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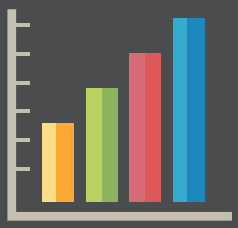
# THE IMPACT PROGRAMME
# ANNUAL REPORT 2014

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THE IMPACT PROGRAMME

## LIST OF ACRONYMS

**AIMS –** Advancing Investment Management Skills
**AUM –** Assets Under Management
**BoP –** Base of the Pyramid
**DFI –** Development Finance Institution
**DFID –** Department for International Development
**EAV –** Energy Access Ventures
**ESG –** Environmental, Social and Corporate Governance
**FMO –** Financierings Maatschappij voor Ontwikkelingslanden (Netherlands Development Finance Company)
**GIIN –** Global Impact Investing Network
**PE –** Private equity
**PPP –** Purchasing Power Parity
**RFP –** Request for proposals
**TA –** Technical Assistance

# CONTENTS

# EXECUTIVE SUMMARY

## THE IMPACT PROGRAMME WAS LAUNCHED BY THE UK DEPARTMENT FOR INTERNATIONAL DEVELOPMENT (DFID) IN 2012. OVER 16 YEARS, DFID PLANS TO PROVIDE UP TO £197 MILLION TO CATALYSE THE MARKETS FOR IMPACT INVESTMENT IN SUB-SAHARAN AFRICA AND SOUTH ASIA TO BENEFIT POOR AND LOW-INCOME PEOPLE, IMPROVING ACCESS TO AFFORDABLE GOODS AND SERVICES AND INCOME GENERATING OPPORTUNITIES AT THE BASE OF THE PYRAMID.

The DFID Impact Fund, managed by CDC, made its first commitments during 2014 totalling $30 million in two funds. It is on course to close two more funds in 2015. The first fund, Novastar Ventures East Africa ('Novastar'), reached a first close in March 2014 with $15 million committed by the DFID Impact Fund. The second fund, Injaro Agriculture Capital Holdings ('Injaro'), reached a final close in September 2014 in which the CDC is the largest shareholder having also committed $15 million.

The reporting framework for the DFID Impact Fund was established with these first two Fund Managers and the Technical Assistance (TA) grant agreements were being finalised at the end of Year 2. The portfolio companies of Novastar and Injaro have so far reached over 240,000 people at the Base of the Pyramid (BoP), or low-income target beneficiaries, since CDC's investment. The DFID Impact Fund has also been instrumental in catalysing further investments from both private and public investors.

Several initiatives to support market building for impact investment in Sub-Saharan Africa and South Asia have also been launched or scaled up this year. These have been primarily delivered by the Global Impact Investing Network (the GIIN) and included:

- Launching the 'Base of the Pyramid Basic Services Programming Track' which brings together investors who are active or interested in financing access to basic services for underserved populations at the BoP.
- Further development of the ImpactBase platform, which seeks to provide a global online directory of impact investing vehicles to connect impact investors. At the end of 2014, the database had more than 1,700 'subscribers' (Asset Owners) and 329 'contributors' (Asset Managers); nearly 40% of subscribers indicated an interest in investing in Sub-Saharan Africa or South Asia.
- Piloting the Fundraising and ESG (Environmental, Social & Corporate Governance) modules of the Advancing Investment Management Skills (AIMS) Fund Manager training programme.

The GIIN also initiated a number of research studies on the impact investment landscape in countries in South Asian and Sub-Saharan African during 2014. Chapters on three of six South Asian countries were published in 2014 and the remaining three will be published in spring 2015. Chapters on countries in East Africa will be published during 2015 and aim to increase transparency and reduce information asymmetries for market participants operating in these countries.

The Impact Programme also undertook a major survey on the state of the impact investment market across Sub-Saharan Africa and South Asia[1]. The findings echo many of the trends highlighted at the global level in the *J.P. Morgan and GIIN 2014 Impact Investor Survey: Spotlight on the Market* and show an early-stage, diverse, evolving and steadily growing ecosystem in Sub-Saharan Africa and South Asia. Respondents had clear, confident voices which highlighted optimism as well as a range of challenges, opportunities and recommendations for the investment markets in these regions.

A number of key insights have resulted from these activities and, despite an increasing number of actors and committed capital in impact investing in Sub-Saharan Africa and South Asia, the DFID Impact Programme is operating in a still-evolving sector where there is little standard practice and a relatively high degree of uncertainty. Over the last year we have tackled questions such as:

[1] The Impact Programme market survey report will be available publicly May 2015

- What investment terms and structures may impact funds require, given their differences to generic private equity (PE) funds?
- How can we structure TA to support funds to realise successful investments that reach the BoP?
- Who are the beneficiaries of our investee businesses, and how do we work with our funds to track their progress and measure their impact?
- How can we effectively provide capacity-building support to the market?

> Fit-for-purpose investment terms are needed that appropriately reflect the strategy of impact funds and ensure sustainability of impact Fund Managers.

We found few Fund Managers investing at the BoP with a track record of success but an increasing number of Development Finance Institutions (DFIs) earmarking specific envelopes of capital with which to target impact investments. Nevertheless, this segment is very young and it has generally taken longer than expected to align investor expectations. As we reported last year, fit-for-purpose investment terms are needed that appropriately reflect the strategy of impact funds and ensure sustainability of impact Fund Managers.

Many investors provide some level of TA for their Fund Managers or investees[2] and the first two DFID Impact Fund investments have other sources of TA funding available as well as that provided by the DFID Impact Fund. There is a general lack of transparency and coordination in terms of what TA funding is aiming to achieve and how these resources can be applied to drive the best results for investments. We are working with other TA providers on a fund-by-fund basis to, where possible, coordinate application of TA and understand what good practice might look like.

The development of a reporting framework to use with Fund Managers and portfolio companies highlighted a diversity in how impact at the BoP is reported. The Impact Programme produced a discussion paper *Tracking reach to the BoP through impact investing*[3] which summarises current practices in defining and counting the BoP. The programme also defined the assumptions used to characterise low-income target beneficiaries:

- Low access to affordable, quality basic goods and services such as education, health, energy, water and food, resulting in limitations on living standards.
- Insecure income and vulnerability to income shocks, whether due to climate or insecurity of informal markets.
- Low income due to reliance on un-skilled employment, agriculture, or other low-productivity, part-time or informal market opportunities.
- Located in underserved areas and offering inadequate infrastructure, such as dense slums without sanitation or remote areas with insufficient transport.
- Limited access to markets, such that they gain poor returns for their produce or enterprise, struggle to find affordable products suited to their needs and pay high costs (in effort or cash) for goods and services.

Beneficiaries are expected to fall across a number of income bands with a substantial share falling under the $2.50 and $4 per person per day (2005 PPP) poverty lines.

Initial pilots for Fund Manager capacity-building modules, developed and delivered as part of the AIMS programme run by the GIIN, also echoed the theme of a diverse, young and evolving market. There were a wide range of capabilities and training needs identified and it was found that training could be more powerful when several team members from one fund attended, unfettered by issues of confidentiality, rather than one person from across several funds.

Novastar investee company: Bridge International Academies, Kenya

[2] The Impact Programme Market Survey 2014 found 61% of investors in Sub-Saharan Africa and/or South Asia used TA often or nearly always (n=47).

[3] *Tracking reach to the Base of the Pyramid through impact investing* is available on the Impact Programme website: www.theimpactprogramme.org.uk

# INTRODUCTION

## Context

Impact investments are investments that are made with the intent to generate and measure a social and/or environmental return as well as a financial one. Some 'impact investors' focus on funding innovative enterprises where social impact serves the poor as consumers, producers, suppliers or employees. This type of impact investment capital is sometimes deployed with a willingness to accept greater uncertainty, longer time horizons and lower financial returns than the risks would normally justify.

The impact investment market is diverse and impact investors are a broad spectrum which include DFIs, governments, foundations, family offices, high net worth individuals, angel investors, pension and insurance funds and corporations' social investment units.

DFID believes that the impact investment market in Sub-Saharan Africa and South Asia represents an opportunity to help reduce poverty in a scalable, financially sustainable way.

> "The DFID Impact Fund aims to provide finance to 70 – 100 enterprises in Sub-Saharan Africa and South Asia with the potential to reach at least 5 million poor and low-income people.

## The Impact Programme

The Impact Programme has two core components: the DFID Impact Fund managed by CDC and a range of market-building activities.

The DFID Impact Fund is a fund of funds that is managed by CDC Group, the UK's Development Finance Institution. It aims to provide finance to 70 – 100 enterprises in Sub-Saharan Africa and South Asia with the potential to reach at least 5 million poor and low-income people. This will be done via impact investment intermediaries and catalyse additional private capital. It will make investments of up to £75 million over 13 years. These investments are targeted at enterprises that benefit poor people as consumers, suppliers or employees in sectors such as healthcare, agricultural services, energy, housing, education and safe water.

In addition, DFID is partnering with organisations to support broader market development in these regions. Market building activities in 2014 have been led by the GIIN, with DIFD extending a partnership to B Lab to progress research and knowledge sharing on the impact investment market; resources to promote impact measurement standardisation; and a capacity-building programme for impact Fund Managers.

## The purpose of this report

This report is a summary of the findings, activities and outputs from the second year of the Impact Programme. It outlines insights from the development of the core elements of the programme and activities undertaken and progress made during 2014. It will be of particular interest to donors, members of the investment community and Fund Managers.

# YEAR TWO: FINDINGS, ACTIVITY AND PROGRESS

## Greater understanding of the market and the role of the Impact Programme

Over the second year of the Impact Programme, a number of insights have resulted from the DFID Impact Fund's interacting with the market, investing in Fund Managers and aligning with other investors; the GIIN's work to build the market for impact investment; and the Programme Coordination Unit's work on implementing Technical Assistance and the Results Framework. These are highlighted in 'Insight' boxes throughout this report.

Additionally, the Impact Programme conducted a survey[4] into the state of the impact investment market in Sub-Saharan Africa and South Asia in October and November 2014 (report to be published mid-2015). The *J.P. Morgan and GIIN 2014 Impact Investor Survey*, the GIIN's *ImpactBase Snapshot* and *The Landscape for Impact Investing in South Asia* report by GIIN and Dalberg also inform perspectives on the impact investing market from a global stand point.

### Update on the impact investing market in Sub-Saharan Africa and South Asia

**The impact investment market in these regions remains diverse but is also young and evolving:** Responses to a range of questions regarding expected financial and social returns, social impact strategies and requirements for social impact reporting asked in the Impact Programme's market survey evidenced the wide diversity of expectations and ambitions in this space. This is in line with global trends reported in the *J.P. Morgan and GIIN 2014 Impact Investor Survey* and the GIIN's *ImpactBase Snapshot* (March 2015), which states *"There are investment opportunities for nearly every investor, regardless of their target geography, asset class, impact theme, or rate of return".*

In addition to the diversity of approaches of investors, there was also diversity in views about the role of 'impact investments' in the wider market, with two areas of debate prominent in interviews, namely:

- Whether investments that tolerate lower returns are essential for higher risk businesses that are innovative, early stage and / or reaching the lowest income groups OR whether this approach undermines the growth of the market in not being sufficiently commercial in its approach.
- Whether investments that seek higher returns are exactly what the market needs in order to achieve scale and attract mainstream capital OR whether these deals inevitably create pressure for larger deal sizes, less risky investments and businesses that serve the middle-income groups, as opposed to BoP-impact businesses.

Novastar investee company: Bridge International Academies, Kenya

[4] The survey collected views from 103 organisations, 99 of which completed an online survey and 21 of which completed interviews. Fifty-two of the online respondents and 18 of the interviewees were investors; other respondents were active stakeholders in the market

**Investment volumes likely to be close to $10 billion in each region:** Accurately understanding volumes channelled as impact investments to these regions is challenging to monitor and report. The Impact Programme market survey recorded committed capital of just over $10 billion to Sub-Saharan Africa from 14 Asset Owners and committed capital of $6 billion to South Asia from 11 Asset Owners. We know these figures do not capture the full market and are heavily weighted by DFI commitments to the private sector in the regions, which were captured in full as impact investments. Nevertheless, these figures give a sense of scale similar to the investment volumes reported in the *J.P. Morgan and GIIN 2014 Impact Investor Survey.*

The *J.P. Morgan and GIIN 2014 Impact Investor Survey* examines Assets Under Management (AUM) and reports a global total of $46 billion, including $6.9 billion (15%) AUM in Sub-Saharan Africa and $4.6 billion (10%) in South Asia (sample of 124). *The Landscape for Impact Investing in South Asia* report by GIIN and Dalberg recorded a total $8.9 billion deployed in the region (the majority of which was deployed between 2009-2014).

> Steady growth is forecast in both regions with slightly more emphasis on Sub-Saharan Africa than South Asia

**DFIs remain key players in this space and are likely to do so for the foreseeable future:** DFIs accounted for less than half of all Asset Owners reporting in the Impact Programme market survey but accounted for 97% of capital commitments in both regions, in part because most DFIs reported on the entirety of their private sector investments, rather than just for specific funds or envelopes targeting certain types of social impact[5]. *The Landscape for Impact Investing in South Asia* report by GIIN and Dalberg finds a similar trend, noting DFIs account for between 65-95% of impact capital reported.

Other Asset Owners include pension funds, insurance companies and foundations. Amongst the market survey respondents, foundations were found to invest more in Sub-Saharan Africa than South Asia. Pension funds were found to invest approximately the same in both regions, being more significant than foundations in South Asia and less significant than foundations in Sub-Saharan Africa.

**Steady growth forecast in both regions with marginally more emphasis on Sub-Saharan Africa than South Asia:** A number of reports released in 2014 show impact investing in Sub-Saharan Africa and South Asia is increasing, with greater maturity in South Asia (specifically India[6]) but perhaps more growth in Sub-Saharan Africa.

The *J.P. Morgan and GIIN 2014 Impact Investor Survey* shows an increasing number of players globally and an increase of 10% between capital committed for global impact investment in 2012 and that reported in 2013. Looking forward, respondents indicated a forecast growth of 19% between 2013 and 2014, with more deals and a greater mean deal size in 2014 compared to 2013.

Whilst these are global trends, 70% of AUM reported were in emerging markets and 66 of their 125 respondents have allocations in Sub-Saharan Africa. This is a greater proportion of respondents than any other region (South Asia has 47 respondents with allocations).

**Growth and Venture stage companies are the primary target for investors:** The Impact Programme market survey found that most impact investment activity in the target regions focuses on Growth or Mature stage companies (61% of investors focus on these in Sub-Saharan Africa and 73% in South Asia). However, investors in Sub-Saharan Africa focus more frequently on Venture stage companies than investors in South Asia (27% versus 10%). At the global level, the *J.P. Morgan and GIIN 2014 Impact Investor Survey* also found that the majority of impact investors (89%) focus on Growth or Mature stage companies.

**Food and agriculture, energy and microfinance and financial services appear to be the most popular sectors for investment:** The Impact Programme market survey indicates that the two most popular sectors for investors in Sub-Saharan Africa are food and agriculture (70%), followed by energy (53%). Microfinance and financial services were both targeted by over half of all investors in South Asia. The *J.P. Morgan and GIIN 2014 Impact Investor Survey* identified similar trends at the global level, with the highest number of respondents planning to increase their exposure in food and agriculture (33 respondents) followed by healthcare (25 respondents) and financial services (excluding micro-finance; 23 respondents).

**Risks are perceived to be greater in Sub-Saharan Africa than South Asia but the top two issues were consistently ranked as (i) business model execution and management risk; and (ii) liquidity and exit risk:** The Impact Programme market

[5] In the *J.P. Morgan and GIIN 2014 Impact Investor Survey*, DFIs accounted for 6% of respondents but 42% of assets..

[6] For more country by country information for the South Asia region, see GIIN/Dalberg (2014) *The Landscape for Impact Investing in South Asia* http://www.thegiin.org/cgi-bin/iowa/resources/research/642.html

survey found the same top two risks identified in Sub-Saharan Africa and South Asia as the *J.P. Morgan and GIIN 2014 Impact Investor Survey*, although risks were rated higher in Sub-Saharan Africa than they were in South Asia.

**Top market constraints included lack of skills, knowledge and experience (of Fund Managers and of executive teams), market data to evaluate opportunities and investable propositions with a successful track record in both regions.** In interviews for the Impact Programme market survey, operating models and transaction costs were also cited as important constraints. At the global level, the *J.P. Morgan and GIIN 2014 Impact Investor Survey* highlighted the lack of appropriate capital across the risk/return spectrum and, as with the Impact Programme market survey, the shortage of high quality investment opportunities with track record as key constraints to the development of the market.

**Suggestions for growth and effectiveness of the market:** The organisations interviewed in the Impact Programme market survey were vocal and presented an array of strong, clear suggestions on what is needed for a more effective impact investment market in Sub-Saharan Africa and South Asia. Suggestions included: greater disaggregation of the market; leveraging investment from different market segments through hybrid financing arrangements; increasing availability of debt and a wider range of instruments; revising acceptable investment fees for the BoP investment manager segment; improving investee access to Business Development Services; building stronger capacity in the global South and increasing the evidence base.

The *J.P. Morgan and GIIN 1024 Impact Investor Survey* posed additional questions regarding investors' perceptions of the value of government policies. In particular, over 90% of respondents felt that tax credits or subsidies were either somewhat helpful or very helpful in supporting the development of the market.

## The DFID Impact Fund, managed by CDC

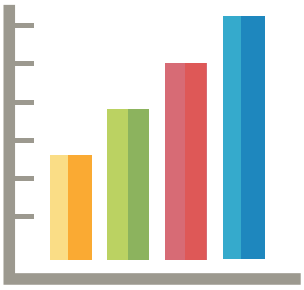
### Fund progress

The first two commitments were made in 2014. Novastar Ventures East Africa ('Novastar') reached a first close at $45 million in March 2014 with commitments from the DFID Impact Fund managed by CDC ($15 million), FMO, Norfund, JP Morgan Social Finance as well as other private investors. Injaro Agriculture Capital Holdings ('Injaro') reached a final close of $49.2 million in September 2014 in which the DFID Impact Fund is the largest shareholder shareholder ($15 million).

A third investment, Energy Access Ventures (EAV), was under due diligence in 2014 and reaching a financial close as this report was going to print in early 2015. Due diligence is underway on another fund that is anticipated to reach a close in 2015.

| FUND | TOTAL FUND SIZE ($) | CAPITAL COMMITTED BY CDC ($) | NUMBER OF INVESTEE COMPANIES |
|---|---|---|---|
| Novastar Ventures East Africa | $45M | $15M | 5 |
| Injaro Agricultural Capital Holdings | $49.2M (final) | $15M | 7 |
| **Total** | **$94.2M** | **$30M** | **12** |

- Total BoP beneficiaries reached by portfolio companies since DFID Impact Fund investment: **241,712**[7]
- Total external capital co-invested with the DFID Impact Fund (US$): **46.3M**[8], including **$9.3M** private investment.



[7] This figure includes low-income clients, distributors, employees and suppliers (plus household members where applicable) reached by portfolio companies since DFID Impact Fund investment.
Figures reported separately by Fund Managers (Novastar and Injaro) may differ due to Fund Manager inclusion of:
•beneficiaries reached prior to DFID Impact Fund investment (e.g clients that purchased from the company before DFID Impact Fund investment, but not after).
•beneficiaries reached through institutional or commercial clients (DFID Impact Fund figure reported here includes only direct/domestic clients).
This figure is provisional and is based on latest available data from Fund Managers (Q4 2014).

[8] $29.3M in Novastar at First close and $17M in Injaro, excluding any capital invested in Injaro at first close

## INSIGHTS FROM DFID IMPACT FUND ENGAGEMENT WITH THE MARKET

During 2014, the DFID Impact Fund team engaged with a range of Fund Managers and potential Limited Partners (LPs) as part of their pipeline building and due diligence process. Insights gained from this provide additional evidence on the state of the market that is fast developing yet nascent:

- Funds vary considerably regarding their interpretation of 'impact'. As a result, while the overall market is large, funds with a clear BoP focus and a viable investment strategy are few. Those we came across are at a nascent stage with limited track record. It is unclear how new or existing Fund Managers will be attracted to develop investment strategies that focus on BoP businesses and what role donor agencies may need to play in building this market.
- DFIs are increasingly becoming the most prominent investors in this market, especially from the perspective of making sizeable commitments. While some private investors are coming into the market, they are few and mostly committing to funds with a lower risk proposition. In some cases, we have seen the presence of DFI investors, such as the DFID Impact Fund, catalysing interest from private investors.
- Deal execution can often take longer than anticipated, largely as most impact Fund Managers targeting the BoP are first-time teams requiring capacity building across different areas. It is as yet unclear whether institutional investors could be expected to engage with first-time Fund Managers in a similar capacity.
- There is a need to modify the standard PE fund investment terms to specifically fit with the needs of Fund Managers focusing on BoP businesses. It is also as yet unclear if bespoke investment terms are acceptable to the wider industry/co-investors.
- Most Fund Managers in the market appear focused on providing equity which seems appropriate considering the need for early-stage capital by BoP businesses and the level of risk involved. However, at the same time, several underlying businesses need working capital through debt financing to grow. This appears to be a gap that is currently not being met effectively.
- When compared to parts of Africa, only a handful of Fund Managers seem to be focused on South Asia (excluding India). This is largely due to the frontier nature of some south Asian economies where the capital markets and regulatory environment do not support PE investing.
- Apart from financial inclusion, agriculture and renewable energy appear to be attracting the most investor interest in the BoP space. There appears to be limited deal flow in sectors such as education and health, which are attractive from an impact perspective.

> "DFIs are increasingly becoming the most prominent investors in this market, especially from the perspective of making sizeable commitments.

**Novastar Ventures East Africa – progress since Annual Report 2013**
Novastar is a sector-agnostic fund. It invests in innovative early-stage businesses that focus on proven demand for basic goods and services with business models that benefit BoP consumers through widening access, improving quality, and/or lowering cost. The DFID Impact Fund committed $15 million to their first close in March 2014.

Novastar's portfolio comprised five companies as at December 2014. Their first Uganda investment was in the company SolarNow which closed in October 2014. In addition, the team has built a further pipeline of deals and has been conducting due diligence on a selection of these.

Novastar's value proposition is compelling to high-capacity entrepreneurs through its offer of a combination of local presence, its ability to move quickly to invest small sums early, its capacity to lead high growth companies through multiple capital rounds and the team's networks and experience in the region.

## Injaro Agricultural Capital Holdings (IACHL)

The DFID's Impact Fund second investment was made into IACHL, a West African agriculture-focused fund in September 2014. Injaro makes sustainable investments into small and medium-sized agricultural enterprises. The $15 million investment will help farmers in countries including Ghana, Cote d'Ivoire and Mali improve their food security and income, helping lift them out of poverty.

**Justine Greening, UK Secretary of State for International Development, said:** *"Economic development is the only way countries can leave behind enduring and chronic poverty for good. This investment is a clear example of how the UK is using its development expertise to kick-start investment and help the poorest move out of poverty. The funding will enable farmers in West Africa to grow larger supplies of crops and help them to trade what they grow. This not only allows farmers to grow enough produce to feed their families but can also turn small-holder farmers into budding agricultural businesses, boosting their prosperity in the long-term."*

*"The Injaro team is proud to have secured investments simultaneously from 3 reputable institutions with a long track record of African investments,"* **said Jerry Parkes, CEO of Injaro.** *"These new investments from the UK, FMO and Proparco give our fund scale and legitimacy in the impact investment space, helping to build a track record that will attract further private investment into this emerging asset class. With an increased fund size of US$49m we hope to positively impact over 1 million smallholder farmers and low income persons in West Africa."*

Injaro aims to invest in companies to:

- Sustainably increase the supply and affordability of better quality seeds for smallholder farmers.
- Supply essential products and services to growing local consumer markets.
- Help companies make the most of export opportunities.

Alongside the investment from the DFID Impact Fund, investment has also been catalysed from the French Development Finance Institution Proparco (£4.2 million) and the Dutch Development Finance Institution FMO (£6 million).

Injaro investee company, Kona Agro Processing, Ghana

## Developing the pipeline

In addition to the investments mentioned above, CDC have been carrying out due diligence on two other funds that are likely to close in 2015.

The second RFP was issued with the aim of identifying if there were other high-potential Fund Managers that the DFID Impact Fund needs to consider. Through the formal RFP process, CDC provided detailed feedback to around 15 prospective applicants and received seven formal applications. Two of these have been short-listed for further consideration. In general, the majority of prospective applicants did not have a compelling investment proposition in terms of investment strategy and/or quality of fund management teams.

## Technical Assistance

The governance structure of the DFID Impact Fund Technical Assistance Facility (TAF) was finalised by the Programme Coordination Unit in 2014, including an inaugural meeting of the Technical Assistance Committee (TAC) in May. The Technical Assistance support available to the DFID Impact Fund is managed in close coordination with each Fund Manager, with the Fund Manager empowered to deploy technical assistance to a set of interventions defined as 'standard' based on meeting a set of criteria. Non-standard interventions (by size or nature) are approved or rejected by the TAC.

> Technical Assistance is an area where the programme has significant potential to foster the market.

### INSIGHTS FROM IMPLEMENTING A TECHNICAL ASSISTANCE FACILITY

The process of setting up Technical Assistance (TA) arrangements with the first funds highlighted several complexities in effectively deploying TA, namely that many investors provide some level of TA support for their Fund Managers or investees. There is little transparency and coordination in terms of what these different TA funders are aiming to achieve and how these resources can be best applied and coordinated together to drive the best results for investments. There are also 'stand-alone' TA facilities that are not linked to any investor.

As a result, we are working with other TA providers on a fund-by-fund basis to coordinate application of TA and understand what good practice might look like, where possible. Both Novastar and Injaro have access to multiple sources of TA funding although different TA providers typically have slightly different objectives for TA and, therefore, slightly different criteria for access. Where contractual terms allow, and where transaction costs for Fund Managers are not increased, we are exploring options to co-fund TA interventions with other TA providers. This aims to maximise effectiveness and efficiency of TA funding, increase transparency and lessons learned in its application and mitigate risk.

Existing 'stand-alone' sources of TA are unlikely to be able to adapt their operations to coordinate with others. As such there is a 'TA market' and the TA offering within a fund will need to be competitive to be drawn down. Again, this argues for communication, coordination and established norms of good practice across TA providers to avoid a 'race to the bottom' and a lack of discipline in the provision of TA.

TA is an area where the programme has significant potential to foster the market by exploring these different options for TA provision. It is important for the Impact Programme to capture and share these learnings as part of its effort to help build the market for impact investing and disseminate lessons learned to other stakeholders. We will report on progress of TA coordination and issues of additionality next year, as the programme seeks to develop this agenda in 2015.

## Building the infrastructure for the impact investment market

### Impact measurement and reporting

Investors are at diverse stages of sophistication with regards to social impact measurement – some have advanced impact measurement strategies and others are not confident they have the knowledge, resources or mandate to measure their impact. Tailoring impact measurement activities to provide value to these diverse audiences remains a challenge.

This section outlines the work the Impact Programme undertook in 2014 to build capacity in this space. The next section ('Tracking our results') outlines progress made on results measurement for DFID Impact Fund investments themselves.

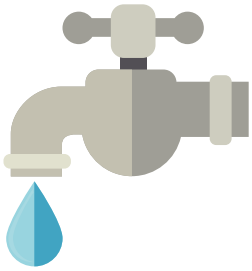
The Impact Programme's work in this space was implemented through the GIIN's efforts as well as through DFID and PwC's direct engagement with B Lab, a US-based not-for-profit company aiming to drive systemic social and environmental change through business.

The GIIN IRIS[9] team released the updated 'IRIS 3.0' metric library in 2014. This included new metrics focused on health and land conservation as well as new guidance focused on providing additional context to each metric. The new **www.iris.thegiin.org** website had received more than 48,000 unique visitors at the start of November 2014. A new *Getting Started with IRIS* guide was also launched in conjunction with the new metric set.

The IRIS team also supported wider metric development through participation in five separate working groups: Impact Sourcing, Global Alliance for Banking Values (GABV), FAST Forestry, IFI Harmonized Metrics and Clean Cookstoves. The IRIS user registry grew by more than 20 per cent during the year, adding key industry leaders such as Green Investment Bank, the DFID Impact Fund, Rockefeller Foundation, and Aavishkaar. The GIIN also worked to create formal linkages with other major industry frameworks in the impact measurement landscape, including the Global Reporting Initiative (GRI), the UN's Principles of Responsible Investing (UNPRI), IFI indicators called HIPSO, and PRISM.

As part of their AIMS (a Fund Manager training) programme, the GIIN progressed work towards an Impact Measurement curriculum and training course for Fund Managers looking to develop a cost-effective impact measurement practice. See below for further information on AIMS.

The Impact Measurement Working Group of the Social Impact Investment Taskforce, created under the UK presidency of the G8 in 2013, launched a report *Measuring Impact* in September 2014. The report provides guidelines on the basics of impact measurement, demonstrates the application of impact measurement through a series of case studies and sets out a roadmap for the future development of impact measurement.



The Impact Measurement Working Group was co-chaired by the former GIIN CEO, Luther Ragin Jr, and the GIIN ran a five-part webinar series around this report and the others that came out of the Social Impact Investment Taskforce. An average of 330 people registered for each event and many continue to view the webinar recordings on the GIIN website.

The Programme Coordination Unit also worked with B Lab to support the development of B Analytics. B Analytics is a customisable web platform for measuring, benchmarking, and reporting on a portfolio's social and environmental impact. The Impact Programme enabled enhancements to the platform allowing: a searchable list of metrics compliant with both the GIIN's IRIS metrics and B Lab's own GIIRS[10] rating system; users to customise metrics and reporting templates where needed; investors and companies to set targets; and the generation of reports and visualisation of data that integrates financial, social and environmental data.

The B Analytics platform now also enables companies and funds to receive and showcase GIIRS ratings which can be used to benchmark impact performance against other companies of comparable size or sector.

[9] IRIS is a catalogue of metrics that can be used to measure and describe an organisation's social, environmental and financial performance.

[10] GIIRS Ratings are the gold standard for impact measurement in impact investing. GIIRS Ratings are rigorous, comprehensive, and comparable ratings of a company or a fund's social and environmental impact.

## Advancing Investment Management Skills (AIMS)

The AIMS programme piloted and refined its first two training modules on Fundraising and ESG for Fund Managers in 2014. The AIMS team found that semi-private training is an effective format for the audience for these modules, due to individualised and action-oriented training needs. A mentorship component for the fundraising module strongly complemented training by providing additional opportunities to individualise learning and ground concepts in practical action.

AIMS is now positioned to deliver all existing modules – fundraising, ESG, impact measurement, and investment skills – in 2015. The first two trainings of 2015 are on raising impact investing capital.

### INSIGHTS FROM DEVELOPING FUND MANAGER CAPACITY-BUILDING COURSES

Initial pilots of Fund Manager training, delivered as part of the AIMS programme run by the GIIN, also echoed the theme of diversity in the market and evidenced that Fund Managers aiming to reach the BoP are a very young segment.

There were a wide range of capabilities and training needs identified amongst the target Fund Manager group. We found in pilots that training could be more powerfully delivered when several team members from one fund attended, unfettered by issues of confidentiality, rather than one person from across several funds. This presents new challenges and opportunities in how to scale capacity building for Fund Managers and how to make training delivery financially sustainable. The GIIN and the Impact Programme are refining approaches in light of these insights during further roll-out in 2015.

## ImpactBase

The GIIN's ImpactBase is a searchable, online database of impact investment Funds and products designed for investors. At the end of Year 2, there were profiles of 329 contributors[11] on ImpactBase and more than 1,700 subscribers[12]. The majority of investment funds and products represented are real assets and private equity. 114 of the profiles showcase funds that focus on investing in Sub-Saharan Africa or South Asia, either exclusively or as part of a broader geography. 668 of the investors that have subscribed to ImpactBase report an interest in investing in these regions. Enhancements were made in 2014, including improved search functionality, premium user features for GIIN members, enhanced back-end data collection and additional screening for accredited investors.

## Basic Services Programme Track

The BoP Basic Services Programme Track was launched in March 2014. At the end of Year 2 there were 58 GIIN members engaged in the BoP Basic Services Track, representing 34% of the full GIIN membership. This forms a new community of knowledge and practice amongst these investors focused on financing access to basic services for BoP consumers in emerging markets.

Six basic services events were offered to GIIN members in 2014, including webinars on leveraging impact evaluation data for education investments and cross-subsidisation business models. The basic services team is in the final stages of completing two projects that will be shared with the membership in 2015: a BoP Basic Services Investor Directory to be launched in Q1 and a Clean Energy Impact Measurement Project Report to be launched in Q2.

[11] ImpactBase funds, or "Contributors", usually GPs, include third-party funds or products managing capital provided by asset owners

[12] "Subscribers" are usually LPs also known as accredited investors, which can include: corporations, development finance institutions, endowments, foundations, family officers, Fund Managers, individuals, pension funds, wealth advisors, and private banks. Some refer to these as asset owners due to their supplying capital.

## Research

The GIIN commissioned two studies for the Impact Programme in 2014:

- Landscape analysis for six countries in South Asia – three published in 2014 and three to be published in 2015.
- Data collection was completed across 11 East African countries for the East Africa portion of a sub-Saharan Africa landscaping study (to be published in 2015).

The team also served as an advisor to Monitor Inclusive Markets' Beyond the Pioneer report.

The GIIN's annual impact investor survey, published in May 2014 in partnership with J.P. Morgan and called *Spotlight on the Market* continues to be a popular resource for data on the impact investment market. It has gained increased visibility as the team expands the number and breadth of research activities. Data collection for the 2015 release occurred during 2014.

The GIIN also progressed on several research products in 2014:

- A brief leveraging ImpactBase data (*ImpactBase Snapshot,* released March 2015).
- A study on impact investing fund performance across developed and emerging markets in partnership with Cambridge Associates (to be published in spring 2015).
- A third IRIS data brief (to be published in mid-2015).

> The Impact Programme Results Framework is designed to track both the social and financial performance of the DFID Impact Fund portfolio.

# Tracking our results

## The Results Framework

The Impact Programme Results Framework is designed to track both the social and financial performance of the DFID Impact Fund portfolio and also the wide market movement in the Programme's target regions of South Asia and Sub-Saharan Africa. Two key mechanisms for gathering results were successfully initiated in 2014:

- The reporting framework for the DFID Impact Fund was implemented with the first two Fund Managers.
- The Impact Programme's first market survey and interviews were conducted to establish the state of the market in these regions in 2014.

The reporting framework was established with Novastar and Injaro and quarterly reports were submitted by Novastar in 2014. Injaro is due to start reporting in early 2015. EAV and the likely fourth fund were also introduced to the reporting framework and the Programme Coordination Unit is taking an active role in supporting harmonisation of reporting processes across several co-investors.

The Impact Programme will pilot an additional results verification exercise with a small sample of portfolio companies in 2015. This will supplement the reports provided by Fund Managers and provide more detailed data on the reach to low-income and particularly marginalised beneficiaries. Ensuring this component provides a clear value proposition to investee companies (as a marketing, operations and data management solution) is also a priority.

Injaro investee company, M&B Seeds, Ghana

## Understanding who benefits at the Base of the Pyramid through impact investing

A key area of the Programme's Results Framework is to track BoP beneficiaries (customers, suppliers, employees and entrepreneurs) that are reached by portfolio companies. Getting the right approach to tracking these beneficiaries has been an important focus in 2014. There is no commonly used definition of BoP, nor of what counts as 'one beneficiary'. The methods for tracking impact at the BoP are equally diverse.

In developing our approach for a results framework to use with Fund Managers and their portfolio companies, we researched current practices across the field and documented our findings in two papers:

- 'Tracking reach to the Base of the Pyramid through impact investing' (key points summarised here)
- In collaboration with the UNDP Business Call to Action, a checklist for counting beneficiaries at the BoP[13].

The checklist draws together our shared insights on the four key questions to consider when tracking reach: (1) Who are the target groups? (2) How many do you reach? (3) Who gains? (4) How do they benefit?

**Defining BoP populations served:** While beneficiary definitions are fairly consistent in impact investing – typically people reached as clients, distributors, employees or suppliers of a company – the range of definitions for poor, underserved, marginalised or BoP beneficiaries vary widely. Different investors and businesses use different poverty lines often interpreted in different ways, when discussing poor and low-income beneficiaries. The most widely used World Bank poverty lines are $1.25, $2, and $2.50 (2005 PPP) per person per day, and $4 (2005 PPP) is also highly relevant. However, actors in the investment market tend to use poverty lines in current dollars (which are different to poverty lines set in Purchasing Power Parity), and are at early stages in understanding income profiles of their beneficiaries.

**The importance of practical, transparent and robust methods for counting beneficiaries:** Early stage companies in developing and emerging markets often have limited capacity for reporting and data management, so proxies and assumptions are needed to calculate total beneficiaries, e.g. calculating a total number of customers based on the volume of sales and the average volume purchased by each customer. Documenting these methods and assumptions is an essential first step for tracking company reach.

**The value of impact data to businesses at the BoP:** As well as meeting the information needs of investors and donors, there is a groundswell of interest amongst inclusive businesses in making better use of data to improve company commercial and social performance. Companies are using data in a variety of ways, including:

- Demographic information to feed into product and service design, outreach and marketing.
- Feedback from clients on product quality, durability, usage, for example.
- A touch point with clients which may become a mechanism for improving client retention.
- Data needed for certification and social impact reporting.
- Market intelligence at the BoP, which is itself becoming a commercially valuable asset and may unlock future revenue streams.

The cost of gathering and managing information in isolated and informal markets is diminishing with improvements in Customer Relationship Management software and the use of Global Positioning software-enabled hand-held devices, creating an interesting opportunity for potential 'win: wins' for data gathering at the BoP.

[13] *Can you count what counts? How to tally numbers reached at the BoP* is available on the Impact Programme website www.theimpactprogramme.org.uk

## INSIGHTS ON
## TRACKING REACH TO THE BOP

Assumptions will inevitably be used deciding who to count and how. The important thing is to document these and present data transparently. For investments of the DFID Impact Fund, the approach was refined and a set of assumptions, definitions and processes were agreed with programme partners and funds. The result is, that for the purposes of the Impact Programme, low-income target beneficiaries are characterised as follows:

- Low access to affordable, quality basic goods and services such as education, health, energy, water and food, resulting in limitations on living standards.
- Insecure income and vulnerability to income shocks, whether due to climate or insecurity of informal markets.
- Low income due to reliance on un-skilled employment, agriculture, or other low-productivity, part-time or informal market opportunities.
- Located in underserved areas and offering inadequate infrastructure, such as dense slums without sanitation or remote areas with insufficient transport.
- Limited access to markets, such that they gain poor returns for their produce or enterprise, struggle to find affordable products suited to their needs and pay high costs (in effort or cash) for goods and services.

The approximate income level (per person per year) will be assessed across the portfolio and will be used to group beneficiaries into income bands within the broadly defined "Base of Pyramid". The income profiles will be tracked and reported based on Fund Manager reporting and verification studies. Beneficiaries are expected to fall across a number of bands with a substantial share falling under the $2.50 and $4 per person per day (2005 PPP) poverty lines. Insights gained by the Programme will help inform market understanding of who is reached by impact investments, given the current lack of market intelligence on this issue.

Customers of Novastar investee company, Mfarm, Kenya

## Market Survey

The Impact Programme launched an online survey and interview sets in Autumn 2014 to gather insights on the state of the market for investing with impact in South Asia and Sub-Saharan Africa. The survey report will be made available in mid-2015 and aims to improve transparency to and information about these markets.

The survey investigated current levels of investment, investor confidence and perceptions of market conditions for investors that seek both financial and social and/or environmental returns in the two regions. A summary of findings is presented on pages 6 to 8. The full report will provide rich insights for investors, policymakers, donors and other players in the impact investing ecosystem in these geographies and will inform the UK Government's activities to support investors in businesses that serve poor and low-income people.

The survey was unique in its focus on Sub-Saharan Africa and South Asia, which are home to nearly 2 billion poor people living below the $2.50 (PPP 2005, per person per day) poverty line. The survey will be repeated every two years for the next decade to track progress and provide a more complete and valuable picture of market trends evolving over time.

103 organisations contributed to the survey and its report and preliminary headlines show a diverse and growing ecosystem with strong clear voices indicating increasing confidence as well as highlighting a range of challenges, opportunities and recommendations for a stronger impact investment market in these regions. Some questions were asked relating to the Impact Programme's performance in supporting market development:

- 77% of respondents had heard about the Impact Programme, including 75% of South Asia based organisations and 50% of Sub-Saharan Africa based organisations responding to the survey, although we recognise the high risk of sample bias in this data set.
- 26% indicated that the DFID Impact Programme had influenced their investment decisions 'to some extent' and had influenced their activities more broadly, predominantly in the design of similar funds and modalities, due diligence, impact measuring, TA design, promoting investor partnerships and identifying areas for research.
- 21 out of 44 investors reported using ImpactBase with the majority updating their profiles once a year.
- 18 out of 47 investors reported using IRIS metrics for reporting, often in tandem with other metrics.

Additionally, investor responses suggest that the key constraints being addressed by the Impact Programme more widely are highly relevant to investors in Sub-Saharan Africa and South Asia. Lack of fund and company track record, limited Fund Manager skills and experience and lack of market information were all highlighted as key risks and constraints to impact investment.

# FOCUS FOR 2015

## KEY ELEMENTS FOR IMPACT PROGRAMME DELIVERY IN 2015 INCLUDE:

**The DFID Impact Fund**

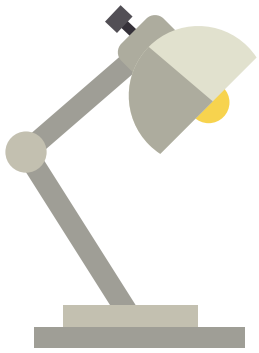
- Two new investments to be committed.
- Due diligence to be initiated for one new investment.
- Strengthening and streamling portfolio management and fund monitoring and reporting systems.
- Launch the DFID Impact Acceleration Facility which will make investments in CDC's existing investee companies, focusing on high impact investment strategies which:
  - help businesses do high development impact interventions related to their core business that they wouldn't otherwise have done
  - help businesses in challenging geographies to establish green or brownfield companies adjacent to their mainstream investments to provide essential goods and services vital to their operations – such as housing healthcare and transport.

**Building the infrastructure for the impact investment market**

- Identify market level constraints and develop mechanisms for supporting a broad range of market building initiatives (to be rolled out in 2016).
- Scale up the AIMS programme to deliver multiple, semi-regular trainings in diverse locations to create a sustainable and consistent programme.
- Further promote ImpactBase and IRIS to impact investors, in particular those based in Sub-Saharan Africa and South Asia.
- Expand the engagement of impact investing stakeholders in the DFID target regions with the GIIN.
- Completing the landscape research on impact investing in Sub-Saharan Africa and South Asia and pursue further research activities that provide a deeper understanding and address perceived barriers of the impact investing industry.

**Tracking results and building the evidence base**

- Move beyond beneficiary counting to processes that will capture impact data in terms of who is reached, the significance to their livelihoods and the additionality of DFID Impact Programme funding.
- Publish and disseminate the first Impact Programme Market Survey report.
- Produce a brief learning report based on TA engagements with the first funds.



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**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 non-profit organization dedicated to increasing the scale and effectiveness of impact investing. The GIIN addresses systemic barriers to effective impact investing by building critical infrastructure and developing activities, education, and research that attract more investment capital to poverty alleviation and environmental solutions.

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**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.

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**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.

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