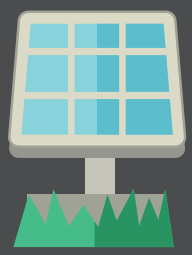
THE IMPACT PROGRAMME
ANNUAL REPORT 2015

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THE IMPACT PROGRAMME

CONTENTS

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
IA	Impact Accelerator
IF	Impact Fund
ESG	Environmental, social and corporate governance
FMO	Financierings Maatschappij voor Ontwikkelingslanden (Netherlands Development Finance Company)
GIIN	Global Impact Investing Network
HH	Household
IFC	International Finance Corporation
KPI	Key Performance Indicator
SMEs	Small and medium-sized enterprises
TA	Technical Assistance

INTRODUCTION

THE GROWING IMPACT INVESTMENT MARKET IS ATTRACTING CAPITAL FROM AN INCREASINGLY DIVERSE RANGE OF INVESTORS SEEKING TO ADDRESS THE WORLD'S MOST PRESSING CHALLENGES. THE PROMISE OF IMPACT INVESTING IS THAT IT WILL COMPLEMENT GOVERNMENT AND PHILANTHROPIC FUNDING TO HELP TACKLE SOCIETAL AND ENVIRONMENTAL CHALLENGES.

About the Impact Programme

The UK's Department of International Development launched The Impact Programme in 2012 to catalyse the impact investment market in Sub-Saharan Africa and South Asia. DFID believes that demonstrating the potential of impact investing in these markets and reducing barriers for others to invest represents an opportunity to stimulate sustainable development which can scale and which increases the effectiveness of donor funding by leveraging other sources of capital to invest alongside.

The Impact Programme is implemented through investment vehicles, managed by CDC, and includes a range of initiatives aiming to build the market and enable further investment by others.

Investment activity in 2013 and 2014 consisted of the Impact Fund, a fund-of-funds structure, which invests in Sub-Saharan Africa and South Asia funds with portfolios of innovative enterprises that benefit poor and low-income people. Sectors include sustainable agriculture, clean energy, affordable housing and access to basic services such as healthcare, clean water and education. The Impact Fund continued to build its pipeline in 2015 and two new funds were invested in, including its first investment in South Asia.

A second investment vehicle, the Impact Accelerator, was also launched in 2015. This vehicle makes direct investments into initiatives and businesses that have high developmental impact, either directly or by stimulating the wider market, but which would not secure funding by CDC's main portfolio due to untested business models or being based in remote areas or fragile states. The vehicle closed its first deal in Rwanda in December 2015 aimed at reducing child malnutrition through the production and distribution of fortified food products.

Capital deployed by both vehicles typically accepts greater risk, longer time horizons and lower financial returns than is generally the case for CDC investment.

The programme's work to build the market and enable greater and more impactful investment by others continued and consisted of supporting the GIIN's ongoing investor-focused market development and scoping work to inform the programme's approach to working more broadly across the impact investing value chain in future years.

This report summarises the work that was undertaken in 2015: the investments made, their intended impact, and insights from Impact Programme's engagement in the market during the year.

EXECUTIVE SUMMARY

THE IMPACT PROGRAMME'S THIRD YEAR OF OPERATION HAS SEEN FURTHER INVESTMENTS THROUGH THE IMPACT FUND, THE LAUNCH OF A NEW INVESTMENT VEHICLE, THE IMPACT ACCELERATOR, THE DEVELOPMENT OF A BROADER MARKET-BUILDING STRATEGY AND AN INCREASED FOCUS ON SHARING INSIGHTS AND INFORMATION EMERGING FROM THE PROGRAMME.

At the end of 2015, the Impact Programme reached the following figures:

The Impact Fund

4: Number of fund investments

$56.3 million* (£36.8 million): Capital committed to funds

£83.5 million: Raised in co-investment by funds of which £35.2 million private capital

18: Portfolio companies

£244,850: TA funding disbursed to Fund Managers

1,700,000:** No. of low-income people (direct beneficiaries plus households) accessing affordable and quality goods and services

100,000:** No. of low-income people (direct beneficiaries plus households) accessing income generating opportunities

$49.3 million (£32.2 million): Contributions into local economy (taxes, wages plus payments to local suppliers) by portfolio companies since Impact Fund investment into Funds

*All figures converted from GBP exchange rate 1.53 (average for 2015) https://www.ofx.com/en-gb/forex-news/historical-exchange-rates/yearly-average-rates/

**Figure rounded to closest 100,000

The Impact Accelerator

$10 million: Committed to first deal

The Global Impact Investing Network – market-building work

135: Funds registered on ImpactBase targeting impact investing in Sub-Saharan Africa and South Asia

71: GIIN members joined the 'BoP Basic Services' programming track

14: training sessions for first-time fund managers in Sub-Saharan Africa and South Asia

60: IRIS users indicated an interest in Sub-Saharan Africa and 47 in South Asia

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> The Impact Accelerator provides direct investment for high impact business strategies.

Impact Accelerator

As part of the Impact Programme's development, DFID launched a new £40 million Impact Accelerator in 2015. The Impact Accelerator provides direct investment for high impact business strategies. In May 2015, a first commitment of $10 million in Africa Improved Foods (or "Project Life") for Rwanda and Ethiopia was approved, the first tranche of which was disbursed in August 2015. This is funding the manufacture of nutrient-rich, fortified food for infants and pregnant/breastfeeding women which will be distributed through government and commercial channels to help tackle malnutrition.

Insights into the impact investment market

During its third year of operation, the Impact Programme's engagement with the market, has produced some valuable insights into the current state of the market. The GIIN commissioned and conducted several key research reports in 2015, funded by the Impact Programme, including landscape reports on Sub-Saharan Africa and South Asia and the Impact Investor Survey.

The findings indicate that by far the largest share of investments comes from development finance institutions (DFIs), but there are growing allocations from non-DFI impact investors, including in Sub-Saharan Africa and South Asia. However, investors continue to report significant risk and challenges to impact investing. These include a lack of appropriate capital across the risk/return spectrum, a shortage of high quality investment opportunities with track record, and a difficulty exiting investments.

Building the market for impact investment

In addition to the investments made by the Impact Fund and Impact Accelerator, and as a response to the challenges identified in the market surveys, the Impact Programme also focused on market-building activities. In particular, it has been working to support the capacity building of local fund managers, encourage greater investor knowledge sharing related to scaling-up Base of the Pyramid (BOP) businesses and enhance the practice and standards of social impact measurement and management, including to embed better and more consistent social impact measurement by fund managers.

The team sought to share practice and influence standards at a market level. The Social Performance and Results team presented their work at a number of industry events. The Global Impact Investing Network (GIIN) increased the number of organisations that list the IRIS metric use on the IRIS User Registry, built formal 'linkage' partnerships with other industry actors and prepared the metrics for a launch of an updated metric set (IRIS 4.0) in early 2016.

The GIIN also sought to increase volumes and the size of the market in 2015 through a number of initiatives including those funded by the Impact Fund: ImpactBase, its market landscaping research, the BOP Basic Services track, and AIMS (fund manager training). The GIIN, IF and IA have played a significant role engaging and encouraging investors into this space through closed-door and peer-to-peer conversations.

IMPACT FUND

Impact Fund insights

Over the last two and a half years the Impact Fund has developed a good pipeline of Funds. However, investing in funds in these frontier markets takes longer than in a developed market context. Funds are harder to find unless you are already in the market and there is less data available to assess market potential. The team have found most opportunities through networking and working alongside early stage fund managers to support development of their investment thesis to the point at which they were investment ready.

Such a hands-on approach to investing is an important aspect of the Impact Fund approach. The aim is not just to provide investment, but to help build the capacity of local fund managers there by supporting the growth of impact investment in Sub-Saharan Africa and South Asia for the benefit of poor and low-income people.

Progress and performance highlights

At the end of 2015, the Impact Fund had committed $56.3 million (£36.8 million) to four impact funds spanning West Africa, East Africa and South Asia. These four funds had attracted £83.5 million of third party capital, of which £35.2 million was private capital.

The two impact funds with commitments made in 2014, Novastar and Injaro, grew their portfolios and made significant progress. New commitments were made to Energy Access Ventures (EAV) and Insitor Impact Fund.

At the end of 2015, portfolio companies across the funds reported reaching 1,800,000 poor and low-income people as clients, distributors, employees and suppliers across a range of basic service sectors since DFID investment (see Table 2 below for sector detail). Portfolio companies have also contributed $49.3 million to local economies through taxes, wages and payments to local suppliers.

Fund portfolios include a wide range of business models operating in highly challenging markets. Whilst companies who have been engaging with Fund Managers for a year or more are showing signs of growth in impact reach and revenue, most are, as expected, still early stage and will take time to scale. Agriculture & Food is currently the largest sector in the portfolio in terms of both the total value of commitments and the number of people reached. Table 1 below summarises key indicators in terms of the Impact Fund progress year on year.

Table 1: Summary of Impact Fund portfolio 2014 and 2015

IMPACT FUND KPIS	2014	2015
Number of Funds	2	4
Total Size of Funds - **Of which, capital committed by Impact Fund** - Of which, capital committed by third parties	$94.2m **$30m** $46.3m *(of which $9.3m private investment)*	$200m* **$56.3m** $127.8m *(of which $53.9m private investment)*
Number of investee companies	**12**	**18**
Number of low-income beneficiaries reached since investment[1] - *Of which, those accessing affordable goods and services* - *Of which, those accessing income generating opportunities*	768,000 *722,000* *46,000*	1,800,000 *1,700,000* *100,000*
Capital into local economy (wages plus payments to local supplier beneficiaries) since investment	$21.8m	$49.3m

*All figures converted from GBP exchange rate 1.53 (average for 2015) https://www.ofx.com/en-gb/forex-news/historical-exchange-rates/yearly-average-rates/

[1] Figures include those reached directly, plus household members where applicable.

The Impact Fund portfolio

Figure 1: Impact Fund Geographic Focus at December 2015

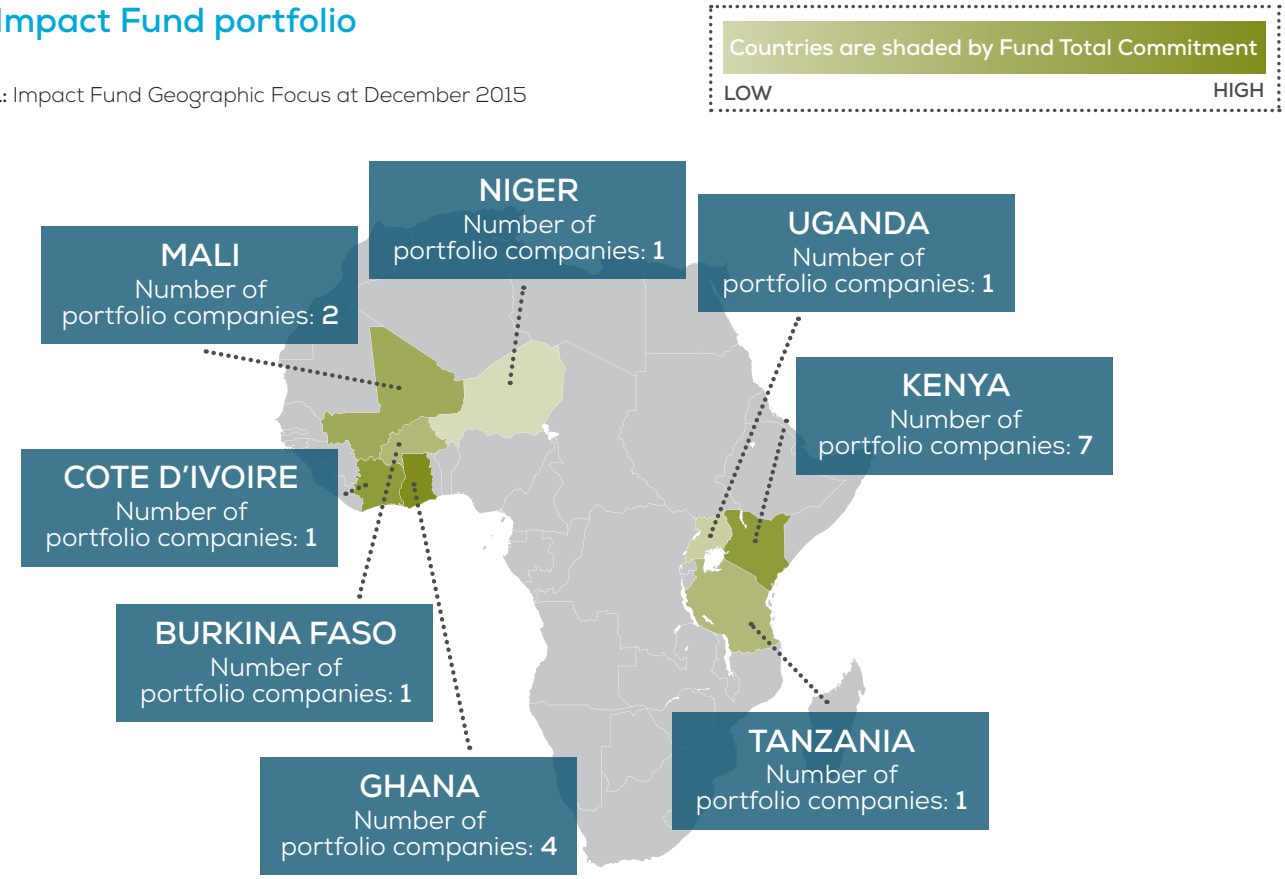
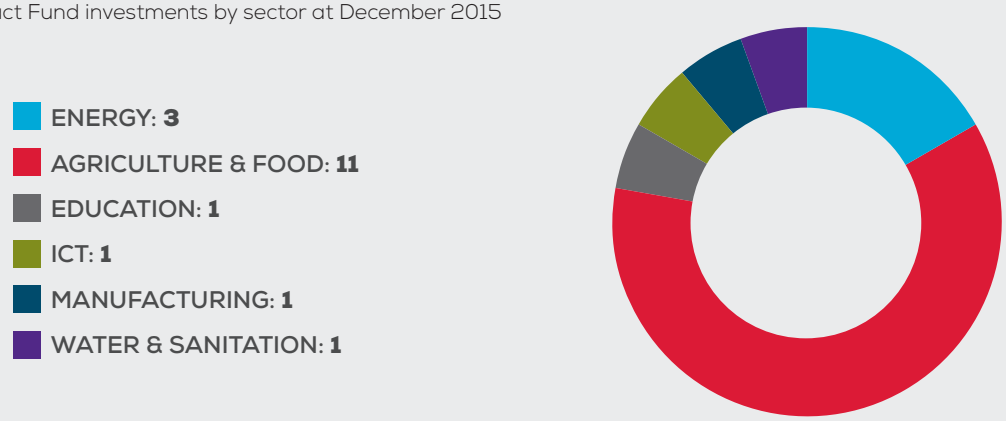


Figure 2: A breakdown of Impact Fund investments by sector at December 2015



EXPECTED OUTCOMES

- Increased access to affordable, clean energy
- Improved quality and reliability of energy
- Health improvement
- Improved environmental preservation
- Reduce customers greenhouse gas emissions
- Increased employment
- Income/productivity growth

- Improved nutrition and food security
- Income/productivity growth
- Employment generation
- Agricultural productivity
- Community development
- Improved equality and empowerment
- Reduce abuse by brokers
- Fairer prices for farmers

- Improved access to affordable quality education
- Improved educational attainment
- Increased progression to higher education and employment

- Improved access and transparency of news and information
- Employment and income opportunities for journalists
- Advertising and business growth opportunities for local businesses

- Employment and income opportunities for low-income artisans

- Improved access to clean water and sanitation facilities
- Reduced rate of waterborne diseases and infection
- Health improvement
- Improved agricultural productivity through the sale of organic fertilizer
- Pollution prevention and waste management
- Income/productivity growth

New Fund Investments

ENERGY ACCESS VENTURES

Focus regions: East Africa (phase 1) and Sub-Saharan Africa (phase 2)

Impact objective: The social objective of the fund is to reach up to one million low income beneficiaries, in rural and peri- urban areas, providing improved, reliable access to energy.

Investment strategy: The fund will mainly invest in small and medium size enterprises "beyond concept development stage" active in the generation and/or distribution of electricity in Sub-Saharan Africa. It will focus on off-grid rural electrification, and will start with companies active in East Africa before expanding to other African countries. In all, the fund will target Kenya, Uganda, Rwanda, Burundi, Tanzania, Zambia, Malawi, Zimbabwe, Mozambique and Ethiopia.

Sector focus: Renewable Energy

Commitment date: March 2015

Impact Fund commitment: €16.5 million (approx. $17.5m)

Target final Fund size: €60 million

Other investor commitments: Schneider Electric Industries is the fund sponsor, providing match funding and technical support. Other investors include Development Finance Institutions (DFIs), including the European Investment Bank and Proparco.

The social objective of the Energy Access Ventures Fund is to transform lives and stimulate economic development across Africa by providing improved, reliable access to electricity for one million, low-income households by 2020.

Two thirds of the 620 million people living in sub-Saharan Africa lack access to electricity. This prevents smaller businesses from growing and being able to use modern equipment. Lack of electricity holds back social progress, economic growth and environmental improvements. The Energy Access Fund will aim to provide long-term funding to support access to energy for the poorest populations by strengthening local energy infrastructure.

> "The social objective of the Energy Access Ventures Fund is to transform lives and stimulate economic development across Africa

INSITOR

Focus region: South Asia

Impact objective: Reaching up to two million low income and underserved families by providing them with essential goods and services.

Investment strategy: Equity or equity-like investments in start-ups and early stage businesses operating in Myanmar, Pakistan, India, and Cambodia, where the Insitor team has a strong local presence. Invest and build strategy: Insitor invests capital and provides hands-on support to investees, the fund participates in multiple rounds to support investees' growth over time.

Sector focus: Various, including energy, education, healthcare, water and sanitation, housing, agriculture, and businesses focused on enhancing earnings of low-income communities.

Commitment date: December 2015

Impact Fund commitment: $10 million

Fund size at First Close: $24 million

Target final Fund size: $40 million

Other investor commitments: The other main investors are one European High Net Worth Individual and a European family office.

In December 2015, the Impact Fund made its first investment in South Asia with a $10 million commitment to the Insitor Impact Asia Fund which, in turn, will make investments in Myanmar, Cambodia, India and Pakistan.

Insitor will back promising businesses in these countries that provide essential goods and services to low-income households in sectors including education, agriculture, energy and healthcare where there is large unmet demand for basic services. Lack of early-stage capital is a key barrier to growth of such businesses in Insitor's target geographies, especially in Pakistan and Myanmar.

Existing Fund Investments

INJARO

Focus region: West Africa

Impact objective: Alleviating poverty and improving food security for rural smallholder farmers and low income producers and consumers.

Investment strategy: Sustainable investments in SMEs operating along the agricultural value chain in Ghana and Côte d'Ivoire, Mali, Burkina Faso, Niger and Sierra Leone.

Sector focus: Agriculture

Impact Fund commitment: $15 million

Year of investment: 2014

Fund size at First Close: $17 million

Fund size at Second/Final Close: $49 million

Target final Fund size: $49 million

Other investor commitments: Dutch DFI FMO ($10 million), Proparco ($7 million) as well six private investors/foundations.

Injaro targets investments in agricultural business in West Africa. Agriculture is the main source of income for 70% of the population in West Africa and most of this population lives on less than $2 a day. Injaro primarily invests in businesses which produce high-yield seeds and other agricultural inputs. Investee companies reach smallholders as both suppliers engaged in out grower schemes to improve incomes and/or as buyers accessing affordable products to increase agricultural productivity.

Investee company profile – SeKaf Ghana

SeKaf Ghana Limited is a Ghanaian owned and operated social-purpose business. It aims to be an innovative leader in the global shea industry by using a world-class system of processing, packaging, quality control and logistics to deliver to customers the finest raw ingredients and shea based bath and beauty products, sourced through an environmentally friendly and ethical supply chain. SeKaf Ghana Limited is committed to improve the economic status of rural women shea pickers and shea butter processors in northern Ghana through innovative and sustainable employment.

NOVASTAR

Focus region: East Africa

Impact objective: Driving investment to businesses that achieve positive impact on the base of the pyramid population as consumers, producers or workers.

Investment strategy: Investments in innovative early stage businesses serving base of the pyramid consumers, producers or employees across multiple sectors.

Venture capital approach: Small initial investment rounds followed by further expansion in successful companies.

Sector focus: Various, including education, agriculture, energy and sanitation.

Impact Fund commitment: $15 million

Year of investment: 2014

Fund size: $80 million

Other investor commitments: $65 million: including FMO (Dutch Development Finance Institution), Norfund, the European Investment Bank (EIB), the Dutch Good Growth Fund (DGGF) and Proparco and private capital from JP Morgan Chase, AXA Investment Management, Triodos Bank and a variety of private investors/foundations.

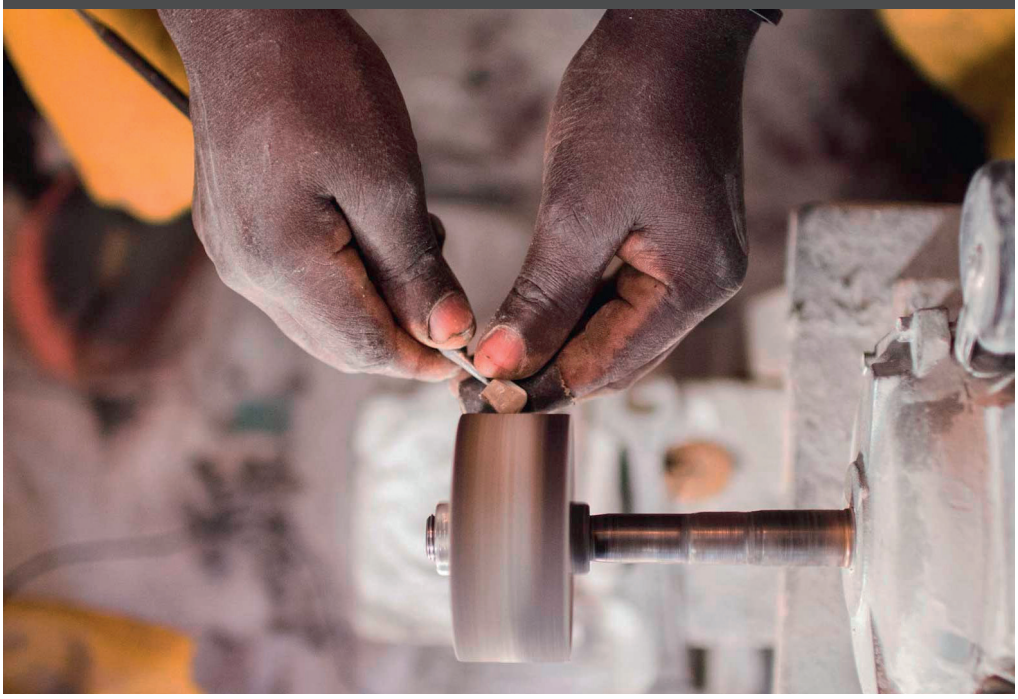
Novastar had a positive year including the fund reaching final close at its target size of $80 million in September 2015, of which the Impact Fund's commitment is $15 million.

Novastar has eight portfolio companies at the end of 2015 which span a number of sectors, are typically early stage and will take time to reach scale and target impact at the BOP.

Investee company profile - Soko

The artisan craft sector is the second largest employer in the developing world. However, it is also one of the most marginalised. Limited to local sales, millions of talented artisans are trapped in micro economies, unable to earn enough to support their families and businesses. What they do have is a mobile phone. Soko's supply chain uses the mobile phone to connect independent artisan entrepreneurs to Soko in an ethical and transparent "virtual factory."

With Soko's mobile tools, artisans have access to an entire world of consumers, expanding their business horizons and entrepreneurial prospects. Their artisans use locally-sourced and eco-friendly materials whenever possible, such as recycled brass and reclaimed cow horn and bone.



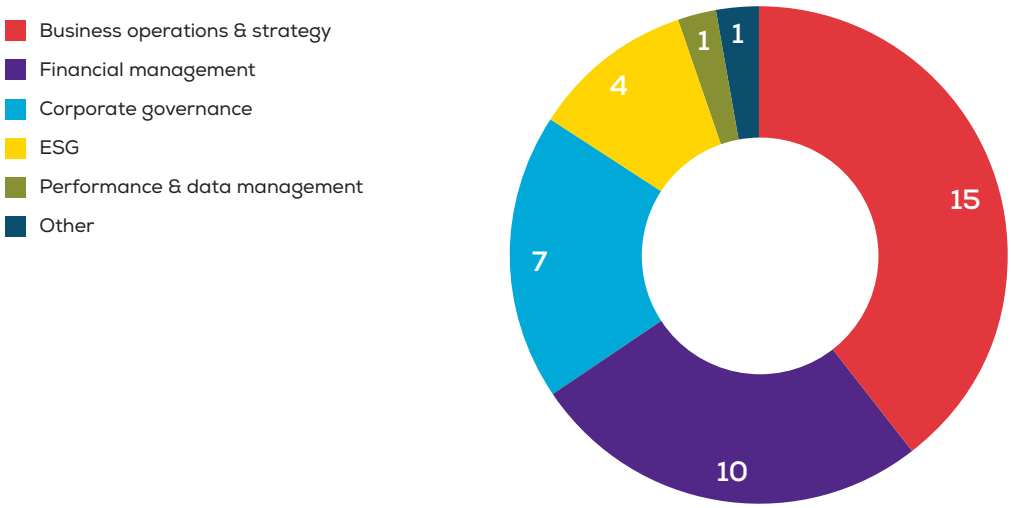
Technical assistance

During 2015, the Impact Programme also provided technical assistance (TA) to target gaps in investee company capacity that are impeding business growth or creating risk. In its first year of operations, the Technical Assistance Facility provided a total of £244,850 to fund 38 technical assistance interventions across 14 companies in the Impact Fund portfolio.

TA interventions have covered a range of themes and sectors with ESG implementation, financial management and business operations and strategy being the common areas (see Figure 3).

Eleven out of 12 completed interventions were viewed by companies as either meeting or exceeding their expectations. Companies and Fund Managers were asked to identify any significant changes brought about as a result of TA interventions. Companies frequently identified changes in staff practice, and adoption of new strategies, policies and operational tools. With most interventions completed in late 2015, however, it is too early to tell if TA interventions have led to significant changes in company financial and social performance.

Figure 3: Technical Assistance interventions at December 2015



Novastar has used the TA Facility and has received £141,784 of funding to the end of 2015 to fund 12 interventions across six of its companies. These TA interventions have nearly all been post-investment and have largely focused on supporting ESG implementation for companies and strengthening business operations and strategy.

Injaro has also used the Impact Fund TA Facility to provide support to its portfolio companies. It received £103,066 of funding to date from the TA Facility to fund 26 interventions across eight of its companies. These TA interventions have largely focused on supporting financial management practices in companies and strengthening business operations and strategy.

Social performance measurement and reporting

CDC and the PCU team have worked jointly with Fund Managers to consolidate and streamline financial and social performance reporting requirements over the course of 2015. CDC have encouraged managers to standardise reporting for all investors. Reporting covers financial performance data, social metrics in line with DFID's strategic focus on poverty and gender outreach and documentation on the company context, business models and sources and assumptions for reporting.

Four portfolio companies conducted research into their markets and value chains in 2015, two of which were supported by the Impact Programme. These studies have provided information to support company operations, and to enhance company and Fund understanding of the social value generated through company engagement with low-income populations. Such 'deep dive' research is an important on-going part of evaluating the social performance of IF investments.

IMPACT ACCELERATOR

IN 2015 THE IMPACT PROGRAMME LAUNCHED THE NEW £40 MILLION IMPACT ACCELERATOR. THE IMPACT ACCELERATOR, MANAGED BY CDC, AIMS TO GENERATE ECONOMIC OPPORTUNITY AND EMPLOYMENT THROUGH THE CREATION OF BOTH DIRECT AND INDIRECT JOBS, AND BY INCREASING ACCESS TO BASIC GOODS AND SERVICES, ESPECIALLY IN REMOTE AREAS OR FRAGILE STATES.

The Impact Accelerator's capital, unique expertise and partnerships allows a focus on high impact investment strategies in two specific areas:

1. Helping businesses to do high development impact interventions related to their core business that they wouldn't otherwise have done – such as entering a new, very difficult geography or developing a product offering at a significantly lower price point to allow access to goods and services for poorer consumers, particularly women and girls.
2. Helping 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.

The Impact Accelerator, which will be piloted over the next four years, is expected to make between four to six investments and aims to leverage a minimum of 1:1 matched capital from private partner investees. It also aims to create linkages between micro, SMEs and larger anchor businesses and unlock potential for entrepreneurial strategies from within the companies.

Fund size: $60 million (£40 million) pilot

Geographical focus: Africa and South Asia

Target beneficiaries: Underserved populations through provision of better goods and services

Sector focus: Sector agnostic

Investment strategy: Majority of investments are alongside multinational corporations, strategic regional partners or CDC investee companies

Deal size: ~$5 million per investment

Return profile: Appropriate risk-adjusted return

© Accumen

The approach

The Impact Accelerator recognises that equity and debt can play complementary roles in financing business growth, so it offers a range of investing instruments, and has found that deployment of funds as equity can often unlock additional debt and grants from co-investors. The Impact Accelerator is testing the inclusion of impact performance-based features in 'traditional' financing structures to incentivise shareholders and align them towards its impact mandate.

> The aim of the Impact Accelerator's capital is to catalyse investments to happen with the appropriate cost of capital.

The aim of the Impact Accelerator's capital is to catalyse investments to happen with the appropriate cost of capital. This can allow, for example, greenfield projects to be developed, improving the speed and likelihood of them reaching commercial sustainability and allowing commercial capital to invest. This, in turn, allows it to exit and recycle its capital for new opportunities. The strategy includes co-investing with multinational corporations and existing CDC investee companies to leverage their expertise and to build in timely exit options.

The Impact Accelerator's definition of impact is intrinsic to the business model and goes beyond the impact typically achieved via investees' corporate social responsibility activities. During the initial phase of the facility, it has prioritised learning and used a flexible approach to define impact that does not necessarily target specific income segments, sectors or themes. This flexibility allows it to drive development impact at scale, across broader income groups (sometimes required to balance commercial considerations), and experiment with innovative business models in geographies that are new to the CDC portfolio.

First investment

A first commitment of $10 million in Africa Improved Foods (or "Project Life") in Rwanda was approved in May, the first tranche of which was disbursed in August 2015.

AFRICA IMPROVED FOODS

Impact challenge: 3.1 million children die annually due to malnutrition. It can also cause stunted growth, cognitive impairment and immunodeficiency.

Impact solution: DSM, a leading nutrient manufacturer, wanted to make its first sizeable investment in Africa to address malnutrition at scale. Investment will fund two manufacturing facilities in Rwanda and Ethiopia. These will produce a nutrient-rich, fortified food for infants and pregnant/breastfeeding women, through locally-sourced raw materials, with World Food Programme, government and commercial sales channels. For the first few years the return is capped to maximise impact through profit sharing with the government.

Our investment: $10 million Equity (20% stake)

Co-investors: DSM (sponsor and operational partner), IFC and FMO

THE IMPACT INVESTMENT MARKET

DURING ITS THIRD YEAR OF OPERATION, THE IMPACT PROGRAMME'S ENGAGEMENT WITH THE MARKET, INCLUDING SOME TARGETED SURVEYS AND RESEARCH, HAS PRODUCED SOME VALUABLE INSIGHTS INTO THE CURRENT STATE OF THE MARKET, THE SIZE AND NATURE OF INVESTMENTS AND INVESTORS, AND THE BARRIERS THAT CONTINUE TO LIMIT THE GROWTH OF THIS TYPE OF INVESTMENT.

State of the market

In 2015, the Global Impact Investing Network (GIIN), in partnership with Dalberg Global Development Advisors, published two reports on the impact investment market in DFID's target regions:

- *The Landscape for Impact Investing in South Asia (April 2015)*
- *The Landscape for Impact Investing in West Africa (December 2015)*

These reports, supported directly by the Impact Programme, provided a "state of the market" analysis of the impact investing industry in these target regions.

> "Overall, the markets show that by far the largest share of investments comes from development finance institutions (DFIs).

Overall, the markets show that by far the largest share of investments comes from development finance institutions (DFIs), but there are growing allocations from non-DFI impact investors (levels and interest vary based on local circumstances). Specifically in each region, the reports showed:

In South Asia: About $8.1 billion has been deployed by DFIs in the region over the past decade and about $820 million has come from other impact investors. Energy, manufacturing, and financial services are popular sectors for DFIs and financial services is by far the most popular sector for non-DFI investors. Most DFI investments are between $5-50 million, while non-DFI investments tend to be much smaller—about half are less than $1 million.

In East Africa: About $7.9 billion has been deployed by DFIs and about $1.4 billion by other impact investors over the past decade. More than half of the DFI capital has been deployed to financial services and energy, while non-DFI investors have focused mainly on financial services, agriculture, and energy. The average deal size has been $17 million for DFI investors and $2.4 million for non-DFI investors.

In West Africa: About $6.6 billion has been deployed by DFIs and $220 million by other impact investors in West Africa over the past decade. The average deal size for DFI investments is $16.6 million and the investments have been mainly in energy and manufacturing. The average non DFI deal size is $0.9 million and the investments have been in financial services.

Southern Africa (excluding South Africa): About $7 billion has been deployed by DFIs in Southern Africa over the past decade, and about $830 million has been deployed by other impact investors. DFI deals have been mainly in energy and financial services, and non-DFI investments have been in financial services, with smaller amounts in manufacturing, housing, and energy.

The GIIN's annual survey of impact investors[2], published May 2015, reflected global growth compared to the previous survey, with 145 impact investors reporting $60 billion assets under management (AUM) in 2015, against 124 investors reporting $46 billion AUM in 2014.

Sub-Saharan Africa and South Asia were the regions rated the highest in terms of investor intent to increase allocation in 2015 and a snapshot from ImpactBase[3] showed that a significant proportion of funds registered invest only in Sub-Saharan Africa or South Asia. Most of these have social impact objectives and a private equity / venture capital model.

[2] The 2013 investor survey is *Spotlight on the Market: The Impact Investor Survey*, published May 2014, and the 2014 investor survey is *Eyes on the Horizon: The Impact Investor Survey*, published May 2015, were both developed in partnership with JP Morgan. The survey of 2015 data will not be available until Q2 2016.

[3] Published April 2015 and reflecting a snapshot from the database taken August 2014.

The Impact Programme's 'Survey of the Impact Investment Markets'[4] also found investors reporting plans to increase investment in these regions over the next five years. The Impact Programme's survey piloted a confidence index which considers both respondent assessment of the severity of market constraints and risks and overall perceptions of the market. The results showed that confidence levels were marginally higher in Sub-Saharan Africa compared to South Asia overall but that this trend is reversed when only considering the responses of active investors.

Investor types

Whilst DFIs remain by far the most significant group of investors, providing between 85% and 97%[5] of the capital deployed in Sub-Saharan Africa and South Asia, the GIIN observed a small but notable increase in the diversity of investors targeting the BOP[6] in emerging markets. They reported an increase in interest from traditional microfinance investors and High Net Worth Individuals (HNWIs) looking to move into other basic services sectors that target the same consumers (e.g. education, health, clean energy). Some fund investors have also begun to consider direct investments. The Impact Programme's Survey of the Impact Investment Markets reported pension funds and foundations as the largest non-DFI investor groups in DFID's target regions.

The Programme's two investment vehicles, the Impact Fund and Impact Accelerator, have also noted changes in who and how other investors are engaging in this market. Interest from corporates and corporate foundations were particularly noted by the CDC teams in 2015, evidenced by the launch of EAV (Energy Access Ventures) in East Africa, seeded by Schneider.

The IA team commented *"It is clear to us that investors across the board are starting to understand, firstly, that sustainable development (not necessarily aimed at just the BOP) is reliant on enabling commercially sustainable businesses which make a positive social impact to flourish; and, secondly, that considering lower commercial returns (compared to the perceived risk-adjusted commercial return for a geography or supply chain) in consideration of development impact is a space that really exists and where substantial funds can be deployed".* There is wider debate as to the perception of risk and whether actual risk is lower than it is perceived to be for these types of investments. The IA team particularly noted that when co-investing with other DFIs, IA's more cost-effective position and focus on ensuring project viability and impact realisation has incentivised these DFIs to reconsider their need to be as commercial as they initially intended.

"Additionally, there is still a significant lack of consistent good practice in social performance measurement, management and reporting despite pockets of progress being made.

Barriers to market growth

Despite these positive signs of growth and increasing diversity, investors report significant risk and challenges to impact investing, particularly in DFID's target regions. The GIIN Annual Impact Investor Survey reported lack of appropriate capital across the risk/return spectrum, a shortage of high quality investment opportunities with track record and a difficulty exiting investments as the top three challenges investors faced. The Basic Services Programme Track and the detailed regional landscape reports added additional colour to these, noting challenges around:

- too few companies being investment ready, frequently with significant work needed to prove operations, develop a strategy to scale and formalise financial and corporate records;
- human capital being a constraint for both potential investee companies and for fund managers;
- ease and evidence of exits;
- concern that the traditional 2-and-20 PE/VC fund structure is not suitable for many basic services investments, given the business models may be unproven, but "a new normal" for deal structures has not yet been developed/gained traction;
- Currency risk remains a challenge for smaller funds.

Additionally, there is still a significant lack of consistent good practice in social performance measurement, management and reporting despite pockets of progress being made.

[4] Published August 2015 reflecting data gathered end of 2014.

[5] Range of percentages from different studies: landscape studies, Annual Impact Investor Survey and the Impact Programme Survey on the Markets

[6] Anecdotal, general trends from BOP Services Track

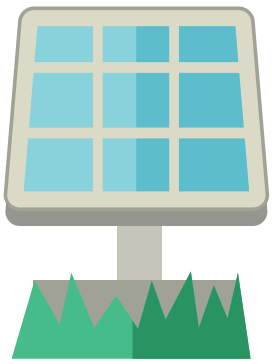
BUILDING THE MARKET FOR IMPACT INVESTING

THE IMPACT PROGRAMME'S MARKET BUILDING ACTIVITIES SEEK TO REDUCE BARRIERS AND BOTTLENECKS IN THE IMPACT INVESTING VALUE CHAIN, AIMING TO MAKE THE PRACTICE OF IMPACT INVESTING AS EFFECTIVE, AS EFFICIENT AND AS ATTRACTIVE AS POSSIBLE TO INVESTORS, INTERMEDIARIES AND ENTERPRISES – PARTICULARLY THOSE ACTIVE IN DFID TARGET REGIONS – ALL THE WHILE KEEPING A FOCUS ON IMPACT PERFORMANCE.

In 2015, this work was predominantly undertaken by the GIIN. The GIIN's role in the impact investing industry is to increase the scale and effectiveness of impact investing by providing tools, data, and network opportunities for investors to help them to make more informed decisions and allow them to execute their investment and impact measurement activities more effectively.

GIIN's market-building activities in 2015 supported by the DFID Impact Programme focused on:

- Increasing investor confidence and knowledge, reducing information gaps and perceived risk for investing at the BOP including through running ImpactBase, an information platform on impact investment funds, and the BOP Services track for investors.
  - The GIIN researched and targeted funds based in DFID's target regions for ImpactBase recruitment. At end 2015, 135 funds targeting impact investing in Sub-Saharan Africa and South Asia were registered on ImpactBase, against a 2015 target of 131.
  - The BOP Services track produced an investor directory which details the sub-sector, geography, instrument, and other features of the basic services investment strategies and is designed to help investors network in a more targeted way.
  - The BOP Basic Services track also facilitated experience-sharing working groups, such as one on exits which took place in April 2015, that allowed investors access to the candid comments and reactions of peers. These working groups were designed to leverage the premise that honest, direct advice from a peer is often a factor in any business decision-making.
- Building the capacity and experience of Fund Managers in Sub-Saharan Africa and South Asia through AIMS, the GIIN's fund manager training programme, which provides training to first-time fund managers to increase regional capacity to absorb impact investment capital.
  - The AIMS programme was significantly developed during 2015. The four courses developed, Raising Impact Investment Capital, Investment Skills, ESG, and Impact Measurement and Management, underwent several pilot deliveries to test and refine the curricula. In total, the GIIN has held 20 trainings reaching 228 people from 102 funds. Fourteen of these trainings occurred in 2015.
- Improving social impact measurement and management particularly facilitating more consistent practice across fund managers, further development of IRIS metrics and sharing practitioner insights and experience on impact measurement.
  - At the close of 2015, the total number of users with an interest in sub-Saharan Africa on the Registry was 60, and users focused on South Asia totalled 47.
  - IRIS participated in four metrics working groups with the Global Alliance for Clean Cookstoves, the Global Alliance for Banking Values, FAST Forestry, and Aeris.
  - Four linkages were published, including those with the Council on Smallholder Agricultural Finance, GRI, UNPRI, and the Global Off-Grid Lighting Association.



Next steps

Having operated in the impact investment market for three years, as well as gathering input from other market-building organisations and industry reports, the Impact Programme has identified strategic areas where it believes it can add most value to tackling the constraints and building the market for impact investment in Sub-Saharan Africa and South Asia.

> The Impact Programme has identified strategic areas where it believes it can add most to building the market for impact investment.

The constraints identified are:

1. Low volumes of actors across the value chain which means high transaction costs. This can limit investor and fund manager ability to share information on investments, funds and deals. There is little natural transmission of normal practice and lessons learned.
2. A lack of norms and standards in impact measurement and management means that investors and fund managers struggle to assess the total performance of the investment.
3. Challenging contexts in DFID target markets, including limited infrastructure and connectivity, means that it is especially challenging for enterprises to reach a state of development where they are investor ready.

The Impact Programme's market-building strategy will address the practical issues associated with these constraints and offer practical solutions under five strategic areas. These are:

1 Opening up sources of finance through new mechanisms for investment

2 Supporting improved practice in impact measurement and management

3 Building Fund Manager capacity

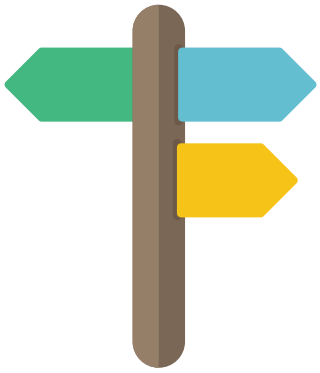
4 Bridging information gaps and increase market linkages

5 Supporting deal flow of impactful enterprises

Solutions supported by the Impact Programme will refine existing ways of doing things, making it easier and, typically, cheaper for actors in the impact investment market to find and implement interventions and ways of working that work for them. Where needed, the Impact Programme will also fund new and innovative approaches.

Market-building interventions will act in one of the following ways to solve the practical issues in the market:

- Produce global public goods that are actionable and accessible
- Reduce the price point or transaction costs for accessing an existing effective tool or technique
- Innovate, research, develop and test new and more effective models, tools or techniques for doing something needed in the value chain
- Build the capacity of organisations
- that can sustainably build the capacity of enterprises and fund managers
- Publicise and spread the word about an available, reasonably priced effective tool or technique and / or coordinate and connect the market more extensively.



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.

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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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