decisions. These frameworks saw INGOs as early adopters as they aim to bring impact investors onboard. For this reason, INGOs will continue to play an important role in bridging the impact measurement and management capacity gap in the impact investing sector.

Utilizing Economic Analysis for Decision-Making

Increased use of economic frameworks is a technically and institutionally complex process that can take a significant amount of time and resources. INGOs were among the first to create frameworks for making results-based financial decisions.⁴⁴ One of the first lessons learned from this experience is that if an impact framework does not drive business value, it cannot be successful. Increased focus on impact and impact measurement can only help the expanded use of these tools if the application is made right. Sloppy analysis can only confirm the concerns of the opponents. There are common flaws and mistakes in the utilization of economic tools in the social sector and a need for clearer guidelines to overcome them. These will be useful for individuals and organizations involved in the design, financing, and implementation of programs with significant social and

environmental impacts such as foundations, NGOs, and international development agencies. The challenges faced by the social sector are rooted in these 5 problems.

To construct an impact evaluation framework, stakeholders in the social sector need to make a series of assumptions. To illustrate, consider an intervention that aims to introduce a new farming technique by training farmers. To use an economic model and comment on the social impact of the program, assumptions must be made not only about the technical feasibility and financial implications but also on the uptake of the program.

Once the implementation of a project starts, some of the assumptions such as the gain in yield rates or the uptake rate become verifiable. However, it will still be debatable whether the farmers will continue with the new technique five years after the program’s

completion. One thing we can learn from history is this: to address these challenges there is no need for new tools, criteria, and frameworks. Instead, more of the analysis itself needs to be conducted by experts to expand the knowledge base. This is only possible if institutions facilitate it by utilizing expert advice, allocating the required resources, and allowing for the necessary flexibility.⁴⁵

Given the limitless range of what can be analyzed in a quantitative framework, it is incorrect to dictate the outcome of a framework and limit it to specific criteria or outputs. These must rather be specified based on the objectives of the program, complexity of the matter, the interests of the audience, and the budget implications. Different types of analyses (CBA, CEA, bankability, or threshold values estimation) can be combined in an analytical framework; however, they have varying

Economic Analysis Frameworks	Integrating impact metrics with financial and operational metrics	Trade-off between rigor and actionability
Cost-benefit analysis (CBA) <i>CBA estimates net impact from society’s perspective by deducting all the costs associated with the intervention from all of its benefits. Such a framework requires the costs and the benefits to be in a comparable scale.</i>	By providing a basis for comparing projects, which involves comparing the total expected cost of each option against its total expected benefits, CBA inherently combines financial metrics with impact metrics. Quantifying and monetizing the main objectives of most programs in this sector is challenging, meaning the quality of the data going into a CBA decision is key in selecting the ‘better’ outcome.	Cost-benefit analysis is a technique rooted in social science that is most often used by funders outside an organization to determine whether their investment or grant is economically efficient, although economic efficiency also encompasses social and environmental considerations.
Cost-effectiveness analysis (CEA) <i>Compares the benefits and costs in relative terms. Typically, the CEA is expressed in terms of a ratio where the denominator is a gain in health (years of life, premature births averted, sight-years gained) and the numerator is the cost associated with the health gain.</i>	Since the CEA compares benefits and costs in relative terms, it does allow the analysis of impact alongside financial metrics.	This analysis is dependent on how grounded the gain being measured is in an established evidence base. Drawbacks are that this analysis may be challenging to complete in a sector or area with a less-established research base, and/or that conducting the research to build the evidence for this analysis is costly.
Social Return on Investment (SROI) <i>Social return on investment (SROI) is a principles-based method for measuring extra-financial value relative to resources invested. It can be used by any entity to evaluate impact on stakeholders, identify ways to improve performance, and enhance the performance of investments.</i>	SROI accounts for stakeholders’ views of impact and puts financial ‘proxy’ values on all those impacts identified by stakeholders which do not typically have market values. Some SROI users employ a version of the method that does not require that all impacts be assigned a financial proxy. Instead the “numerator” includes monetized, quantitative but not monetized, qualitative, and narrative types of information about value.	The fifth and sixth principle of SROI: ‘Do not over-claim’ and ‘Be transparent’ compel adopters of the framework only to claim the value that activities are responsible for creating and to demonstrate the basis on which the analysis may be considered accurate and honest. While SROI is not tied specifically to an evidence base, it encourages impact claims and assumptions made to be based on research.

⁴⁶ Impact Management Project. [n.d.]. Retrieved from <https://impactmanagementproject.com/about/>

⁴⁷ Global Impact Investing Network. [n.d.]. Retrieved from <https://thegiin.org/>

⁴⁸ PRISM. [n.d.]. Retrieved from <http://www.prismforimpact.com/about-prism/>

capacity to answer different questions. Furthermore, each type of analysis comes with a set of data requirement and assumptions to be made, both of which can have implications on budget and the ability to justify the results.

At the same time, one cannot simply take economic frameworks the same way they are used in infrastructure projects and policy analysis and apply them to social programs. Major roadblocks include the technical challenges in quantifying and monetizing the main objectives of most programs in this sector.

Improving the practice of economic frameworks in the social sector requires a careful adoption of existing tools used for policy and project analysis. The tools adopted in the social sector must be provided with the operational flexibility to arrive at defensible conclusions while staying away from monetizing every impact. These types of analyses must not be perceived as a tool that requires a monetary value for every impact, but rather a quantitative tool that assists decision-making. For example, measures such as the minimum value of a benefit that justifies an intervention or the cost of avoiding an adverse effect are illustrative outputs of a cost-benefit analysis that can aid the decision-making process without monetizing every impact.

	Challenge	Description	Example
1	Cause of the problem	Limited understanding around, or agreement on, the cause of a problem	The use of an inefficient farming technique may be due to lack of financing rather than knowledge.
2	Prevalence of the problem	Limited knowledge on the prevalence of a problem	The efficiency of the conventional farming techniques could vary from one region to another. Often the easiest locations to reach are the least in need of an intervention.
3	Effectiveness of the intervention	Lack of evidence on the effectiveness of an intervention in changing the status quo	The new farming technique might have worked in a different setting or within a small pilot program, but there is no guarantee that the results remain the same when implemented at scale.
4	Co-costs and co-benefits	Limited knowledge on co-costs and co-benefits of an intervention	The new technique may work much better than expected or could also result in a range of social problems. If the technique is only suitable for male farmers, the intervention can deepen the income gender gap.
5	Valuation method	Disagreements on the valuation methods	Is a dollar increase in a farmer's income worth only a dollar? What if it enables the farmers to send her children to school?

The adoption process is not only technical, but also institutional. Such analysis must be budgeted for in a way that it promotes its use for decision-making, rather than for only reporting and communications. It is also important to measure and highlight the role of such analysis in the institution's success. To sustain the practice at an institutional level, the analysis must be cost-effective and rooted in sound methodology, both of which require units within the organization to maintain the methodology and monitor its application continuously.

When used correctly, economic analysis frameworks offer a powerful tool for INGOs in measuring the impact of an investment.

To help support the industry in growing in this direction, World Vision and Queens University have developed a certification program called the Certified Professional Impact Analyst (CPIA) course. This course will help professionals bridge the gap between traditional monitoring and evaluation and financial analysis. For more information on this certification you can find it here <https://cpia.queensu.ca>

The Case for INGO-Run Accelerators

By Robert Haynie, SPRING Accelerator and Priyanka Rao, FHI Ventures

Once a tool strictly for the private sector, accelerators are now being run by a variety of INGOs and development consulting firms as an approach for addressing specific social and environmental issues. Of 554 existing accelerators, almost half are headquartered in emerging markets where businesses often face additional challenges for growth.⁴⁹ Like Silicon Valley counterparts, accelerators in emerging markets boost startup growth potential via financial, social, and human capital.

While a great deal of support and capital exists for startups, there remains a gap for early and growth-stage businesses because traditional investors see them as too high risk. Business skills development, operations

management, and impact measurement are often the most requested needs from entrepreneurs.⁵⁰

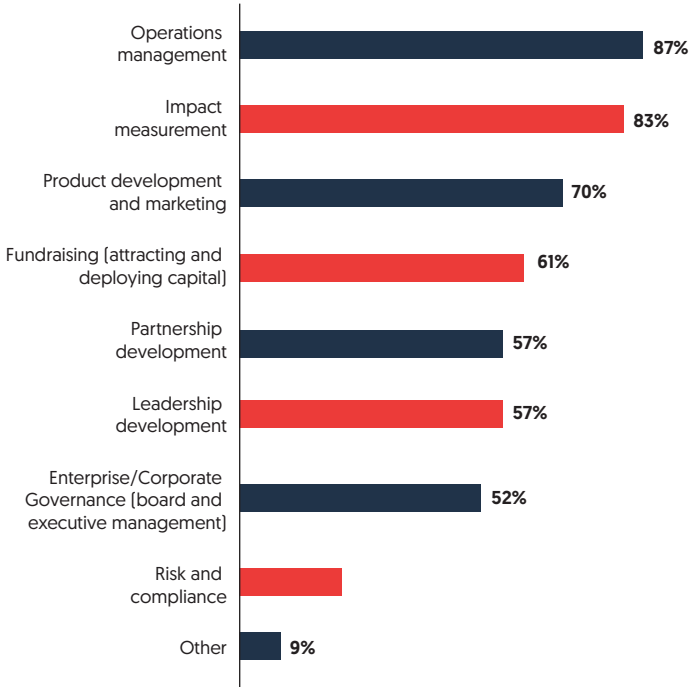
Herein lies a prominent opportunity for INGOs to provide entrepreneurs the skills they need to successfully de-risk and scale their business and help them engage with investors for growth.⁵¹ By targeting this ‘pioneer gap’, INGO accelerators are able to blend capital and sequence support needed for social enterprises to navigate the high-risk growth phase.

Why INGOs run accelerators:

Accelerators have a unique opportunity for INGOs to accelerate the growth of social enterprises, and also benefit the INGO in a variety of ways, including:

- Accelerators are often a tool for sourcing and creating innovative products or services that INGOs and businesses can leverage to multiply their own impact.
- The comparatively shorter nature of accelerators compared to incubators helps INGOs maximize time and provide value-added coaching in their core areas of expertise, e.g. investment readiness and impact measurement.
- Accelerators can be a vehicle to attract new partners and investors. INGOs are increasingly including accelerator activities in proposals to donors [something donors have been increasingly requesting].
- INGOs can set up external investment mechanisms that complement accelerator activities by taking debt and equity stakes in the businesses supported. This can in turn serve as a revolving fund to provide ongoing support and reinvest in new opportunities.

Technical Assistance to Entrepreneurs and Enterprise



⁴⁹ GALI. [2018]. Retrieved from Global Accelerator Learning Initiative: <https://www.galidata.org/>
⁵⁰ INGOs in Impact Investing Network. [2018]. *Amplifyii: The Next Mile of Impact Investing for INGOs*. [Survey Data]
⁵¹ GALI. [2017]. *Accelerating Startups in Emerging Markets: Insights from 43 Programs*. Global Accelerator Learning Initiative [GALI]. Retrieved from <https://www.galidata.org/assets/report/pdf/Accelerating%20Startups%20in%20Emerging%20Markets.pdf>

Why INGOs have what it takes to run an accelerator:

Not every INGO possesses the capabilities to run a successful accelerator. To be well-positioned to succeed in impact investing and run a self-sustaining social enterprise accelerator, INGOs should offer a multitude of expertise to leverage internal and external partnerships and have access to strong funding opportunities. The following are attributes that are important for INGOs to possess to run a successful accelerator:

- **Global reach:** INGOs and development consultancies with presence in developed and frontier markets possess strong networks capable of reaching and engaging entrepreneurial ecosystems and investors. They are well-placed to leverage this presence to support accelerators to tap into a wealth of opportunities for market testing products and services, and leverage expertise from an INGO's regional and sectoral experts, clients, and partners.
- **Ecosystem support:** It takes an understanding of local context and the business enabling environments that startups and social enterprises face to help them scale. Accelerators often have to assist small businesses beyond just their intended core focus to address issues within the broader ecosystem of support that is necessary for businesses to thrive.
- **Access to donor capital:** Given that most accelerators are not revenue generating past break-even, access to capital to sustain operations is important. Funding generally comes from anchor investors, such as foundations or corporate sponsors, or through grants from donor agencies. INGOs benefit from the backing and credibility of major donor institutions that can be leveraged to attract private-sector partners and build a longer-term strategy for achieving a self-sustaining operating structure.
- **A separate legal entity:** Establishing the accelerator as a separate legal entity protects the non-profit from any potential risks associated with the investments as

they grow. It also allows for the accelerator to accept external funding in the form of loans, grants and other investments to support its operations and long-term growth.⁵²

- **Capacity building:** The internal capacity and experience INGOs have in strategy, entrepreneurship, advisory support, marketing/product development, regulatory affairs, and sectoral and regional technical expertise are all key ingredients for the effective set-up and running of an accelerator. INGOs understand the



CASE STUDY: FHI Ventures

A prime example of an impact investing model that involves each of these elements is FHI Ventures – a separate legal entity of FHI 360. FHI Ventures is dedicated to catalyzing the next generation of early-stage enterprises by investing in companies that are seeking to scale up their offering, attract new capital, and maximize their financial and social returns in Asia, Africa and the U.S.

FHI Ventures attributes its unique value to how it leverages its global platform to accelerate the growth of their global investees with internal capacity, mentorship and partnership with 5000+ staff executing development and humanitarian programming across 60+ countries in the areas of health, education, economic development and technology.

By leveraging its global networks and relationships with key bilateral donors, multilateral organizations, local governments, private sector companies and local organizations, combined with advisory support from seasoned internal and external mentors, it is able to provide customized business support services to scale the growth of its enterprises. It is also able to leverage the FHI Foundation, its anchor investor in accessing additional private capital from its peer groups.



local markets in which they operate and offer a range of skillsets and resources that match the needs of the businesses they support.

- **Partnerships:** Partnerships are key to the success of INGO-run accelerators. Developing strategic and informal partnerships within startup ecosystems is important to not only ensure INGOs are driving value to social entrepreneurs, but connecting them to key resources and networks, providing access to new growth capital, facilitating industry development, and maintaining a healthy deal flow. By understanding the mechanisms for grant capital, i.e. often more restrictive and on a longer timeline for distribution, and how to leverage donor funding to catalyze private sector capital, INGO-sponsored accelerators are primed to serve as an intermediary of public institutions, private sector entities, and development organizations focused in emerging markets, while also possessing a unique understanding of how to combine and sequence resources to help businesses scale.
- **Blended finance:**⁵³ Given their role as intermediaries between grant capital and impact investors, accelerators inherently serve as a blended finance mechanism for helping address the pioneer gap. Accelerators can help better sequence the range of capital needed to scale businesses in emerging markets, while also helping to change the perception around grant capital so that more investors recognize it as an asset class that is essential in paving the way for debt and equity investments in emerging markets.

Equity investments make up about half of deployed capital by accelerators in emerging markets while around 30% provide grants, quasi-equity, and debt.⁵⁴ Blended finance is a mechanism that can offer win-win options for private, public, and philanthropic investors to advance social impact across these investment instruments. Studies have shown that public and philanthropic funds that are strategically deployed through blended vehicles can leverage three to four

times more private capital.⁵⁵ In this way, private investors can earn risk-adjusted returns, while being protected from transactional risks. At the same time public or philanthropic investors can more feasibly achieve their development objectives by enabling and encouraging private sector investments that would otherwise not be able to invest in development causes.

In addition to grants, accelerators should also offer debt and equity investments to further support companies in scaling their businesses and allow the INGOs to generate returns to support their ongoing operations.

Accessing financial capital for accelerators:

While many INGOs are financing their accelerators out of their own unrestricted funds, research and development budget or investment income, there are several other funding channels available to accelerators. It is important to understand their source, their suitability for each accelerator type, and how to access them. Accelerators can be funded by any one, or multiple, of the following channels.

- **Donor governments (bilateral and multilateral institutions):** While traditional development aid agencies are increasingly funding accelerators to assist in providing the 'missing middle' of capital needed for growing enterprises (beyond the start-up phase but too early for commercial lenders/investors), the timing and resources (e.g. personnel time commitment) needed to obtain the funding often takes too long for smaller accelerator programs to prioritize.

⁵² McCully, C., Newman, J., Schember, M., & Vancea, G. [2016]. *Helping Nonprofits Select Impact Investing Structures*. Sloan School of Management.

⁵³ Blended finance is a method for de-risking and lowering the high up-front cost of investing across sectors and geographic regions. In these transactions, concessional and/or philanthropic funds act as risk capital that is subject to first losses or that provides credit enhancement through guarantees and insurance products. In its subordinated form, it serves to lower the weighted average cost of capital, thereby improving the deal's overall profitability. Blended financing can also be leveraged to offer a range of capital to social enterprises that are too early stage to absorb debt or equity. Given that most startups in the pioneer gap require more capacity building to prepare their operations for scaling and absorbing debt or equity investments, grant capital is essential prior to these commercial-oriented investments.

⁵⁴ GALI. [2017]. *Accelerating Startups in Emerging Markets: Insights from 43 Programs*. Global Accelerator Learning Initiative (GALI). Retrieved from <https://www.galidata.org/assets/report/pdf/Accelerating%20Startups%20in%20Emerging%20Markets.pdf>

⁵⁵ Convergence. [2018]. *Who is the Private Sector? Key Considerations for Mobilizing Institutional Capital through Blended Finance*. Convergence. Retrieved from <https://www.convergence.finance/knowledge/IhYbzLsUbAYmS4syWuqm6/view>

- **Foundations:** Many family-owned foundations support accelerators but have specific focus areas (i.e. geographic and issue-based) which limit access. Their timeline for planning can be upwards of a year in advance as they must allocate resources and obtain board approval.
- **Corporations:** Large multinational corporations increasingly support accelerators as they begin to see the value in being more connected to innovative trends and startups in their industry. In GALI's 2016 Report, where 164 accelerators worldwide (86% in emerging markets) were surveyed, nearly 50% of accelerators responded that they received corporate funding, 21% of whom relied on corporate funding for at least half of their total funding.⁵⁶ Corporations generally operate their accelerators in three distinct ways: in-house accelerators (e.g. Microsoft Ventures), outsourced (e.g. Barclays), or partnered (e.g. Red Hat).⁵⁷ These approaches are normally justified as ways to source innovation or support R&D, but these partnerships often take many months to yield new programs, and corporations often like to start small by piloting a program with an existing accelerator (which can be a huge time commitment) before launching a program that can help scale the accelerator.
- **Impact Investors:** Some investors understand the important role accelerators play in preparing businesses to scale and absorb debt/equity investments – especially in emerging markets. However, many traditional investors or venture capitalists still see this as an additional expense. Accelerators are well-positioned to help demonstrate that grant capital is an asset class that is indicative of a healthy investment opportunity along with debt and equity.



CASE STUDY: SPRING Accelerator

Palladium, SPRING's implementing partner, is a global impact firm that is working to link social progress and commercial growth. SPRING is a social enterprise accelerator structured as a multi-stakeholder consortium that combines donor funding from DFID, USAID, and DFAT with private sector expertise of Deutsche Bank, Hogan Lovells, and more partners. SPRING also serves as a blended finance mechanism by helping to sequence the grant capital from donors with the debt and equity investments for the impact ventures it supports via a nine month program. Through an in-depth human-centered design process, SPRING works with growth-oriented businesses on products and services that can transform the lives of adolescent girls aged 10-19 living across East Africa and South Asia. SPRING brings together world-class experts with successful local entrepreneurs to support businesses in creating innovations with purpose and commercial potential.



Key Takeaways

INGOs have shown real progress in moving into the traditional investment space and have the potential to rise as leaders in impact investing through accelerators because of their wealth of sector and geographic expertise in frontier markets. They are also uniquely positioned to demonstrate how to efficiently deploy capital to address the pioneer gap by utilizing a range of asset classes and blended finance mechanisms from grant, first loss, and concessionary capital, to debt and equity, seeking commercial returns.

INGOs should leverage their role as intermediaries and serve as a blended finance mechanism, demonstrating how philanthropic capital is an important asset class to use with debt and equity investment. INGOs can help the broader finance industry recognize that grants and capacity building are important precursors to unlock additional financing for early and growth stage businesses.

⁵⁶ GALI. (2018). *The Accelerator Landscape*. Retrieved from Global Accelerator Learning Initiative: <https://www.galidata.org/accelerators/>

⁵⁷ Bergh, C. T. (2015, April 8). 3 Emerging Trends in the Accelerator Model. Retrieved from Ewing Marion Kauffman Foundation: <https://www.kauffman.org/currents/2015/04/3-emerging-trends-in-the-accelerator-model>

An In-Depth Look at Blended Finance

By Evan Gill for Catholic Relief Services

With significant financial resources required to meet the SDGs, the world has recognized that government funding and philanthropy alone are insufficient to solve social and environmental challenges—the infusion of private capital from institutions and individuals is critical. More and more, blended finance, or the *strategic use of concessionary or philanthropic capital to mobilize commercial investment in sustainable development*, is being recognized as an effective means to attract the private capital necessary to address some of the world's most acute needs.

The size of the blended finance market is estimated at over \$50 billion with the potential to double over the next three to four years.⁵⁸ Both concessional and market-rate capital providers are seeing the benefit of using blended mechanisms to finance development solutions at scale, with less risk.⁵⁹ Private investors, INGOs, and ecosystem-builders agree that INGOs have significant value to add in the blended finance market – INGOs are able to de-risk investments, increase access to concessional funds, pilot mechanisms for private capital to scale, lower transaction costs and provide measurement of social outcomes. Perhaps these advantages are why Convergence – a global network for blended finance focused on increasing private sector investment in developing countries – found that 20% of historical blended finance deals include an INGO.⁶⁰

- **De-risking the Investment:** A large on-the-ground presence helps INGOs to evaluate the local investment context for themselves, partners, and co-investors,

while their deep networks in communities create a level of trust that investors may not achieve on their own. Beyond gathering information for due diligence, INGOs understand the policy environment in which they work. For example, Pact has government performance indicators to assess the country and regulatory risks of investment.⁶¹ In addition, while private investment firms have a difficult time funding all the way up and down the value chain,⁶² INGOs can look at the full value chain and examine market-based solutions that produce a variety of returns. They also add a community perspective.⁶³ INGOs often have the trust of communities where they or their local partners have been working for years or decades. This trust is particularly helpful outside of city centers, as the Small Enterprise Assistance Fund (SEAF) has found while working with INGOs to prevent side selling in agriculture investments. For example, one SEAF fund benefited from its INGO partner providing empowerment training to show farmers why they should not sell their products early. This training shored up the supply needed for the agro-processors vital to SEAF's investment.⁶⁴

As the development sector becomes more inclusive of private sector actors and mechanisms for sustainability and scale, INGOs are hiring in or training staff to help connect the private sector to their work. INGO staff are able to identify and bring local stakeholders to the table and integrate community perspectives into blended finance deals. The combination of new business-centric and

⁵⁸ The Blended Finance Taskforce, an initiative launched in 2017 by the Business & Sustainable Development Commission to examine the effective use and scaling of blended finance and increase private investment for the SDGs. <https://www.blendedfinance.earth/about/>.

⁵⁹ "Better Finance Better World: Consultation Paper of the Blended Finance Taskforce" p.7 (2018) https://s3.amazonaws.com/aws-bsdc/BFT_BetterFinance_final_01192018.pdf.

⁶⁰ Safia Gulamani (Convergence), interviewed by Evan Gill, 31 Aug 2018 [telephone interview]. Convergence blended finance case studies are available to its members: <https://www.convergence.finance/>.

⁶¹ Pamela Roussos (Pact Board, Miller Center for Social Entrepreneurs at Santa Clara University), interviewed by Evan Gill, 30 Aug 2018 [telephone interview].

⁶² Hubertus van der Vaart (SEAF), interviewed by Evan Gill, 17 Aug 2018 [telephone interview].

⁶³ Roussos, 30 Aug 2018 [telephone interview].

⁶⁴ van der Vaart, 17 Aug 2018 [telephone interview].



CASE STUDY: Catholic Relief Services' Azure Blended Finance Model for Water & Sanitation

Catholic Relief Services (CRS) incubated, structured, and launched a blended finance and technical assistance facility, Azure, in July 2018. CRS is a large INGO established in 1943 with 7,000 staff devoted to promoting integral human development. Azure improves water and sanitation services for under-served communities in El Salvador by mobilizing capital and technical support for water service providers (WSPs) to upgrade and expand. The facility is comprised of two components: Azure Source Capital LLC, a US-based finance company that will deploy loan capital through local financial institutions to upgrade and expand water and sanitation infrastructure; and Azure Technical Services, which provides WSPs with design and engineering, system diagnostics, market and financial due diligence studies, loan application, and management support.

CRS used its on-the-ground presence in El Salvador and technical experience in water and sanitation to incubate Azure in partnership with the Inter-American Development Bank's Multilateral Investment Fund (IDB/MIF). It first used philanthropic funding to conduct feasibility studies, hire technical assistance staff, pre-qualify WSPs for local loans, and design the investment vehicle. Azure is supported by equity, debt, and grant financing from CRS, IDB/MIF, the Overseas Private Investment Corporation (OPIC) and additional private investors.

traditional technical skills is valuable to the private sector in blended finance deals. INGOs build the capacity of their local partners who in turn help them build a higher quality pipeline of enterprises to attract private investment.⁶⁵ INGOs also provide technical assistance to these enterprises seeking financing and can offer specialized training to employees within the enterprises in areas such as water system maintenance or maize and coffee processing techniques. These technical skills usually are not available through limited life private equity fund managers.⁶⁶

Lastly, INGOs are considering how to use their financial assets in new ways. Even though there are not many examples, large INGOs have balance sheets against which they can provide much needed risk mitigation instruments, such as loan or portfolio guarantees.⁶⁷

- **Access to Concessional Money:** INGOs have the power to convene, bringing together various stakeholders with different return/risk/impact expectations. Their typically strong relationships with bi- and multi-laterals that provide concessional financing make them attractive partners for providers of private capital.⁶⁸ In addition, high net worth individuals (HNWIs) are often both donors (to INGOs) and investors in impact investing and traditional funds. Sometimes, the interests of an investment firm and an INGO align and HNWIs working with both can provide more flexible capital to the investment firm to enable blended finance mechanisms.⁶⁹
- **Piloting Effect to Scale:** Concessional capital is a scarce resource. Pilots and demonstration projects can debunk myths about the risk of high-impact investments, freeing up concessional capital to leverage funding from new private sector actors at a larger scale.⁷⁰ INGOs often provide this proof of concept by incubating social enterprises and assisting them in attracting investment or by using grant money for market research or consumer education.⁷¹ Although it is not happening quickly, investors are beginning to move into riskier assets based on these pilots and demonstrations.⁷²

- **Lowering Transaction Costs:** One of the most straightforward ways of mobilizing commercial capital into high-impact deals or vehicles is to lower transaction costs.⁷³ Investors factor in the cost of due diligence and are often dissuaded from exploring possible deals when this cost is too high as a percentage of the deal size, which can happen especially in markets that are hard to reach and assess. INGOs can use their local networks, knowledge of local context, and/or proprietary tools to lower the cost of conducting due diligence for co-investors or private sector partners in blended vehicles.⁷⁴

In certain cases, investors may also be able to rely on INGOs for low cost, ongoing monitoring of both social and financial returns for the period of the investment. An example of this dynamic is the Overseas Private Investment Corporation's (OPIC) 20-year loan to the Aga Khan University (AKU) Hospital in Karachi, Pakistan.⁷⁵ AKU is monitoring and reporting out on the investment returns, which allows OPIC to rely on this reporting and third-party audits instead of incurring the cost of 20 years of on-the-ground monitoring.

- **Social Measurement:** INGOs have a culture of measurement and can help partners in blended vehicles and enterprises seeking financing to agree upon and measure the desired social impact. They can also provide concrete evidence of mission drift to keep all parties aligned.⁷⁶

While there are many reasons to partner with INGOs in blended finance vehicles, there are some challenges – many resulting from misaligned interests between the INGO and the private sector investor. The relationships INGOs have with local communities as beneficiaries are very different from those of social enterprises with their customers.⁷⁷ For example, SEAF and a large INGO

created a blended finance mechanism to enable farmers to access input financing in Tanzania. The SEAF-backed company coordinated with its partner NGO and the local leaders to provide financing for farmers to move from one to three hectare to 10 hectare plots. However, the INGO raised funds from individual donors based largely on videos and promotion featuring small holder farmers. A tension grew between the SEAF-backed company and the INGO because as more and more

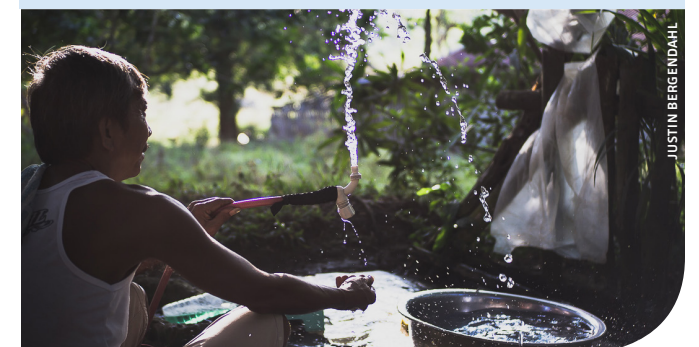


CASE STUDY: Nexus for Development Works to Close the Financing Gap for Social Enterprises

Nexus is a key network and finance partner for low-carbon solution providers in Southeast Asia and Africa. In 2017, Nexus launched the Pioneer Facility, a debt fund set up with the support of the French Fund for Global Environment (FFEM). Its mission is to provide affordable working capital for social enterprises producing and distributing sustainable energy, clean water and sanitation solutions to low income populations in developing countries, primarily in Southeast Asia (efficient cook-stoves, solar, water purification, biogas, waste management, and waste-to-energy solutions).

The Facility's positioning is unique as it prioritizes the scaling phase of enterprises working on greening their economies and facilitates the access to medium-size uncollateralized loans with an average size of \$350,000. It is one of the few debt facilities targeting climate change and environmental champions in Southeast Asia, also providing simple impact metrics that show their contributions towards the SDGs.

The Facility consists of blended capital where first loss capital from public donors mobilizes private sector funding. The Facility dispursed its first loans in Q3 2018 (in Cambodia and Philippines) and aims at supporting 20+ social enterprises over the next four years. It will demonstrate the feasibility of investing in these businesses and through them, create significant impact for marginalized and vulnerable populations.



⁶⁵ Roussos, 30 Aug 2018 [telephone interview]; Gulamani, 31 Aug 2018 [telephone interview].

⁶⁶ Gulamani, 31 Aug 2018 [telephone interview]; van der Vaart, 17 Aug 2018 [telephone interview].

⁶⁷ Gulamani, 31 Aug 2018 [telephone interview].

⁶⁸ Roussos, 30 Aug 2018 [telephone interview]; Gulamani, 31 Aug 2018 [telephone interview].

⁶⁹ van der Vaart, 17 Aug 2018 [telephone interview].

⁷⁰ GIIN Blended Finance Working Group Meeting, 16 Aug 2018.

⁷¹ Gulamani, 31 Aug 2018 [telephone interview]; Roussos, 30 Aug 2018 [telephone interview].

⁷² GIIN Q3 Blended Finance Working Group Meeting, 16 Aug 2018.

⁷³ Gulamani, 31 Aug 2018 [telephone interview].

⁷⁴ Chris Walker [Mercy Corps], interviewed by Evan Gill, 30 Aug 2018 [telephone interview]; Gulamani, 31 Aug 2018 [telephone interview]; Roussos, 30 Aug 2018 [telephone interview].

⁷⁵ Aga Khan Hospital and Medical College Foundation Information Summary for the Public. <https://www.opic.gov/sites/default/files/files/Aga%20Khan%20Hospital%20and%20Medical%20College%20Foundation.pdf> [accessed 19 Sept 2018].

⁷⁶ Roussos, 30 Aug 2018 [telephone interview].

⁷⁷ Kreiner, 30 Aug 2018 [telephone interview].



farmers graduated to larger, mechanized farming systems, it diminished the INGO's 'bread and butter' fundraising efforts.⁷⁸

Despite the challenges and because of the opportunities, there have been a number of **examples of successful blended finance** involving INGOs. A case study⁷⁹ developed by Convergence on the Sarona Frontier Markets Fund 2 (SFMF2) explains the crucial role of Mennonite Economic Development Associates (MEDA), the INGO that incubated and spun out the impact investing firm, Sarona. The Canadian government used MEDA as a flow through to manage CAD 20 million in SFMF2, with CAD 15 million as a first loss facility and CAD 5 million funding a technical assistance facility managed by MEDA. In this case, an INGO providing technical assistance and enabling a first loss guarantee incentivized both private investors and DFIs to invest in SFMF2.

Another example is the Seychelles Debt Conversion for Marine Conservation and Climate Adaptation⁸⁰ structured by NatureVest, the conservation investment unit of The Nature Conservancy (TNC). TNC is an INGO with technical expertise in structuring debt conversions for conservation. The large-scale Seychelles blended finance debt conversion included a discounted debt buy-back from Paris Club members funded through a combination of foundation grants and a concessional loan from TNC. A local Trust was capitalized to extend a loan to the government of the Seychelles for the discounted debt-buy back and when the government repays the loan, the Trust uses the profits (from grants, discount debt, etc.) to fund marine conservation and climate adaptation services. This complex and successful blended structure was only possible because it was built based on pilots structured by TNC.

Looking Forward

Networks like Convergence are continuing to build a track record for blended finance vehicles and have limited case studies of successful INGO involvement. However, sector experts are heartened to see INGOs transitioning. For example, over the last five years, Pact has expanded its partnership activities and is attracting talent with experience in the private sector and financial services to move its mission forward.⁸¹ Thane Kreiner, Executive Director at Miller Center for Social Entrepreneurship, has been approached by a number of INGOs seeking advice on how to move into the impact investing and social enterprise sectors.⁸² While many INGOs have not yet provided grants or investment into blended finance vehicles, they are contributing in the ways described above while considering how to further leverage the unique value they have to offer.⁸³ With experts' eyes turned in this direction and an uptick in related case studies and reports, it doesn't seem a stretch to predict the acceleration of blended finance in the impact investing sector. INGOs will be vital gatekeepers for this leveraging mechanism – both opening the door to high-impact vehicles at scale and redirecting catalytic funding away from efforts without community inclusion and support.

Communicating the Impact in Impact Investing

By Chris Coxon, Heifer International and Susan Barrows Libby, Kito Global

Readers of this report would be unlikely to ask the question, "what exactly is impact investing, and why does it matter?" However, this is a unique place to showcase to a growing audience the power of impact investing. As impact investing continues to grow in the international relief and development sector, this is a prime opportunity to communicate its purpose and impact: why it matters, what it can achieve, and equally as importantly, when it is not the right business model to deploy.

As international relief and development organizations seek to do more in the impact investment space, there needs to be effective communication to Boards, donors, and new potential funders about why this additional mechanism to guide resources toward impact matters and how it differs from traditional investments in programs.

For example, impact investing is one of a number of ways Heifer deploys resources for impact. Heifer's original model of buying a cow, which in turn produces milk and calves to sell, was a precursor to its impact investment work. Today, Heifer's model focuses on investing in communities in 20 countries around the world, identifying the best ways for farmers and local food producers to grow their businesses, with the goal of getting them not only above the poverty line, but to a level where they can meet all their needs – what Heifer calls a Living Income.

At the bigger picture level, communicating impact investing as a tool to support local communities, needs to be presented in different ways to different audiences.

- **Investors:** Investors need to have a clear understanding of the investment terms and return expectations as well as the impact metrics and reporting mechanisms. When considering impact

investing as a possible option, Heifer's teams work with local partners to provide business plan training, so they can present their visions and plan to repay the money in a way that makes sense to investors. It is important to ensure that communications with existing investors are regular and clear in order to keep them on-board with the business's vision and growth plan in the long-term.

- **Local Communities:** For some communities that may be used to working with a non-profit under traditional donor-funded programming, the idea that they need to repay the investment may be an entirely new concept. To ensure that INGOs do no harm to these communities, it is vital to have a communications strategy embedded in the program that clearly communicates the investment approach, and provides additional training and mentoring throughout the process. In communities or geographic areas where INGOs may be implementing programs and making investments, an integrated program strategy is especially important to help all relevant stakeholders understand the connections and differences between the two initiatives.
- **Traditional Donors:** Donors, whether individuals or institutions, may also need some help understanding this new approach to creating mission-aligned impact. This audience may need to be reassured that approaches that generate returns do not necessarily represent mission drift, but can result in expanded, more sustainable impact. A key message for this group will be to reinforce how philanthropic donations play a foundational or catalytic role and are still important to the organization's overall resourcing model, while demonstrating how impact investing can bring in new resources that can help take interventions to a much greater scale – thereby having a much greater impact in tackling issues like global poverty.

⁷⁸ van der Vaart, 17 Aug 2018 [telephone interview].

⁷⁹ Sarona Frontier Markets Fund 2 (SFMF2), [June 2016]. Convergence: Blending Global Finance [Case Study]

⁸⁰ Seychelles Debt Conversion for Marine Conservation and Climate Adaptation, (March 2017). Convergence: Blending Global Finance [Case Study]

⁸¹ Roussos, 30 Aug 2018 [telephone interview].

⁸² Kreiner, 30 Aug 2018 [telephone interview].

⁸³ Kreiner, 30 Aug 2018 [telephone interview].



CASE STUDY: Heifer International

As part of an ongoing project working with coffee producers in Mexico's Chiapas region, Heifer launched a \$60,000 revolving loan fund. As farmers were moving from informal to formal markets with support from Heifer's local team, they were only receiving payment 30-60 days after delivering their product. Capital was urgently needed for them to stay in business and put food on the table while waiting for payment. But for many, the only option was local lenders, who only provided predatory interest rates.

A revolving line of credit was made available to four coffee cooperatives that could offer better prices to farmers for a type of coffee called Robusta, which was then sold to a dedicated buyer. This allowed farmers to be paid in under 30 days and reduced their reliance on predatory loans.

During the first stage of the project, Heifer also connected the cooperatives to another potential impact investment partner. The investor provided training to farmers during the initial loan period, so their financial and administration procedures were up to the level required for a loan directly from the partner later in the process. Two of the cooperatives have since received loans from the investment partner, both of which have been repaid in full.



- **Board of Directors and Staff:** Even the organization's own team may not have the background or exposure to impact investing approaches to intuitively understand why it is important. Understanding may be mixed within teams, based on technical area or professional background. Senior leaders within organizations must work together with their internal communications teams to segment target audiences and work out the best channel and messaging for moving their vision into action. Internally, key messages will answer questions about how traditional areas of the non-profit's work interplay with the impact investments, as well as how any returns generated will be used for mission benefit. Ensuring that all members of an organization's leadership team can clearly and confidently explain the organization's investment approach and its connection to impact is an important first step in spreading that understanding throughout an entire organization.

The growth in impact investing and other funding streams also means that organizations like Heifer need to continue to evolve their brands. Most people know Heifer as the 'give a cow or goat' organization. While livestock is still an important aspect of Heifer's work, its model has evolved to supporting local food producers to access markets and grow their incomes through targeted investments – and it's vital that any organization in this sector is able to show how all the different pieces of its work come together in a clear, coherent, and compelling way.

Impact investing has an exciting role to play in the future of development work. The goal for communicators is to demonstrate how it connects into the bigger picture of international development work and connects INGOs to new audiences and stakeholders, without losing the people that know and love them and the work they do along the way.

How Ready is your Organization to Engage in Impact Investing?

An Organizational Readiness Tool

By Shikhank Sharma, Independent Analyst and Stephanie Marienau Turpin, FHI 360

As more and more INGOs have begun to explore impact investing, they are asking important questions about their own readiness to engage. Are we well positioned to take on this work? Do we have the skills, time, and resources we need? And, if we do move forward, what role are we best positioned to play? This chapter offers a tool to help teams answer those questions, laying the ground work for better-informed decision making about if and how to engage.

While training and education surrounding impact investing is still a nascent area of growth and development, more than 200 capacity building opportunities and providers were identified in a recent report,⁸⁴ signifying the importance as well as the rapid growth of this area within the impact investing ecosystem.

The same report notes that while there is growing support for capacity building regarding impact investing at-large, tailored resources and training opportunities are needed for the diverse segments and stakeholders within the impact investing community.⁸⁵ When it comes to INGOs, there is a need for a guiding framework that organizations can utilize to assess their readiness to engage in impact investing while sparking important conversations at different organizational levels. Such a tool would be useful for organizations that are in the early stages of understanding the impact investing space and defining their engagement but could also help

organizations that are actively engaged in the space by helping them revisit their strategy at key decision points.

The framework entailed in this chapter has been developed to address this need and is based on the experiences of INGOs in the INGO Impact Investing Network. The purpose of the framework is to help an organization map its assets and gaps across a set of ten factors related to readiness on an institutional level, including strategy, knowledge base, skills, and capacity. It also offers an opportunity to examine an organization's readiness to adopt specific impact investing roles or approaches that have been explored earlier in this report – making investments, developing a revenue generating venture, delivering technical assistance, or ecosystem building.⁸⁶

The Organization Readiness Tool

The readiness tool in **Table 1** is comprised of the 'Readiness Factors', 'Guiding Questions', and 'Score' columns. The 'Guiding Questions' provide a variety of questions for each factor that an organization needs to consider during the ideation and conceptualization phase of its strategy. These can also be used by organizations that are actively engaged in the space to describe their approach, vision, and work conducted thus far. Using a consultative process to implement this framework/tool will surface insights that can help further develop and/or solidify the impact investing strategy.

⁸⁴ Chodos, M., & Johnson, A. (2016, August). *From Innovation to Practice – Impact Investing Education and Training*. Retrieved http://beecenter.georgetown.edu/wp-content/uploads/2016/08/From-Innovation-to-Practice-Impact-Investing-Education-and-Training_Beeck-Center.pdf

⁸⁵ Ibid, pg. 8.

⁸⁶ INGO Impact Investing Network (2016, July). *Amplifyii: The INGO Value Proposition for Impact Investing*. Retrieved from <https://www.humentum.org/sites/default/files/amplifyreport.pdf>

Table 1
The Organizational Readiness Tool

Readiness Factor			Guiding Questions	What would a High Score (8-10) look like?	Score (1-10)
1	Rationale for Engagement	The purpose/ goals underlining impact investing engagement	<ul style="list-style-type: none">What is the main purpose behind developing the impact investing strategy – growing or scaling programs or financial sustainability? Which is a bigger priority?What change do you envision as a result of your impact investing work?	<i>Well-defined purpose and vision. There is a shared understanding within the organization of how the impact investing work will support the mission and build upon the programmatic approach and work of the organization.</i>	
2	Sector Considerations	Technical focus areas and the appropriateness of an investment approach to support impact goals in that area	<ul style="list-style-type: none">What is the sector focus and technical expertise of the organization?Does the organization have past experience on incorporating market-based approaches to their work in the different sector expertise areas?Do any of the organization's existing donor-funded programs have the potential to be converted into businesses?	<i>Strong understanding of the staff's technical expertise (knowledge and skill set) in entrepreneurship and investing. Based on this understanding, as well as learning gained through past experience in the space, the organization has decided on specific sector focus areas to pilot impact investing work that are well-suited for private capital.</i>	
3	Geographic Considerations	Identification of Country/Region/ Market landscape	<ul style="list-style-type: none">In which countries or regions does the organization have its strongest presence?Which country office has staff with the skillset relevant to developing and supporting impact investing work?	<i>Strong understanding of which country offices are most supportive of and enthusiastic about impact investing. The organization has conducted initial landscape research in specific regions and areas to assess the existing social enterprise and impact investing work.</i>	
4	Organizational Culture	Culture within the organization to embrace market-based approaches	<ul style="list-style-type: none">What is the understanding and perception of impact investing amongst the staff?How conducive is the organizational culture to changes in programmatic approach?What is the organization's experience in using market-based approaches?	<i>Organizational culture is supportive of impact investing and embraces change and innovation. Interest in and openness toward impact investing is shared across all levels of organization.</i>	
5	Stakeholder Communications	Communicating the impact investing vision to stakeholders internally and externally	<ul style="list-style-type: none">Who are the different stakeholders (donors, board members, advocates, partners, etc.) that will have an opinion about or decision-making power over the organization's impact investing strategy?How is information regarding new strategies or changes in strategies currently communicated to external stakeholders as well as to internal staff and partners?	<i>The organization has a strategy to effectively communicate its impact investing vision to partners and donors. It also has a communications plan to keep staff informed on impact investing strategy development and a way for staff to participate and share concerns/ideas.</i>	

6	Demand/Pipeline	Need within the community and in terms of deal flow – investable social enterprises, capital available, etc.	<ul style="list-style-type: none">Are there needs and demands in communities that can be addressed through market-based approaches?Is there a strong and growing small and medium enterprises (SME) sector in the country/region?Have different stakeholders – SMEs, beneficiaries, community leaders, etc. – recognized the need for market systems development work in their communities?	<i>There is a high demand from enterprises, beneficiaries, etc. for enterprise and market systems development. There are clear sources of potential pipeline of investible enterprises.</i>	
7	Internal Capacity	The internal capacity of the organization to work with and engage impact investors, enterprises, etc.	<ul style="list-style-type: none">What is the organization's understanding of the knowledge and skills needed to conduct work in the specific impact investing role?What is the staff's level of expertise in those knowledge and skills areas?What resources has the organization identified to help train and build its staff's capacity and/or hire staff with prior experience in the impact investing ecosystem?	<i>A core team that has experience in structuring deals, managing funds, enterprise development, or developing new investment products. There is a well-defined internal training program or strategy to help build staff capacity to engage in the impact investing ecosystem.</i>	
8	Legal Environment	Legal system supporting engagement in the impact investment ecosystem	<ul style="list-style-type: none">Is the organization knowledgeable of the legal requirements in the specific geographic area of existing or proposed impact investing?What new and/or hybrid organizational and legal structures (developing subsidiaries, independent funds, externally-managed funds, set-up a foundation, etc.) can the organization develop to enable its impact investing work?	<i>The legal environment in the country/region is supportive. Necessary legal requirements have been gathered to assess how the organization can develop its impact investing practice.</i>	
9	Impact Measurement	Metrics and methodology for measuring impact of impact investing work	<ul style="list-style-type: none">What is the M&E team's level of understanding of impact investing and how measurement and metrics in this space might differ from donor-funded M&E?Have metrics and indicators to measure impact of investments been developed and are aligned with/make use of existing industry tools and standards?	<i>The organization has a strong M&E team that is knowledgeable about impact investing and the specifics of social impact measurement and related metrics and industry standards</i>	
10	Networks and Partnerships	Leveraging networks and partnerships to improve engagement in impact investing	<ul style="list-style-type: none">Are there existing sector- and/or geography-related impact investing networks that the organization is involved with? How helpful are these networks in finding new partners, co-investors, investible enterprises, professional talent, etc.?What is the landscape of other actors (incubators/ accelerators, innovative foundations, academic institutions, intermediaries, impact investors) in the geography/sector focus of the impact investing work?How can the organization leverage support from these actors to build its own impact investing practice?	<i>The organization is actively engaging experts in the field. The organization has conducted a thorough exercise to identify different partners and intermediaries within the geographical and sector areas of focus.</i>	
Total Score					

The Facilitation Process

The tool can be utilized for self-assessment, discussion, and planning purposes. The team members involved in this process should represent a cross section of staff across the organization. It would be ideal to engage individuals from the following teams in the conversation:

- Leadership
- Dedicated impact investing team
- Strategy
- Staff with exposure to and/or technical expertise in work related to economic growth or small and growing businesses
- Fundraising, communications, and/or external engagement
- Measurement and evaluation
- Human resources
- Legal
- Board of Directors

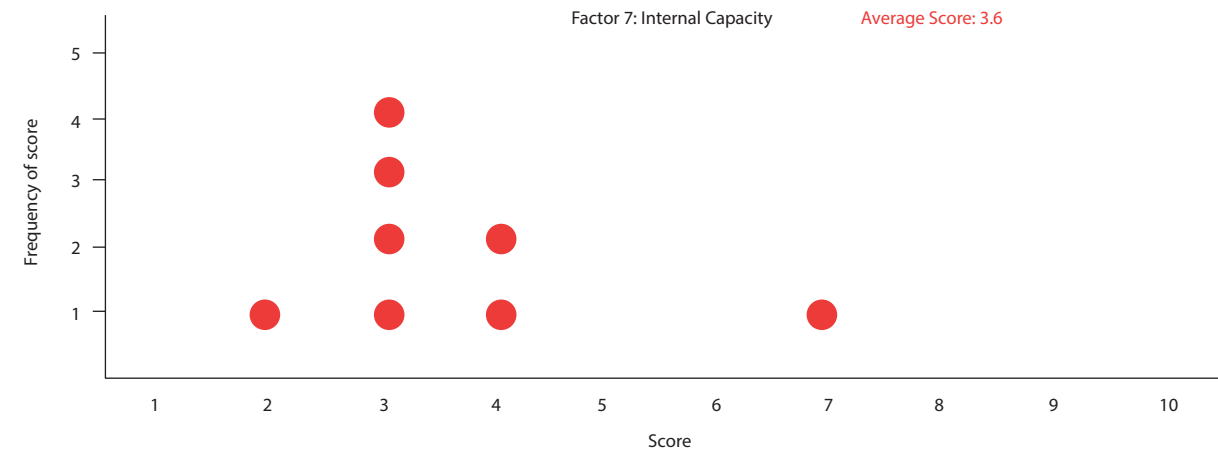
Provide all participants with a copy of the tool along with a blank sheet for note-taking. The participants can be directed to read the tool and use the guiding questions

to jumpstart their thinking and make notes related to any interesting insights or thoughts that come to their mind. Utilizing that thinking, they can then score the organization on the scoring based on their perspective as well as the guidance in the column – “What would a High Score [8-10] look like?”. In the case the organization already has a certain impact investing role in mind, then the participants should be guided to think about that role while using the rubric.

For organizations that are in the very initial stages of exploring impact investing, the framework of four roles in impact investing for INGOs used in this report may be a helpful guide. **Table 2** defines these approaches and includes some tips on identifying an approach that might be a good fit for an organization.

Once individual scoring is completed, have all the participants share their results with a facilitator in advance of a group discussion. The facilitator will create a results packet aggregating everyone’s responses into frequency charts for each factor (example graph on page 59). Alternately, the facilitator can make the frequency charts by hand on large sticky post-its and

Graphic way to represent scoring frequencies and average score



put them up in the conference room for the group discussion.

The purpose of the group discussion is to create an opportunity for everyone to go over the scoring charts, share frank insights, and subsequently develop a set of actionable next steps. These discussions can range from two hours to multi-day meeting and planning sessions, depending on how in-depth the team wants to go. Below is some guidance on a step-by-step process for facilitating the conversation:

- A. Beginning the Discussion** – For every scoring chart, invite everyone to share short minute-long free-form insights. Based on the discussion and the scores, the conversation can go one of two ways:
- **In case of significant divergence in opinion** (min and max scores fall outside a three point range) – Note areas of divergence with the group, as this can often provide the richest source of ideas for action planning. Ask questions that allow the differences of perception to surface, rather than pushing quickly for consensus or asking respondents to defend their scores, such as: Why might there be disagreement in the organization on this question? Why might someone have scored a one or a two on this question? How might this vary across different levels and/or departments in the organization? Why might that be the case?
 - **In case of overall agreement in opinion** (min and max score fall within a three point range) – We all think we’re an X score on this. Who within or outside the organization might disagree with that? What type of stakeholder might score us lower? Higher? Why? Would our scores change if we were to consider a different role in the impact investing ecosystem?

Average all the scores to come up with a joint score for that particular category. While the scores will help participants understand their overall organizational readiness, it is the discussion of the **why** in each category which will lead to the most productive action planning.

B. Scoring – Summing up the final averages, the team can typify their organization’s readiness across four different levels of competency or capacity described in **Table 3**.

Table 2

Impact Investing Approaches	This approach might be a good fit if the organization has -
Making Investments Investing in impact enterprises, either directly, through a fund, through other intermediaries, or through a microfinance institution.	<ul style="list-style-type: none">• the expertise to guide and grow investee companies in which it might directly invest• a history of making investments through any affiliated entities (such as a foundation)• a sizable source of funds available to invest• a strong fundraising team as well as the ability to underwrite investments using donor funds
Developing Revenue Generating Ventures Developing social enterprises or monetizing existing assets or programs that were developed through donor-funded projects to receive investments and generate income.	<ul style="list-style-type: none">• an existing program that could be spun off into a business• a viable business idea to address a salient community need• a program to identify and support entrepreneurial ideas internally and externally – for example, an innovation practice, incubator, etc.• existing staff or resources to bring on staff that can establish and grow businesses both at headquarters and country office level
Delivering Technical Assistance Providing capacity development services for social entrepreneurs, impact investors, or intermediaries	<ul style="list-style-type: none">• an existing capacity development program focused on market-based approaches• technical knowledge and expertise on topics such enterprise development, impact measurement, pipeline development, etc.• Ecosystem Building – Using advocacy and convening power to support the development of infrastructure for mission-aligned investing
Ecosystem Building Using advocacy and convening power to support the development of infrastructure for mission-aligned investing.	<ul style="list-style-type: none">• a history of developing and sustaining networks and communities of practice and information sharing with peer organizations as well as cross-sector actors• the acumen and history of being able to engage with policy makers and/or financial sector actors• an active and established advocacy and social impact research practice• on-the-ground experience and the trust and ability to advocate on behalf of the community on needs related to issues such as economic development, entrepreneurship climate, gender, or financial inclusion

Table 3
Organizational Readiness Typologies

Level 1 Exploration (40 points or under)	The organization has a good knowledge base and understanding of the internal and external landscape. It is currently developing its capacity to engage in impact investing.
Level 2 Nascent (40 to 59 points)	The organization is developing its knowledge base and assessing internal capacity and landscape while exploring different options for defining its engagement.
Level 3 Emerging (60 to 79 points)	The organization has a good knowledge base and understanding of the internal and external landscape. It is currently developing its capacity to engage in impact investing
Level 4 Advanced (80 points or over)	The organization has high capacity, in terms of knowledge and skills, to engage in impact investing. The organization has a descriptive and actionable strategy and it is perfectly poised to pilot that strategy.

C. Thinking about next steps – For every factor, ask all participants to write down as many answers as possible to the following question on post-its (one answer per post-it): What can we do to increase our score in this particular area?

Now, organize all the post-its and put them up on big sheets of paper. The facilitator can utilize a modified version of the “Lightning Decision Jam”⁸⁷ to lead a 25- to 30-minute exercise on identifying and prioritizing action steps. The following prompts can help guide this discussion:

- What are the biggest challenges we have to overcome? What will it take/cost to do that?
- What are the biggest assets our organization is bringing to this space? What impact would we create if we could unleash them?
- In terms of the Four Organization Readiness typologies in Table 3, what do we need to move from one level to the next?

Some Key Points for Consideration

As discussed at the beginning of the chapter, the purpose of this framework is to help an organization map its capacity and identify existing gaps. There are many ways to mitigate weaknesses including training and education opportunities,⁸⁸ inviting experts to be board members or advisors, recruiting new staff, partnering with new organizations, procuring services, acquiring another company, etc. Regardless of the level the final score depicts, the goal of the framework and the facilitation process is to foster frank and transparent conversation and determine actionable next steps for planning, research, and strategy.

“After an intensive reflection process, we concluded that the assets we have – both financial and technical – are better suited to providing Technical Assistance than to raising a fund of our own. In talking with fund managers, a common refrain has been that there are too few investable opportunities. While there are reasons to challenge this notion, the reality is that there is a lot of noise in the social enterprise space, and it can be difficult to find good deals. Furthermore, as venture capitalists have long known, getting a product to market and being successful requires so much more than just a good idea. It requires a solid team, a clear vision, good marketing, a mechanism for receiving customer feedback, a reliable supply chain, and established channels of distribution. For social enterprises, all of this is further complicated by the need and desire to achieve and demonstrate impact. We’ll continue to explore launching our own fund in the future but, for now, we are excited to work with other investors and their enterprises to harness the power of the market to drive meaningful and lasting social change.”

–HUGH O'DONNELL, COUNTERPART INTERNATIONAL'S SOCIAL SECTOR ACCELERATOR

afterword:
the way forward

By Tom Dente, Humentum

INGOs have taken big strides in a short period of time to demonstrate their expertise, deliver new social benefits, and help shape the emerging ecosystem of impact investing. With a growing range of successful models and approaches, along with the commitment to align activity to both their overall purpose and unique capabilities, INGOs have continued to expand what’s possible for their missions. In doing so, they have focused on needs they can uniquely serve, leveraging local presence, credibility, and relationships developed over several years of dedicated programmatic efforts and domain expertise. They have brought a voice that recognizes the importance of the riskier and early stage opportunities that may provide the most lasting social benefits.

With the enthusiasm of these early activities and emerging successes comes the recognition that in many ways, these are still early stage days. Looking ahead, there will be internal and external challenges to be overcome, lessons to be learned, and new capabilities to be developed. In addition, the potential for ‘failures’ in impact investing will need to be addressed both within organizations and with external stakeholders. The pragmatic idealism that is the hallmark of successful INGOs may be tested as impact investing continues to grow with its benefits and risks.

So, what may be ahead for INGOs?

- **Growing participation:** As lessons learned are shared, models developed, talent attracted and nurtured, more INGOs will increase both interest and activity in impact

investing. This increased participation will offer the opportunity for further refinement of the unique space INGOs can fill in meeting riskier but socially beneficial needs, while also continuing to shape practices, investor expectations and standards from structuring returns to defining impact measurement. While not every INGO will [nor should] be fully active across all areas of the impact investing ecosystem, all will have value to add as impact investing opportunities continue to develop and mature. With growing participation, more specialization will occur as INGOs recognize their differentiated roles to play, be that as investor or technical assistance provider. Very few will be able to find success without a clear focus on their core value in the impact investing ecosystem.

- **Focusing for results:** The niche INGOs can fill in hard-to-reach markets or difficult local environments reflects ongoing and profound needs. With their mission commitment to the most vulnerable and marginalized, and their decades of expertise and relationship development at local levels, INGOs have an opportunity to fill a special investment, technical assistance, and advocacy role within the impact investing ecosystem. In focusing, INGOs can help bridge the last mile of need and risk with capital and special expertise that reflects their values and aspirations.
- **Evolving their models:** INGOs who have taken steps in impact investing recognize that often internal barriers need to be overcome, and new capabilities developed to innovate traditional models and approaches. The INGO of the future will deliver results differently, measure impact in increasingly sophisticated ways, and partner with new private sector actors and in new forms and structures. Impact investing not only brings new capabilities that support these future moves, but also new experiences and lessons learned that accelerate this ongoing transformation of the INGO model.

In taking these and other steps ahead, INGOs benefit from a spirit of natural collaboration in their work and in delivering results. Learning from each other and developing cross-sector partnerships will allow INGOs to deliver more effectively collectively. Supporting those most in need are the hallmarks of INGOs. These will be essential signposts for INGOs on the next mile of impact investing.

⁸⁷ Lightning Decision Jam is a design sprint exercise focused on reducing unstructured conversations and creating a simple process for quickly planning and swift decision-making. Here is a quick tutorial – <https://medium.muz.li/a-super-simple-exercise-for-solving-almost-any-product-design-challenge-f9e6c0019d7d>

⁸⁸ You can find a repository of these in the Beeck Center for Social Impact + Innovation’s report *From Innovation to Practice – Impact Investing Education and Training*

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