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THE IMPACT PROGRAMME MARKET BASELINE STUDY

IMPACT INVESTMENT IN SUB-SAHARAN AFRICA AND SOUTH ASIA IN 2013

UKaid
from the British people

THE IMPACT PROGRAMME

CONTENTS

LIST OF ACRONYMS

BoP = The Base of the Pyramid (a broad socio-economic category referring to those with low-income and limited access to markets)
DFI = Development Finance Institution
ESG = Environmental, Social and Governance
GIIRS = Global Impact Investing Rating System
IRIS = Impact Reporting and Investment Standards
GP = General Partner
LP = Limited Partner
PE = Private Equity

INTRODUCTION

About the Impact Programme

The Impact Programme aims to foster the development of the impact investment market in Sub-Saharan Africa and South Asia and to attract new investors into it by:

- Testing and demonstrating the development impact and financial viability of this type of investment
- Improving the way that social impact is measured and information about it is shared
- Providing capital and specialist advice on a competitive basis to enable impact investment fund managers to raise more capital and deploy it more effectively.

DFID is providing up to £165 million over 13 years[1] (2013 to 2026) to catalyse the market for impact investment in Sub-Saharan Africa and South Asia. The Impact Programme is coordinated by a Programme Coordination Unit (commercially tendered to PwC) working in partnership with CDC and the Global Impact Investing Network (GIIN).

The Impact Programme has been designed with two key objectives:

1. **Poverty reduction:** Helping to lift people at the base of the pyramid (BoP) out of poverty.
2. **Market development:** 'Moving the impact investment market' in Sub-Saharan Africa and South Asia towards a position where it can support poverty reduction in a scalable, financially sustainable way. This will be achieved by removing constraints to market growth, These include: a lack of investment capacity and track record in the region; a lack of market infrastructure; opacity of impact investment as a relatively unproven approach with respect to delivering social and financial returns.

About the baseline

This baseline study assesses and records the characteristics of the impact investment market at the outset of the Impact Programme in 2013 in order to provide a critical reference resource at the conclusion of the programme in 2026, when changes attributable to it will be assessed.

The baseline is focused on the impact investment market in Sub-Saharan Africa and South Asia but, importantly, it seeks to place trends in these regions in a global impact investment context. It also focuses on DFID's impact investment priority - benefiting those living at the BoP.

The baseline highlights a lack of quantitative data concerning impact investment in the target regions in 2013, alongside a rapidly increasing range of reports and information on impact investment in general. Comparing the variety and scope of information sources available in 2013 and in 2026 will also provide an indication of market development.

In addition to the literature, the baseline draws upon anecdotal evidence from market stakeholders, including Impact Programme partners. The GIIN's position as a key interlocutor in the impact investment market affords it a unique vantage point, not only for information gathering but also providing qualitative insights which help to characterise the features of the impact investment market at the Impact Programme's inception. CDC have invaluable insight on the geographic and BoP focus of investment from their dialogue with Funds in Sub-Saharan Africa and South Asia, and indirectly with other investors of those Funds during the first year of the programme. The report was compiled by the Programme Coordination Unit of the Impact Programme in close collaboration with partners, and this public version is a summary of the full internal document used for programme monitoring.

[1] While the Impact Programme is designed to run from 2013 to 2026, at present not all components of the programme are designed to last for the full programme lifecycle.

CONTEXT: IMPACT INVESTMENT IN 2013

Defining impact investment

Impact investment opportunity and activity is currently high on the political agenda. The UK Government convened the G8 Social Impact Investment Forum in London in June 2013 as part of its G8 presidency[2]. However, in 2013, the impact investment market faces one consistent challenge: that impact investing is defined in numerous ways. It is possible that investors, donors, Development Finance Institutions (DFIs) and foundations, among other impact investment market participants, may never fully agree on a single definition, but there should be a common understanding of attributes and activities. In this regard, it is important to capture:

1. **General definitions:** A representative selection of the range of definitions in circulation as of 2013 (see Annex A);
2. **Definition for the Impact Programme:** DFID definition of impact investment as operationalised in the investment policies and criteria used for Fund selection in the Impact Programme: *"investment that have a clear strategy to invest in businesses that have a positive impact on the ''bottom of the pyramid' population as consumers, producers or workers with the expectation of financial returns."*[3]
3. **GIIN's definition:** which provides the lens through which it approaches the impact investment market globally: Impact investments *"are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return."*

Momentum behind impact investment

A consensus is emerging that impact investment is becoming a potent, if only partially understood, tool in supporting private sector initiatives to reduce poverty. There are many contributing factors to this consensus, the most relevant of which include:

- Increasing acceptance by governments and donors that **private capital deployed with positive intention** is a critical ingredient in strategies for reducing poverty
- *Growing pressure on asset-owners* to deploy capital in ways that help to address—and certainly do not exacerbate—environmental and social challenges
- *Interest from a range of investors* beyond DFIs and Multilateral Development Banks (MDBs) in impact investment[4].

2013 has seen a great deal of activity in the impact investment space, including the G8 focus on impact investment and the first GIIN Investor Forum in London[5].

Although interest is gathering among a diverse range of stakeholders in the role that impact investment can play, there is still a need to get greater common understanding around: (i) the types and costs of impact investment interventions, and (ii) what the interventions might achieve.

[2] The aim of the G8 initiative is to help boost the growing social impact investment market by exploring issues such as how the market can operate effectively on a global scale, and the role of social impact investing to help international development.

[3] From CDC website, accessed 14 January 2014 http://www.cdcgroup.com/dfid-impact-fund.aspx

[4] including family offices, High Net-Worth Individuals (HNWIs), corporate and philanthropic foundations, sovereign wealth Funds and even institutional asset-owners

[5] The December 2013 Update from GIIN notes: It has been a notable and energizing year for the impact investing field and the GIIN including a successful first full-year of Network Membership, a letter of support for G8 attention to impact investing published in the *Financial Times*, and the oversubscribed inaugural GIIN Investor Forum.

SIZE OF THE IMPACT INVESTMENT MARKET IN SUB-SAHARAN AFRICA AND SOUTH ASIA

Investment volumes

2013 Headline: As at January 2013, $1.13 billion was reported on ImpactBase for capital committed to Funds that invest exclusively in Sub-Saharan Africa and South Asia. This was 8 per cent of the total $14.19 billion reported globally. If we multiply this by a 'best-guess' estimate (for reasons explained below), it suggests an estimated baseline of $1.5 billion.

There are two core sources of data which track issues related to investment volume, but neither provides the exact volume of capital invested in the regions.

1. **The amount of capital committed reported on ImpactBase to date.** As at January 2013, of the 42 Funds focussed exclusively on Sub-Saharan Africa and South Asia, 31 reported total committed capital amounting to $1.13 billion. This figure cannot be considered completely accurate for a number of reasons[6]. By multiplying the ImpactBase figures for Funds investing exclusively in Sub-Saharan Africa and South Asia by 1.25[7] to take account of some of these wider variables, we have arrived at an estimate baseline figure for committed capital of $1.5 billion at January 2013.
2. **Information received from respondents to GIIN/JP Morgan (JPM) surveys.** Respondents to the 2012 survey (GIIN/JPM, 2013) made impact investments worth $8 billion globally in 2012[8]. Of the respondents, 34 per cent said their focus includes Sub-Saharan Africa, and 26 per cent include South Asia. The total amount of investment made by these respondents in the target regions is unknown.

> "As at January 2013, $1.13 billion was reported on ImpactBase for capital committed to Funds that invest exclusively in Sub-Saharan Africa and South Asia.

A GIIN/JPM (2011) study of over 2,200 private transactions made by 42 respondents between 1990-2011 found that respondents had made $4.3 billion of investments. In an accompanying survey of 52 respondents in the same report, GIIN/JPM also found that respondents planned to invest $3.8 billion globally in the following 12 months. This survey showed that 251 investments worth $297 million had been made in Sub-Saharan Africa. The aggregate figure for South Asia and South-East Asia was $240 million. Although the numbers and respondents are not directly comparable, this data suggests that 2012 investment is likely to represent a high share of the cumulative total invested to date. Investment in Sub-Saharan Africa and South Asia, meanwhile, is likely to represent a low share of global investment.

Another issue in the data is that different definitions are used when measuring capital. A number of figures exist where investment in these regions has been measured more broadly on a wide range of private equity (PE) or venture capital investments. A percentage of these figures is likely to be impact investment but has not been separately measured.[9] Existing data indicates that capital reported as impact investment is a relatively small share of total PE or venture capital invested in the regions concerned. Therefore, a change in the boundary of which DFI or PE capital is defined as impact investment could lead to a substantial change in the reported level of impact investment.

ImpactBase (www.impactbase.org) is a searchable, online database of impact investment Funds and products designed for investors, managed by GIIN. It is widely accepted as the most comprehensive resource for sourcing impact investments.

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[6] (i) Some Funds are not reflected on ImpactBase at all; (ii) some Funds are likely to stop updating their ImpactBase profile as they succeed in fundraising; (iii) approximately 26 out of 221 Funds include a focus on SSA and/or SA alongside other regions. Only total committed capital for this group ($1.34bn) is reported; (iv) figures refer to a cumulative figure – it is not possible to know what exits have been made; (v) 26% of Funds registered on ImpactBase that indicate an exclusive focus on SSA/SA have not reported committed capital.

[7] It could be argued that a higher figure should be used given the reasons why this figure will be under reporting the total. For now we have used the same figure as DFID used in the initial programme design calculations to multiply up. However, as more information becomes available this multiple should be reviewed.

[8] The current rate of annual increase of capital committed cannot be calculated. JP Morgan/GIIN (2013) report that respondents made $8bn of investments in 2012 globally and had made $36bn of investments since inception i.e. a large share of investments to date occurred in 2012.

[9] Dalberg (2011), *Impact Investing in West Africa* looked at a wide range of investment that generates social and environmental returns – i.e. not necessarily those who class themselves as impact investors. This estimated total investment in West Africa of $3.2 bn,-roughly two thirds from DFIs and one third from micro-finance institutions.

Funds investing in the target geographies

2013 Headline: As at January 2013, there were 42 impact investment Funds listed on ImpactBase targeting Sub-Saharan Africa and/or South Asia exclusively. This represents 19 per cent of the 221 Funds listed on ImpactBase.

The majority operate exclusively in Sub-Saharan Africa as Table 1 shows. A further 25 include a focus on Sub-Saharan Africa within a broader remit, while six Funds include a focus on South Asia within a broader remit. The latter categories are not mutually exclusive, and five Funds include both Sub-Saharan Africa and South Asia within a broader remit. So, in total there are approximately 68 Funds on ImpactBase that may invest in Sub-Saharan Africa/South Asia.[11]

Table 1: Funds investing in the target geographies

	Sub-Saharan Africa	South Asia	Sub-Saharan Africa and South Asia
ImpactBase listed funds targeting the region	28	13	1
Total targeting Sub-Saharan Africa and/or South Asia only	42		
ImpactBase listed funds including the region within their wider geographic target	25	6	26
Funds registered with GIIRS operational in the region	13	8	

An additional source of data comes from the GIIN/JP Morgan survey (GIIN/JPM, 2013). Roughly a third (34 per cent) of 99 impact investors surveyed by JP Morgan in 2012 said their focus included Sub-Saharan Africa, while a quarter (26 per cent) included South Asia. One pattern is similar across all these sources of data[12]: higher levels of activity are seen in Sub-Saharan Africa than South Asia.

[10] ImpactBase profile section "Target Geographies". This does not necessarily mean the Fund already invests in country or region listed in profile.

[11] The number of Funds is a critical indicator, but requires careful handling for a number of reasons: a) The number available is for those listed on ImpactBase only; b) Funds that are already established and not seeking to connect with investors may not list on ImpactBase and many nascent Funds will not yet be listed; c) Some Fund Managers may not define their offerings as impact investment offerings, so may not list on ImpactBase; and d) Funds targeting public markets are not included in ImpactBase and thus do not appear in the figures above. Such funds may have a focus on social return on investment.

[12] All sources except the responses to the DFID Impact Fund RFP, which has not been analysed from this perspective.

Types of impact investors and focus of investments

2013 Headline: There are four main types of market participants in impact investment in the target region, but no data on the breakdown of investment between them.

1. DFIs that are deploying capital, supplementing or accompanying current poverty-alleviation strategies with private sector oriented impact investment strategies.
2. Foundations that generally invest along certain priority 'verticals' or 'strategies', for example healthcare or 'access to finance', and often through their Program-related Investment windows, rather than with their endowments.[13]
3. Family offices that also tend to be interested in particular geographies, 'verticals' or themes, such as 'women's empowerment'.
4. Financial institutions and corporates or corporate foundations that either want to be seen to be 'giving back' or 'contributing' in some way, or genuinely 'get' that such investment makes business sense.

GIIRS data indicates some patterns for the company focus of investors in Sub-Saharan Africa and South Asia. A large proportion of GIIRS-rated companies in Sub-Saharan Africa lie in Kenya. The majority are smaller companies, with fewer than 250 employees and revenue below $2 million. Manufacturing companies are the most common, followed by agriculture and food companies. In South Asia, almost all GIIRS registered companies are based in India. The majority employ more than 250 staff, and financial and insurance companies are the most common. A higher proportion of South Asian companies reported revenues above $2 million (although nearly half reported revenues below $2 million).

> "The available data suggests a prevalence of private equity and debt in impact investment in Sub-Saharan Africa and South Asia.

Impact investment instruments

2013 Headline: The available data suggests a prevalence of private equity and debt in impact investment in Sub-Saharan Africa and South Asia. This trend appears to be consistent with global trends in the use of impact investment instruments.

There is currently little available data on the type of institutions investing in Funds in Sub-Saharan Africa/South Asia and the type of instruments used for investment.[14] For the general market, the Perspectives on Progress survey found a focus on private equity (83 per cent) and private debt (66 per cent) (GIIN/JPM, 2013).

This emphasis on private equity is reflected in Funds listed on ImpactBase. Thirty-seven of the 42 Funds that focus exclusively on Sub-Saharan Africa and/or South Asia reported investments in private equity/venture capital. Seven reported investment in real assets, and seven also reported fixed income investments. These trends were roughly in line with general trends amongst Funds listed on ImpactBase globally.

[13] Program-related Investment (in the US) is investment made to support charitable activities that involve the potential return of capital within an established time frame. The reason why this distinction is important is because it indicates that the Foundations are still mostly unwilling to 'risk' deploying endowment capital into Impact investment offerings.

[14] The JPMorgan GIIN annual Perspectives on Progress survey provides an overview for the market as a whole, but disaggregated data is not available.

SYSTEMS FOR REPORTING IMPACT INVESTMENT RESULTS

Systems in use or emerging

2013 Headline: While there is some standardisation of financial reporting on fund investments using established guidelines[15], social reporting is less standardised, although there are a number of initiatives to establish common methodologies for social reporting in the impact investment market which have made progress in recent years.

Where environmental, social and governance (ESG) issues are concerned, the association of European Development Finance Institutions had made considerable progress by the late 2000s in encouraging Fund Managers to adopt common methodologies and metrics for measuring and reporting on ESG. This is not the case in other areas.

- IRIS is the catalogue of generally accepted performance metrics that leading impact investors use to measure social, environmental, and financial impact. The Impact Programme is supporting the roll out of IRIS in Sub-Saharan Africa and South Asia.
- A number of investors use bespoke systems that cover both financial and social reporting, or social measurement systems 'bolted on' to existing financial reporting.[16]
- GIIRS is a rating system rather than a reporting system, but with cross-over. Alongside the overall GIIRS rating, there is an analytical platform where Funds can track reporting by their investees through tailor-made adaptations to the system.
- Intellecap, the coordinating organisation of the Indian Impact Investors Council, is developing a reporting tool tailored for Fund performance in India, 'PRABHAV'. The tool provides an assessment of risk and social and economic impact to support investor decision making. Risk assessment is heavily based on geographic data.[17]
- At the company level, those that have carbon credits, accreditation for fair trade, or other accreditations that require audit, make use of these systems for their wider reporting (d.Light in Nigeria is a leading example at present), including reporting to investors.

While impact investors are largely positive on the progress being made with impact measurement, 'inadequate measurement practice' remains a key challenge. In 2012, this was the sixth most critical challenge raised by impact investors in the GIIN/JPM survey, although it had dropped from being the third most critical in the 2011 survey (GIIN/JPM, 2013; GIIN/JPM, 2011).

Funds operating in Sub-Saharan Africa and South Asia adopting IRIS social and environmental performance metrics

2013 Headline: A significant majority of Funds listed on ImpactBase and noting they operate in Sub-Saharan Africa and South Asia also report use of IRIS metrics.

Twenty-seven of the 42 Funds (64 per cent) listed on ImpactBase as operating exclusively in Sub-Saharan Africa/South Asia recorded use of IRIS metrics. This is higher than the global average of 51 per cent (113 of 221 Funds).

One of the bottlenecks to measurement and comparison of impact investment Funds, and the underlying investments they make, has been lack of usage of universal metrics. So adoption of the IRIS social and environmental performance metrics is a valuable indicator of harmonisation and improvements in data reporting and exchange.

[15] Financial reporting tends to either follow the European Venture Capital Association (EVCA) guidelines, the British Venture Capital Association (BVCA) guidelines, or the equivalents in North America. Similarly, many will use International Financial Reporting Standards (IFRS) and International Private Equity Valuation (IPEV) guidelines.

[16] An example of this is PGGM's methodology for measuring the social impact of targeted ESG investments (Maas, K. & van den Dool-Gietman, S. 2012) 'Measuring the impact of targeted ESG investments' in *ECSP Insight:* 3 Erasmus Universiteit Rotterdam accessed 4 September 2013. http://www.erim.eur.nl/fileadmin/centre_content/strategic_philanthropy/RSM_ECSP_Insight_03-WEBFINAL.pdf

[17] Aavishkaar was the first Fund to test this tool, and captured some of the findings from its use in its 2013 annual report, *Aavishkaar Impact Report 2013*. This report is seen as a case of current leading practice in the field.

MARKET INFRA-STRUCTURE

Number of Funds profiled on ImpactBase

2013 Headline: 1111 investors are subscribers on ImpactBase, and 221 Funds and other investment products are profiled (as at January 2013).

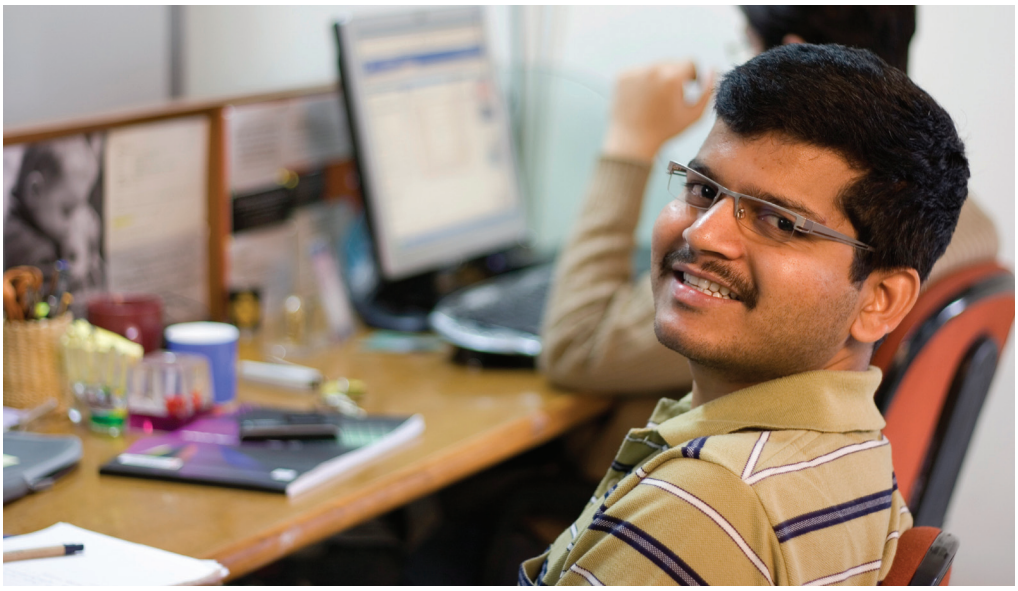
ImpactBase entries are an important source of information for indicators already listed. The level of participation in ImpactBase, as the main platform for investors to search for impact investment funds and products, is also a measure of market infrastructure and market coordination. Increased engagement in ImpactBase should indicate increased efficiency in the market, as well as growth of the market. The Impact Programme is supporting the further roll-out of ImpactBase in Sub-Saharan Africa and South Asia. As at January 2013, of the 1111 subscribers (investors) on ImpactBase, 273 had noted an interest in Africa, and 252 had noted an interest in Asia.[18]

Current levels of capacity and capacity-building needs

2013 Headline: A key concern for Fund Managers and, anecdotally, a reason often cited by investors for not investing in impact investment offerings is lack of fund manager capacity.

A 2011 Dalberg report[19] on impact investing in West Africa identified weaknesses in adapting fund strategies and investment activities to local climates as well as a lack of credible and consistent impact measurement practices. The Monitor Institute in its 2009 study[20] of the impact investment industry identified supporting the development of Fund Manager capacity as one of the most important interventions to unlock the supply of investment capital.

In an initial needs assessment for capacity building within the Impact Programme, the GIIN identified a need for stronger skills amongst new Fund Managers entering the impact investing field. Investors were also found to view Fund Manager skills and experience as primary selection criterion for investments. However, new investment managers are usually unable to invest in developing their internal capacity as the typical Fund management fees do not provide the necessary resources, and external support for staff training is inadequate.



[18] ImpactBase tracks investor subscriber interest level at macro-geographic levels. Africa includes North Africa, a non-DFID target region, and Asia includes South Asia as well as Southeast and East Asia. It is not possible at this time to disaggregate further. Additionally, for legal reasons accounts are created at the level of an individual and a given subscriber's investment preferences may not reflect the preferences of his/her unit as a whole.

[19] Dalberg Global Development Advisors (2011). "Impact Investing in West Africa." http://www.rockefellerfoundation.org/news/publications/impact-investing-west-africa

[20] The Monitor Institute (2009). "Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry." http://www.monitorinstitute.com/impactinvesting/documents/InvestingforSocialandEnvImpact_FullReport_004.pdf

Current sources of capacity building support

2013 Headline: There is a lack of data on capacity building provision in the impact investment markets in Sub-Saharan Africa and South Asia. Anecdotal evidence from early engagement with impact investment market stakeholders suggests a variety of capacity building activities provided by investors and industry service providers to Fund Managers. Provision of technical assistance to investee companies also appears to be common practice.

A needs assessment undertaken by the GIIN in 2013 identified two broad categories of training available for Fund Managers in Sub-Saharan Africa and South Asia.

1. **Commercial sector training** primarily held alongside existing PE conferences by groups like SuperReturn, Emerging Markets Private Equity Association (EMPEA), and various local venture capital associations. Typically, these are short 0.5 to 1 day "Master classes" focused on specialised topics such as fundraising or exits. Firms also sometimes have access to financial modeling courses aimed at training staff of the large auditing firms.
2. **Training organised by actors in the impact investment space,** primarily on topics related to social and environmental performance[21]. In addition, DFIs typically offer ESG training to their investees. The only training identified on investment skills in the impact space is the Aspen Network for Development Entrepreneurs (ANDE) Fund Management training.

> "There is a lack of data on capacity building provision in the impact investment markets in Sub-Saharan Africa and South Asia.

Capacity building also comes in different forms. Emerging Fund Managers tend to seek out an adviser who can help them to start in key areas[22] that they know investors will probe during due diligence. It is difficult to capture activity in these areas because there are few firms, if any, that have specialised in providing this sort of assistance, largely because of cash flow constraints on the part of Fund Managers. In this regard, there is a clear gap in the market.

Impact investors and market facilitators (such as DFIs and Foundations) are also found to be an important source of technical assistance to Fund Managers, even covering some element of Fund Manager costs at times. Engagement with impact investors and Fund Managers that are active in Sub-Saharan Africa and South Asia in the first year of the Impact Programme suggests that provision of technical assistance to investee companies is common practice.[23]

In summary, the current situation is that capacity building is provided non-systematically, generally organised by Funds on an as-needed basis, and provided by boutique firms or individual consultants.

[21] For example, Impact Investment Exchange (IIX) has an Impact Academy and Aspen Network of Development Entrepreneurs (ANDE) has an impact investing orientation training.

[22] ESG, management-company budgeting, developing a Fund model, preparing the fund pipeline etc.

[23] Both debt and private equity funds are often accompanied by a TA 'underlay' of up to 10% of the total capitalisation of a fund.

INVESTOR PERCEPTIONS

Investor interest/confidence in opportunities in Sub-Saharan Africa and South Asia

2013 Headline: There is currently a lack of quantitative data that could be used to track market confidence over time (with the same respondents), though there is much qualitative information about challenges and perceptions.

There is other existing data that can be used as proxy indicators:

Confidence in regions:
According to the JPM/GIIN survey of 2012, respondents' perceived the top three regions by robustness of investment opportunities to be:

1. United States and Canada
2. South Asia[24]
3. Latin America and the Caribbean.

Awareness of, and interest, in the region:

- Of the 99 respondents to the 2012 GIIN/JPM survey, 34 per cent said their focus includes Sub-Saharan Africa, and 24 per cent include South Asia. If this survey is repeated and if respondents are of similar profile, it can be used as a proxy indicator but triangulation with other data will be needed.
- In January 2013, 273 ImpactBase subscribers (25 per cent) had expressed an interest in Africa,[25] and 252 (23 per cent) had expressed an interest in Asia. Their interest in the regions can be used as a proxy indicator of awareness, despite the misalignment of geographical definitions. Of 221 Funds listed on ImpactBase as at January 2013, 19 per cent invest exclusively in Sub-Saharan Africa or South Asia, while 12 per cent include the regions on their area of focus.

Confidence and challenges:
GIIN/JPM survey respondents ranked a "lack of appropriate capital across the risk/return spectrum" and "shortage of high quality investment opportunities with track record" as the top challenges in emerging markets .

[24] It should, however, be noted that the majority of data on impact investment perceptions and activity in South Asia relates primarily to India, which is home to the largest domestic and foreign Impact Investment market in the region.

[25] Africa includes North Africa, and is not just Sub-Saharan Africa.

FINANCIAL AND SOCIAL RETURNS FROM IMPACT INVESTMENT

Expected financial and social returns from different impact investment offerings

2013 Headline: There are no definitive answers on the types of financial and social returns that can be expected from different types of impact investment. Of the Funds listed on ImpactBase in January 2013, the majority (79 per cent) targeted risk-adjusted market rates of return. This trend is fairly consistent across geographies, with 82 per cent of the Funds focussed exclusively on Sub-Saharan Africa and 77 per cent for those focused exclusively on South Asia targeting risk-adjusted market rates of return.

The question of what blended financial and social returns can be expected from different types of impact investment is central to much discussion in the impact investment industry.

- **The trade-off question:** Do most/all investors perceive some trade-off between financial and social returns?
- **Expectations and Fund types:** To what extent do perceptions of financial and social returns (or financial versus social returns), vary with Fund types – instruments, sizes, geographies, longevity and so on – and investment types – early stage, growth capital, later stage etc.?
- **Measuring the 'gap' with traditional Funds:** How big a gap do investors see between the financial returns of impact investment offerings and 'traditional' Funds? Are there some offerings in which they see no gap at all, or even hope for superior returns? Which 'traditional' benchmarks are used or should be used to measure this gap?
- **Impact-elasticity of demand:** To what extent does greater impact influence the willingness to forgo financial return, if indeed such a trade-off is perceived by the investor?

At the time of writing there are relatively few answers. ANDE (2011)[27] suggest that a majority of impact investors are initially uninterested in financial returns, although there exists a pool of investors that do expect traditional financial returns, representing a diametrically opposed investor profile in the social impact sector. In the GIIN/JPMorgan Perspectives survey (2013), 65 per cent of respondents indicated that they seek risk-adjusted market rate returns. It could be expected that a clearer segmentation of the impact investing market would allow a self-selection of investors according to financial and social return preferences.

Novastar investee company: Bridge International Academies, Kenya

[26] 99 respondents were asked to rank their top three challenges. Challenges were then scored as follows: (number of respondents that ranked it first × 3) + (number of respondents that ranked it second × 2) + (number of respondents that ranked it third × 1). The two listed here scored highest: "Lack of appropriate capital across the risk/return spectrum" (143); "Shortage of high quality investment opportunities with track record" as the top challenges in emerging markets" (140)

[27] ANDE (2011), *Coordinating Impact Capital: A New Approach to Investing in Small and Growing Businesses* http://www.scu.edu/socialbenefit/resources/upload/Coordinating-Impact-Capital.pdf

Impact investment that reaches the base of the pyramid

2013 Headline: Early engagement with impact investors suggests the majority are not as tightly focussed on impact at the BoP as the Impact Programme is, and that where BoP impact is a priority, fairly broad definitions are used with limited specific information.

One of the early findings as CDC engages with its shortlisted Fund Managers is that other investors (LPs in funds) are often not as strongly focused on the BoP as the Impact Programme. One of the reasons for screening out several of the 121 applications was insufficient focus on benefits to the BoP.

> One of the reasons for screening out several of the 121 applications to the DFID Impact Fund was insufficient focus on benefits to the BoP.

The IRIS Registry, a website where IRIS users publicly disclose their performance metrics, however, does indicate that impact at the BoP is a common focus area for reporting organisations in mid-2013.[28] ImpactBase data also indicates that more than three quarters of investors with an interest in Asia and Africa also have an interest in investments that focus on improving "Access to Basic Services"[29].

However, when Funds or companies do focus on the BoP, this may be loosely defined, with limited information on the specific income/poverty levels of the targeted populations. The original terminology relating to the BoP as the 'next four billion' referred to the half of the world's population living on or under approximately $3,000 per person per year (under $10 per person per day) in purchasing power parity (PPP). This level is high relative to poverty lines used in international development[30] and would, therefore, not meet a definition more oriented to the DFID Impact Fund.

The focus for investors and businesses is more likely to be qualitatively on those who are marginalised from markets, lack access to income opportunities, markets and essential goods and services needed for livelihoods. The existing practice to track impact at the BoP for most investors is to report total people reached, with some indication that they are BoP.

This suggests that many Funds may be reaching people very broadly defined at the BoP (which could be 80-90 per cent of the population in some Sub-Saharan African or South Asian countries by absolute measures). At present, however, there is little evidence in the public domain regarding more rigorous and targeted approaches by Funds to understanding reach to low-income groups. This represents an important information gap to be addressed by the Impact Programme, both through research and market infrastructure development, and through direct investment in BoP focussed Funds and enterprises.

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[28] "Number of low-income individuals or households that were clients during the reporting period" featured amongst the top 85 IRIS metrics (metrics with 30 or more "Data Points").

[29] 190 investors that report an interest in Asia (75% of total) and 211 that report an interest in Africa (77% of total) also have an interest in 'access to basic services'.

[30] $3,000 per person per year is discussed in 'The Next 4 Billion' (Hammond et al 2007) http://www.wri.org/publication/next-4-billion. This is equivalent to around just under $9 per person per day (2005 PPP), whereas commonly used international poverty lines (based on World Bank poverty data) are $1.25, and $2 per person per day (at 2005 PPP), which are also reflected in IRIS metrics of 'very poor' and 'poor'. Sometimes poverty lines of $2.50 and $3 (2005 PPP) are used by development institutions.

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ANNEX A

Definitions of Impact Investment in 2013: A Representative Sample	
Big Society Capital	The provision and use of capital to generate social as well as financial returns. Social investors weigh the social and financial returns they expect from an investment in different ways. They will often accept lower financial returns in order to generate greater social impact.
DFID (The Impact Programme)	Investment that have a clear strategy to invest in businesses that have a positive impact on the 'bottom of the pyramid' population as consumers, producers or workers with the expectation of financial returns.
Enclude	"Impact" is the ability of any organisation to offer services and products to those without access ("inclusion") and being able to scale the services and products within a financially viable business model ("sustainable").
Ignia	Investments in companies that are scalable and deliver needed services to the base of the pyramid.
The GIIN	Investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.
Impact Investing Exchange Asia	Economically, socially and environmentally sustainable businesses.
Indian Impact Investors Council (IIIC)	In order to qualify as members of the IIIC, investors must show an intentional focus on delivering social impact in at least two thirds of investments (defined as investments with at least half of beneficiaries classed as low income or underserved (US$2-8 per capita per day 2005 PPP)).
JP Morgan Social Finance	Investment "with the dual objective of achieving both positive impact and financial return"
Overseas Private Investment Corporation (OPIC)	Investments that deliver social and environmental benefits to emerging markets while at the same time generating profit.
The Rockefeller Foundation	Investments with a) meaningful intent for change; b) evidence of tangible impacts; and c) a theory of change for each Impact Investment.
SAII	Market-based strategies in sustainable business models to provide both financial returns and measurable social or environmental impacts.
Sankalp Forum	Impact Investments into sustainable and scalable social enterprises.
Triodos Bank	Making money work for positive social, environmental and cultural change.
UK Cabinet Office	Social Impact Investments are financial investments that not only have economic benefits, but also focus on generating a positive impact on society.
Vox Capital	Investments in businesses that serve the base of the pyramid with products and services with the potential to improve the lives of low income populations.

[31] Summarised and adapted from *Accelerating Impact: Achievements, Challenges and What's Next in Building the Impact Investing Industry*, a report published by The Rockefeller Foundation in 2012.

Contact The Impact Programme: Programme Coordination Unit (PCU): theimpactprogramme@uk.pwc.com

Companion report: The Impact Programme Annual Report 2013 **bit.ly/1jZmvPT**

www.theimpactprogramme.org.uk

The Department for International Development (DFID) leads the UK's work to end extreme poverty. We're ending the need for aid by creating jobs, unlocking the potential of girls and women and helping to save lives when humanitarian emergencies hit.

We are responsible for:

- Honouring the UK's international commitments and taking action to achieve the Millennium Development Goals.
- Making British aid more effective by improving transparency, openness and value for money.
- Targeting British international development policy on economic growth and wealth creation.
- Improving the coherence and performance of British international development policy in fragile and conflict-affected countries.
- Improving the lives of girls and women through better education and a greater choice on family planning.
- Preventing violence against girls and women in the developing world.
- Helping to prevent climate change and encouraging adaptation and low-carbon growth in developing countries.

The Global Impact Investing Network (GIIN) is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry.

CONTACT: Sapna Shah, Manager, Membership & Strategic Relationships
E: sshah@thegiin.org | **T:** +1 646 837 7430

CDC Group is the UK's Development Finance Institution (DFI) wholly owned by the UK Government's Department for International Development (DFID). Founded in 1948, it is the world's oldest DFI with a history of making successful investments in businesses which have become industry leaders thereby having enormous impact on the private sector in their country and region as well as improving the lives of many individuals. CDC's mission is to support the building of businesses throughout Africa and South Asia, to create jobs and make a lasting difference to people's lives in some of the world's poorest places.

CONTACT:
Gurmeet Kaur, Head, Impact Investments | **Marius Chirila,** Investment Analyst, Africa Funds
E: gkaur@cdcgroup.com
T: +44 (0)20 7963 4700
E: mchirila@cdcgroup.com
T: +44 (0)20 7963 4700

PwC UK helps organisations and individuals create the value they're looking for. We're a member of the PwC network of firms in 157 countries with more than 184,000 people who are committed to delivering quality in assurance, tax and advisory services. The Impact Programme is managed by a Programme Coordination Unit (PCU) which has been commercially tendered to PwC, working in collaboration with CDC and the GIIN.

CONTACT: Carolin Schramm, Programme Manager
E: carolin.c.schramm@uk.pwc.com | **T:** +44 (0)7808 105691

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