Impact Investing Policy
In 2014: A Snapshot Of Global Activity

INSIGHT AT PACIFIC COMMUNITY VENTURES and THE INITIATIVE FOR RESPONSIBLE INVESTMENT

NOVEMBER 2014

Supported by THE ROCKEFELLER FOUNDATION and THE JOHN D. AND CATHERINE T. MACARTHUR FOUNDATION
The Impact Investing Policy Collaborative (IIPC) strives to grow impact investing markets by building a global network for policy research and innovation. The IIPC helps investors, public officials, advocates, researchers and related communities better identify and support policies that lead to more robust and effective capital markets with intentional social and environmental benefits. The IIPC achieves these goals through foundational research, convenings, and partnerships. The IIPC is co-convened by InSight at Pacific Community Ventures and the Initiative for Responsible Investment at the Hauser Institute for Civil Society at Harvard University.

PCV InSight (www.pacificcommunityventures.org/research) is the impact evaluation and research practice at Pacific Community Ventures. PCV InSight provides information and analysis to investors and policymakers with the goal of driving capital to underserved markets. PCV InSight’s work has provided the basis for national and international policy initiatives, including the US National Advisory Board, White House Impact Economy Forum, and the Social Impact Investment Taskforce, (established under the UK’s presidency of the G8) among others. PCV InSight co-convenes the Impact Investing Policy Collaborative as a global policy network and the Accelerating Impact Investing Initiative project. InSight’s consulting practice evaluates the social and economic impacts of over $25 billion of institutional investments, across asset classes.

The Initiative for Responsible Investment at the Hauser Institute for Civil Society at Harvard University is an applied research center that focuses on fundamental issues and theories around the social utility of finance. Through research and ongoing dialogue, the IRI looks at opportunities across asset classes, issue areas, and investor types to engage private sector investment around environmental and social goals, risks and opportunities.

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Dear friends,

The past decade has been a time of exciting development for the still-young field of impact investing. Only seven years ago the sector’s name was coined during a convening at the Rockefeller Foundation’s Bellagio Center – since that time, we’ve seen a wave of investors using impact investing to address some of the toughest challenges of our time—from climate change and water scarcity to lack of access to health care, education, and affordable housing—and generating financial return along the way.

To call that progress encouraging would be an understatement – and the most exciting part is that there’s much more room to grow.

That growth will depend, in large part, on our ability to work together – sharing our insights, experiences and best practices in order to build an increasingly hospitable environment for the kind of catalytic change we want to see.

One way in which the Rockefeller Foundation is working to foster that collaboration is our participation in the United States Impact Investing National Advisory Board (NAB), which will support the efforts of the G8 Social Impact Investing Task Force. I’m honored to represent the Foundation on the NAB, and look forward to helping to promote the possibilities of impact investing on the international stage.

Increasing global momentum makes this a crucial moment for impact investment: emerging economies around the world have enormous potential and opportunity to create a new cadre of impact investors to support their own social goals. But that potential can only be tapped with the help of smart policy frameworks and a standard global approach for measuring important outcomes.

That’s why we were encouraged by this year’s White House Roundtable on Impact Investing and look forward to seeing other governments take a close look at what it will take to accelerate the success of the sector.

It’s also why I’m excited to share the Impact Investing Policy Collaborative’s Report Impact Investing Policy in 2014: A Snapshot of Global Activity. Our hope is that this comprehensive resource, consisting of insights from leading policymakers and practitioners, will help shape policy research and spark global innovation and demonstrate powerfully how sound policy can help grow the impact investing space.

I’m confident that the strong foundation that policy can provide – together with increased collaboration among the private sector, governments, philanthropies, and international institutions – will lead to a bright future for the twin goals of financial return and life-altering social change.

Sincerely,

Zia Khan
Vice President for Initiatives and Strategy
The Rockefeller Foundation

Read the full report at http://globalpolicy.iipcollaborative.org
<table>
<thead>
<tr>
<th>Page</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>NAVIGATING THE REPORT</td>
</tr>
<tr>
<td>5</td>
<td>PREFACE</td>
</tr>
<tr>
<td>7</td>
<td>IIPC CONCEPTUAL FRAMEWORK</td>
</tr>
<tr>
<td>13</td>
<td>REFLECTIONS ON THE GLOBAL MARKET</td>
</tr>
<tr>
<td>31</td>
<td>MARKET ANALYSIS AND DESIGN</td>
</tr>
<tr>
<td>45</td>
<td>ARTICLES AND CASE STUDIES</td>
</tr>
<tr>
<td>95</td>
<td>IIPC UPDATE</td>
</tr>
</tbody>
</table>
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NAVIGATING THE REPORT

*Impact Investing Policy in 2014: A Snapshot of Global Activity* is intended as a tool for practitioners and policymakers – those working to support development of the impact investing market – to do the following:

- Learn about ongoing public policy developments and their potential for influencing impact investing markets around the world;
- Understand how the public and private sectors can work together to better address critical social and environmental concerns in a given country context;
- Initiate and/or continue efforts to support market building and market mapping initiatives, using policy as a tool.

**FRAMEWORK**

Authors contributing to this report have taken diverse approaches and focused their analyses on a broad set of topics. The report provides a range of perspectives on how to look at the role of policy as a facilitator, initiator, supporter, and partner in shaping an impact investing market. The articles are framed around either a country or a thematic point of focus. They include:

- Conceptual pieces about the development and mapping of a specific policy system for impact investing;
- Examples of public policies that have supported market development in select geographies; and
- Insights from private actors into how impact investing intersects with other key market areas, such as international development and infrastructure investment.

**TERMINOLOGY**

Much like the field itself, this report contains a number of different, yet seemingly synonymous terms in reference to the concept of “impact investing.” Throughout the report, readers will encounter references to the following: social impact investing, impact investing, responsible investing, impact economy, social enterprise, among many others. Regardless of terminology, the overall focus remains the role and potential of policy to direct more private capital towards public purpose, where needed and feasible. There are, however, distinctions to each concept, which are the subject of several ongoing debates in the market. This report does not focus on streamlining definitions; for this collection of articles, these differences serve to distinguish geographies, sectors, and actors in their progress and efforts to build, scale and innovate in a particular market.

**WHY ONLINE**

IIPC and its platform, the GLE, currently engage practitioners from over 140 countries. *Impact Investing Policy in 2014: A Snapshot of Global Activity* contributes to IIPC’s vision of supporting market growth around the world. By presenting cases of current activity in impact investing policy, this report invites research, analysis and action to respond, scale, replicate and initiate further policy intervention.

In order to accommodate the iterative and dynamic nature of this report, the IIPC has striven to present it in the most user-friendly, accessible and engaging way. With the full report online at http://globalpolicy.iipcollaborative.org/, our global audience can access the information in a manner most relevant to their interests, draw insights from previous IIPC research, and benefit from a wealth of additional resources associated with each report section.

In building this interactive online reader, the IIPC has sought to provide users with: global access, easy navigation, friendly design, and innovative tools; helping readers not only maximize their reading experience but practice environmental sustainability by reducing unnecessary paper use.
PREFACE

Beth Sirull and David Wood

It is hard to believe that it has been five years since Pacific Community Ventures (PCV) and the Initiative for Responsible Investment (IRI) joined forces to initiate a global conversation about the role that policy can and should play in enabling impact investing to scale. Together we founded the Impact Investing Policy Collaborative (IIPC), and its network platform, the Global Learning Exchange on Social Impact Investing, which jointly form a global community of impact investing practice that has touched policymakers, investors, entrepreneurs and other stakeholders in over 140 countries.

PCV is an impact investing practitioner, investing directly, building the capacity of impact enterprises (especially in disadvantaged communities) and evaluating social impacts for investors; the IRI is a university-based research project. We share the belief that there are opportunities to direct more private investment, and direct it more effectively, towards a goal of creating healthy, sustainable, and vibrant communities. Striking the balance between social goals and investor needs – across a wide range of impact objectives and investment strategies – is a complex undertaking for which sound public policy is essential.

As is true for virtually every business, industry and market, policy plays a formative, shaping role, whether by mandate, fiat, incentive, prohibition or permission. Even when there is a lack of policy, that gap itself plays a role in shaping markets. The same is doubly true in impact investing, which is often framed as a way to do things that conventional financial markets are not doing by themselves. Our work has focused on asking, how do policymakers know when private investment is the right answer to achieving their social goals? And what sorts of policies best integrate social goal into financial market activity?

We have several milestones to recognize from our partnership. Our very first report released in early 2011, Impact Investing: A Framework for Policy Design and Analysis, established a framework of government policy action, identifying the role of policy in demand development, supply development and directing capital. Through a number of convenings, this report made its way to the White House and to legislative and executive offices in numerous countries, impacting policy development around the world. From there, as our network and understanding of the field grew, we followed on with our second report Impact at Scale, studying policies that encourage (or would encourage) institutional investors to become impact investors with a particular focus on the U.S. market. Next came Breaking the Binary (in partnership with the World Economic Forum) in which we showcased case studies focused on policies that spark and support social innovation. Last year, we convened IIPC members from 15 countries, and together we developed The London Principles, aspirational guidelines to inform policy design and evaluation in growing the impact investing market.

As co-conveners of the IIPC, we are especially pleased with the chance to help build and work with a dynamic network of partners and collaborators from around the globe. The IIPC has benefited tremendously from their knowledge of, and commitment to, growing the impact investing market in their home countries as well as creating a global movement to unlock more capital for public good.

Impact Investing Policy in 2014: A Snapshot of Global Activity is a result of the research, convenings, and partnerships we have developed over the last five years. The authors in the report – drawn from the IIPC network – examine the role of public policy in growing and shaping impact investing activity in various contexts. In this report, the IIPC provides brief summaries of policy innovation across themes, sectors and countries, broadening the conversation from what public policy could enable, to what public policy is actively addressing in so many different countries and markets.
The articles in the report are framed around either a country or a thematic point of focus: ranging from conceptual pieces on the development and mapping of the policy system for impact investing, to examples of specific public policies that have supported market development in different countries, and insights from private actors into how impact investing intersects with other key market areas such as international development and infrastructure investment. The policies showcased are not meant to highlight best practice; the purpose of these articles is to show the range and depth of policy experimentation underway in different countries, and in some cases, initiate a discussion on the scope, scale and impact of these policy efforts. We recognize that the potential and need for policy development differs in each market. Our hope is that through the countries represented and policies discussed, the report provides a glimpse into the diversity of approaches that governments are undertaking.

This year has been especially significant for impact investing policy and market activity – with the reports by the Social Impact Investment Taskforce, and the affiliated National Advisory Boards and Working Groups. We welcome the work these groups have done, along with the several other private and public sector actors even beyond the G8 countries who have been introducing and driving these conversations in their own markets.

While the IIPC continues to expand its research, advisory and network capacity, we are also turning our attention inwards to the U.S. market through our Accelerating Impact Investing Initiative (AI3), where we’ve teamed up with Enterprise Community Partners to further the conversation on U.S. policy that supports the growth of impact investing. We look forward to continuing our research on domestic and international markets, to ensure the further development of effective policy for more inclusive markets.

Special thanks to our Advisory Council, our Fellows Network, and partners across the world. We are grateful for the vision and support of the Rockefeller Foundation, which was among the pioneers in recognizing the role that policy plays in driving more private capital to social and environmental impact. We also express our gratitude to the MacArthur Foundation and the UK Cabinet Office, who have shared and supported our vision for a global effort to think through effective policymaking in this fast moving, global field.

We hope that this report contributes to the discussion on the role of policy more broadly, not just among policymakers, but by practitioners across the private sector and civil society who are committed to developing innovative models and partnerships to enhance the impact of private sector capital.

Co-conveners of the Impact Investing Policy Collaborative:
BETH A. SIRULL, President, Pacific Community Ventures
DAVID WOOD, Director, Initiative for Responsible Investment at the Hauser Institute for Civil Society at Harvard University
Over the past five years, the IIPC has created a number of different frameworks to try to understand what impact investing policy is and the processes that lead to effective impact investing policy development. From a simple graphic that maps policy by its role in the market, to a set of aspirational principles for impact investing policy development, these tools emerged from our engagement with the field and the policy makers engaged in it. Such instruments are primarily targeted at government officials looking to make sense of their existing and potential roles in the field.

Given the work we have done to date, we thought it would be useful to bring together all of our frameworks into a coherent whole, and provide a starting point for stakeholders interested in impact investing policy development. While there are several ongoing conversations globally and within individual countries on specific policy recommendations, this article presents a strategic roadmap for thinking about engaging with the policymaking process.

Many of the points that follow will be relevant regardless of the political infrastructure a particular stakeholder is facing, though it is important to keep in mind that the diversity of economic and sociocultural environments, market infrastructure, political framework, and institutional development have fundamental implications for the relevance and prospects of any given impact investing policy.

Here we look to illuminate what we have identified as key points and issues when thinking about impact investing policy development. We acknowledge that there is still much more to learn and understand about this space, and see this as a part of the early stage efforts to develop, with multi-sector stakeholders, an ongoing, global conversation around how policy can effectively support the development of just, sustainable societies through investments that prioritize superior social and environmental outcomes.

WHO SHOULD READ THIS?

In our experience, we have discovered that there is a broad set of policy entrepreneurs who want to understand how to engage around impact investing policy, from development to implementation. We have separated this group into three broad types: government officials, investors, and civil society actors. Within each of these segments, there can be sizeable diversity in interests, power, and access to resources, all of which inform the actions that a particular policy entrepreneur can take to achieve his or her objectives.

It is worth outlining the perspective of each of these groups:

• Government Officials. Government officials interesting in impact investing can appear in elected, appointed, or hired positions; in legislative or executive institutions; or in local city councils and mayoral administrations, regional governing bodies, or the federal government. They may see impact investing as an opportunity to leverage additional funds to support the achievement of societal goals in a time of fiscal austerity, to build capacity in financial markets to address social priorities, or to build durability in private (for or non-profit) social service provision. We have found increased interest in impact investment policy, driven by different motivations, across geographical regions and social formations.

• Investors. Impact investors, whether asset owners or the managers of funds, may see policy as an opportunity to support their investment goals and proactively advocate for policy change. While many impact investors understand the relevance of impact investing policy to their work, some do not and will remain disengaged from policy conversations. Those that engage in policy conversations only occasionally develop policy proposals. However, these investors are crucially important to engage with “policy proposals. However, these investors are crucially important to engage in the policy development process and are often influential in the process of moving a policy towards approval and implementation.

• Civil Society Actors. In civil society actors we include, in essence, everyone else who has a voice in policy development—stakeholders who see impact investing as a way to support their identified social goals, including advocacy groups, think tanks and academics, nonprofit organizations, organized philanthropy, and others. These individuals often link policy to specific sector-specific targets, such as affordable housing, environmental sustainability, healthy communities, and quality jobs. They may also focus on specific geographies, and activities that can improve quality of life in them. This group often contributes to the development of, and advocates for, policy proposals to support those interests.
WHAT DO WE MEAN BY POLICY?

When we talk about impact investing policy, we take a broad understanding of the word—we include any action taken by a government that supports the growth of impact investing markets. Policy here can include a legislative action, regulatory oversight, a commitment of financial or other resources, or merely a public show of support.

Some examples include:


- **India’s 2013 Companies Act**, which mandates new corporate social responsibility guidelines for corporations, requiring that they spend 2% of net profit on social development.

- **Tokyo’s Green Building Program**, launched in 2002, which requires that newly built or renovated buildings in the city over 5,000 square meters publicly disclose information on their environmental performance.

- **U.S. Social Innovation Fund**, established in 2010, leverages federal grant dollars through public-private partnership to identify and grow community-based organizations that support economic opportunity, healthy futures, and youth development.

There are policies that have important implications for impact investing markets that were not designed as impact investing policies specifically. In part, this is because the term and concept are relatively new, but also because some countries have a history of involving private investment in the achievement of societal goals. These policies often have a sector or outcome-specific focus, and an effort to tie those policies to strategy around the “new” tool of impact investing can be useful in getting a better understanding of the policy environment.

MAPPING THE ENVIRONMENT — POLICY FRAMEWORK

In 2011, we released *Impact Investing: A Framework for Policy Design and Analysis*, in which we classified policy across two axes: the level of government involvement, and where the policy affected the impact investing market. The policy framework was a simple way of starting to understand the tools that a government can use to support impact investing, and what a holistic impact investing policy environment would look like.
A holistic impact investing policy environment should appropriately support the supply of capital (investors), the demand for capital (investments/investees), and the market infrastructure that brings them together. In some cases, appropriate support for a particular segment of the market, or a particular issue, may mean no policy intervention or a time delineated intervention, or a seemingly permanent solution. In general, a cohesive impact investing policy environment will have complementary policies that address the challenges for capital supply, demand, and market infrastructure.

How is a holistic impact investing policy environment created? A good first start is to understand what policies exist currently, and to assess their effectiveness. The three columns of the policy framework may help separate out policies to see if certain segments of the market have received less attention than others. This mapping can be done for the impact investing market as a whole, or for a particular sector or targeted outcome. It provides useful context, which must then be combined with an understanding of what problem a particular policy proposal, or set of proposals, should try to solve.

If policies are developed in the absence of work to understand existing policies and how they work, there is a reasonable chance that those new policies will end up duplicating existing work or end up less effectively targeting market needs. Understanding the policy environment, as well as the breadth of policy opportunities and how they fit together to support the impact investing market, will be important to seeing the opportunities for government intervention and figuring out how to leverage them well.

IDENTIFYING AND COORDINATING CAPACITY – THE WHEEL

Mapping the environment, and fully understanding what problems a policy is aiming to solve, are prerequisites for the actual policy development process. We started to sketch out what that process might look like from a market perspective in a 2012 piece with the World Economic Forum, *Breaking the Binary: A Policy Guide to Scaling Social Innovation.* In this report, we built on the Policy Framework to include three additional policy efforts that are important to impact investing policy development: engaging stakeholders, developing government capacity for action, and reviewing and refining policy.

Read the full report at http://globalpolicy.iipcollaborative.org
The wheel can help policymakers, and other policy entrepreneurs, manage the process of policy development. Understanding who to engage among key stakeholders and where there is currently capacity to act, or to be developed, is important to getting policy proposals approved and implemented effectively.

Given a particular policy proposal, there will likely be a series of different types of engagement with different stakeholders. The first key piece in stakeholder engagement is making sure that the policy will do what you want it to—this means talking to the investors and other stakeholders involved to be sure that capital will be unlocked as initially envisioned or that the policy will be otherwise beneficial as intended. The second key piece is figuring out the supporters or opponents, both within and outside the government, of this policy, and coming up with an approach to address each of them. Likewise, it is important to see who else has an interest in having this policy be implemented, and how they can be pulled into an effort to support this policy. It is then of interest to understand who opposes policy implementation, for what reason, are they important, and what can be done (if anything) about them.

Stakeholder engagement relies on an assessment of stakeholder capacity to provide resources and support for a particular policy. Within that, it is especially important to understand the government’s capacity for action beyond the ability to approve a particular policy. For example, if the policy at hand is a co-investment proposal, can the government be an effective co-investor? Does the policy need additional support in implementation and oversight if it is approved? Are there skill, experience, staffing, or funding constraints that may impede the success of the policy being proposed?

While some capacity considerations may surface during the policy development process, it is worth taking specific stock of the government’s capacity to act in particular ways throughout the process of getting the policy approved and implemented. There may be opportunities to build capacity, and share learning, through the process of policy development that might be beneficial for governmental activity in the long term.

The wheel is useful for policy entrepreneurs seeking to move beyond a single policy proposal to build a set of long-term relationships within and without the government around impact investing policy. The wheel is useful for coordinating among policy proposals in the approval and implementation stage, and in supporting the actors and institutions broadly involved in the impact investing policy environment.

REVIEWING IMPACTS AND OUTCOMES – THE LONDON PRINCIPLES

In 2013, the IIPC network developed the London Principles, a set of aspirational touchstones for the impact investing policy development process. The Principles were designed to support a reflective approach to policy that drives learning and innovation over time to achieve important social objectives. The five principles include some common themes from previous sections:

1. **Clarity of purpose** reinforces strategy and policies that are integrated into existing policy and market structures, that target specific social objectives, and that clearly define the role for impact investing in achieving those objectives. Clarity of purpose allows governments to avoid inefficient use or misallocation of resources, insufficient policy support that impedes achievement of outcomes, and disjointed policy regimes.

2. **Stakeholder engagement** brings discipline and legitimacy to policy design. By institutionalizing dialogue and feedback, with relevant stakeholders, governments can bring important additional resources to support impact investing strategies and policies. Effective stakeholder engagement ensures that all actors are included, manages expectations, and avoids the development of policies that are unfit for purpose.

3. **Market stewardship** entails holding a holistic vision for impact investing strategies and policies. It focuses on a balanced development of investor interest, investment opportunities, and mechanisms to deliver intended social outcomes. Effective market stewardship sets appropriate levels of regulation and mitigates unnecessary management of market activity.

4. **Institutional capacity** allows for the effective use of resources, adds value to existing policies, and creates the potential for developing innovative strategies and tools that address key social problems. Institutional capacity establishes reliable and resilient markets, and avoids sending mixed signals to investors and civil society on the potential for intended policies to deliver on their promises.

5. **Universal transparency** mandates that stated objectives are clear, and progress toward their achievement is openly measured and reported to relevant stakeholders and the public at large. Effective universal transparency enables leadership in public innovation, protects against the risk of real or perceived bias, realistically manages expectations, and empowers citizen participation.

These principles aim to describe a high quality impact investing policy development process that will result in policies that are successful at achieving social. It is important to highlight here that the goal of impact investing policy is not to support impact investing as such. Impact investing is a tool, which may or may not achieve its goals of driving private capital towards more socially beneficial outcomes. The point of impact investing policy is to ensure that the social promise of impact investing is delivered in practice.
As evaluation may show, policy is not always, or the best, solution to a problem in impact investing. Given problem identification, an assessment of government capacity and stakeholder interest, it may be that there is an alternative, non-policy solution to a problem that will be more effective and/or appropriate. So when should policy take up this challenge? The London Principles, we hope, offer guideposts to when policy should focus on private sector investment, and how policy that does so can be made effective.

CONCLUSION

Our work, informed by engagement with policymakers and practitioners, highlights several key elements of impact investing policy reflected throughout this snapshot report:

6. All investment markets are shaped by public policy and have social implications; impact investing markets, and policy, are often the most obviously intentional in identifying and promoting social outcomes.

7. Effective policy needs development, implementation, and evaluation capacity, both within and outside government.

8. The range of stakeholders necessary for a holistic and meaningful impact investing policy strategy is broad, and may include unfamiliar organizations.

We hope this piece sheds light on how policymaking in this fast moving space has been developing, and that our work has contributed to the discussion of how to make impact investing policy most effective.

KATIE GRACE is Program Manager at the Initiative for Responsible Investment, where she conducts research on public policy and impact investment, sustainable cities investment, and place-based frameworks for community development.

IN BRIEF: POLICY LEVERS FOR IMPACT INVESTING IN THE U.S.

This policy landscape is an effort to look at the U.S.-specific context and bring together concurrent steps in the policy development process, as discussed in "An Introduction to Impact Investing Policy Development."

As part of an effort to map and visualize the policies that activate and shape the multiple levels of government engagement in impact investing at the federal level in the U.S., the Accelerating Impact Investing Initiative (AI3) has developed the following graphic. The three levels on the graphic represent broad lenses through which policy entrepreneurs can conceptualize and categorize current or prospective policy activity in impact investing.

**Public Sector Leadership and Coordination:** The first lens in the graphic points to activities that develop government infrastructure and capacity at the federal level for impact investing policy development and implementation, and signal support for the field.

**Market Infrastructure:** The second lens focuses on where policies play an active role in developing the impact investing marketplace, through incentives and regulation that influence how much capital is available in the market, and how it is deployed and utilized.

**Sector Targets:** Finally, the sector-oriented lens fits impact investing policies into a broad segment of public interest focused on sector-specific social outcomes. This highlights the social good aspect of impact investing policies, and helps visualize where private investment fits in with existing sector-specific policies.

The graphic is meant to give policy entrepreneurs a sense of how the conceptual framework helps map the broad landscape of impact investing policy, and offer a visual prompt that helps place any particular policy under discussion under the umbrella of policies meant to motivate private capital to public purpose. This step is crucial both in explaining the value of individual policies, and in recognizing their importance in the field as a whole. Additionally, the graphic helps put stakeholders in relationship to each other, laying groundwork for a coherent narrative for the field, which can generate a broad based network whose attention can be focused on specific policy priorities as they relate to the broader goals of the impact investment community – encouraging more and more effective private investment for social benefit.

The Accelerating Impact Investing Initiative (AI3) is a platform developed by the co-conveners of the IIPC – Pacific Community Ventures and the Initiative of Responsible Investment – in collaboration with Enterprise Community Partners. The AI3 seeks to advance effective public policies that support impact investing in the United States through research, multi-stakeholder engagement, and advocacy.
INTRODUCTION

The Social Impact Investment Taskforce (SIITF) established under the U.K. Presidency of the G8 was formed in June 2013. Its remit was nothing less than to catalyze a global market for impact investment by identifying what can be done to grow the market and reporting findings in a final series of publications released in September 2014. The SIITF work has brought together over two hundred leaders to inform its work and to help meet its objectives. These leaders, in turn, engaged with an even wider network, including impact investment practitioners, social entrepreneurs, policymakers, investors and philanthropists. The collective effort has resulted in an integrated set of reports – fourteen to date – that are beginning to shape a collective vision for what a global market could and should be, as well as what needs to happen to achieve it. The headline for this vision is enormous potential for a global market that could quickly unleash up to $1 trillion of new investment (SIITF Report, 2014).

The SIITF has been a bold experiment. There is little doubt it has had a galvanizing effect and brought greater coherence to the market building effort. For that, it should be celebrated as a success. Both the process and the outputs underscore the SIITF conclusion – many individuals can and must contribute to growing impact investment in order for the market to develop. At the same time, the SIITF reports reinforce how critical policy and government action are to shaping a market and encouraging participation. As this has been one of only a very few dedicated market building initiatives, learning from what has happened and how it has been done has as much to contribute to next steps as the work that has been produced.

What happens next matters a great deal. Implementing the market building recommendations from the SIITF reports will inevitably bring new challenges. Achieving a truly global market will mean expanding the effort to include emerging growth economies and countries still in development. Establishing a global market for impact investment is still a long-term undertaking, but the work of the SIITF constitutes a significant step forward. This paper explains the SIITF process and subsequent findings, as well as their implications for the work ahead.

THE WORK OF THE SIITF

The SIITF was established under the U.K. Presidency of the G8 and comprised of government and sector representatives from 7 of the G8 countries (all except Russia) and the E.U., an observer from Australia and a representative from the development finance sector. Sir Ronald Cohen, who, among other accomplishments in finance and social impact investment, chaired the U.K. Social Investment Taskforce between 2000 and 2010, was appointed as Chair. The U.K. Cabinet Office provided the Secretariat to support the work.

STRUCTURE, ROLE AND REMIT OF THE SIITF

The role and remit given to the SIITF is: to catalyze the development of the social impact investment market, including identifying what more can be done to grow the global market. The SIITF’s primary functions included:

• Embedding discourse on social impact investment in future government level discussions;
• Advocating for consistency in approaches to developing the global architecture across the G8 nations;
• Building engagement across the market with major foundations, private sector investors, civil society and other international organizations; as well as
• Recommending any wider ways in which it – as a voluntary body – can drive forward the growth of the global social impact investment market.

In the early stages following establishment of the SIITF, structures were put in place to organize the effort. In particular, working groups and advisory boards were formed to inform the SIITF work (Figure 1). The function of the working groups was to bring together frameworks in key areas affecting market development. Four Working Groups were formed to focus on measurement, asset allocation, mission alignment and international development. Each is comprised of leaders in the area of focus for the particular group drawn from multiple countries, including some of those outside the G8. The SIITF engaged the Organisation for Economic Co-operation and Development (OECD) to undertake a review of definitions, data and frameworks underpinning market development.

The SIITF also created National Advisory Boards in each participating country. Pairing the global focus of the SIITF with a strong National Advisory Board in each country brought local content to the global process and provided leadership for contextualizing the global effort at regional levels. These groups were brought together under the leadership of the sector representative to the SIITF in each country. They are comprised of leaders from each country working in philanthropy, investment, community sector, business, social enterprise and in some cases government.

“The task at hand was nothing less than to move the entire Western world in a coherent direction on one of the great issues of our time.”

FIGURE 1: STRUCTURE OF SOCIAL IMPACT INVESTMENT TASKFORCE

The SIITF structure supplemented SIITF membership with four Working Groups and eight National Advisory Boards. Adapted from SIITF Report (2014)

THE BODY OF WORK

Delivering on the ambitious remit with a timeframe set for the SIITF to report in September 2014 required a proactive and adaptive approach. The group had to bring together many perspectives across a diverse set of contributors, organizations and systems through a series of meetings and consultations (Box 1). By definition, the work required synthesis of the experience across countries and sectors to identify themes, assess what market elements could be applied consistently to support a global market and which factors would require adaptation for local context.
BOX 1: THE SIITF PROGRAM SEPTEMBER 2013 – SEPTEMBER 2014

The SIITF met six times between September 2013 and September 2014; five times in person and once by phone. Each in-person meeting was designed and held over the course of two days by the host country. On each occasion the SIITF reviewed progress and heard from government representatives, impact investment practitioners, social entrepreneurs and stakeholders active in local markets, among other external experts. Working Groups met virtually and in person, and National Advisory Boards convened meetings as appropriate to their individual countries. Most of these bodies undertook some level of consultation and engagement with a broader range of market participants and influencers. The SIITF received regular updates from Working Groups on their progress and findings.

Each National Advisory Board examined the strengths and challenges of its country market and conducted an ecosystem mapping exercise adapting a common template proposed by the SIITF secretariat. The National Advisory Board Chairs progressively presented the developing picture of their local ecosystem at the SIITF meetings. These groups developed the country-specific reports, which consolidated the work done to date into recommendations for enhancing their individual impact investment markets.

While the regular SIITF meetings only involved SIITF members, the June 2014 meeting brought together a much bigger group of representatives from across the Working Groups and National Advisory Boards in a plenary session. This event enabled nearly 200 people involved in the process to hear from and connect with one another. It also provided individuals outside of the Taskforce process with the opportunity to see the body of work developing across the different country and subject matter groups.

The SIITF had an ambitious work program supplemented and informed by the efforts of Working Groups and National Advisory Boards

The setup of the SIITF and its process is reflected in the suite of reports published in September 2014. Collectively, they bring focus to the state of the impact investment market, and make the case for ways in which it needs to grow to begin shaping and calibrating a global market at scale.

The SIITF report *Impact Investment: The Invisible Heart of Markets* is the centerpiece of the Taskforce publications. It presents a clear frame of the global market and brings together the key themes in eight high-level recommendations for every country context (Box 2).

BOX 2: SIITF HIGH-LEVEL RECOMMENDATIONS

1. Set measurable impact objectives and track their achievement
2. Investors to consider three dimensions: risk, return and impact
3. Clarify fiduciary responsibilities of trustees: allow trustees to consider social as well as financial return on their investments
4. Pay-for-success commissioning: governments should consider streamlining pay-for-success arrangements such as social impact bonds and adapting local ecosystems to support impact investment
5. Consider setting up an impact investment wholesaler funded with unclaimed assets to drive development of the impact investment sector
6. Boost social sector organizational capacity: governments and foundations to consider establishing capacity-building grants programs
7. Give profit-with-purpose businesses the ability to lock in mission: governments to provide appropriate legal forms or provisions for entrepreneurs and investors who wish to secure social mission into the future
8. Support impact investment’s role in international development: governments to consider providing their development finance institutions with flexibility to increase impact investment efforts. Explore creation of an Impact Finance Facility to help attract early-stage capital, and a DIB Social Outcomes Fund to pay for successful development impact bonds.

*These eight recommendations are supplemented with additional and more specific recommendations in each chapter of the SIITF report, including a section devoted to objectives for policy makers.*

*Source: SIITF Report 2014*
A supplementary report, *Policy Levers and Objectives*, further elaborates on the role of governments in developing the market conditions for impact investment to succeed and grow. This report consolidates the considerable attention given by the SIITF to mapping the ecosystems across participating countries and the policy levers for governments to grow the impact investment market focusing on key ecosystem components. It is intended to provide some practical guidance to policymakers in their main roles as identified by the SIITF: as market builders; as market participants and as market stewards.

Reports from each of the four Working Groups focus on particular drivers of the market as a whole: *measurement, asset allocation and protecting the mission of impact organizations*.

The report on international development has a different focus, shaping how impact investing can play a more important role in development finance and contribute to economic growth and social outcomes in developing and emerging economies.

Eight National Advisory Board reports highlight the opportunities and imperatives for action in participating countries. Their individual focus is context-driven, building on the ecosystem mapping undertaken through the SIITF process as well as engagement, mapping and other processes led by each National Advisory Board as they saw fit for their circumstances. These reports also reflect the composition and specific dynamics of each board.

The produced body of work and resources are the most ambitious of their kind. Analysis, adaptation, implementation and critique have barely begun. It is reasonable to expect that within a short time the field will have refined these outputs and tools and moved further forward still. That is as it should be; market building is dynamic by nature and requires experimentation and iteration to advance.

**LEADERSHIP, LEGITIMACY AND ACTION**

The process by which the SIITF work was led and developed holds important lessons for the future. Specifically, much of the galvanizing effect of the SIITF can be linked to a few key factors:

- Strong leadership, credibility and track record of the SIITF Chair, and indeed of many others involved in the SIITF and it structures;
- Legitimacy afforded by the origins of the SIITF and its mandate in the U.K. Presidency of the G8;
- Reinforcing effect of a distributed leadership structure that also created a ripple effect in reach and influence;
- Rigor in the process combined with the flexibility achieved through an entrepreneurial and collaborative approach; and
- A clear timeline for action.

The composition of the SIITF to include government and sector representatives created an independent body that was neither an inter-governmental association nor a sector-driven group, but had the strengths of both. Since the SIITF members are well-known and well-networked in the impact investment community, it was possible to assemble Working Groups and National Advisory Boards quickly.

The track record of Sir Ronald Cohen as Chair in particular provided confidence for others to engage and act. His appointment by the U.K. Prime Minister added authority to the position. The origins of the SIITF and its mandate in the U.K. Presidency of the G8 provided legitimacy and an authorizing environment that encouraged participation and action and helped to unlock resources for the work.

The SIITF structure (Figure 1) appears as relatively neat and linear. In practice, the work of the different groups overlapped and intersected. The reach was enhanced by each group’s engagement with impact investment practitioners, social entrepreneurs, social purpose organizations, “profit for purpose” organizations, investors, government representatives and other stakeholders. In effect, the process created a distributed leadership model with the SIITF at the center (Figure 2).

Some of the work could or would have happened without the SIITF; market development is underway in the participating Taskforce countries and beyond. However, the combination of leadership, expertise and engagement across a number of countries and key market issues
simultaneously contributed to a virtuous cycle reinforcing legitimacy and momentum to drive the work forward. The working groups brought together experts from around the world leading in particular issue areas, such as measurement and asset allocation. This provided a clear focus for collective action in shaping solutions for a global market. Mapping ecosystems and market potential across countries highlighted common strands from among developing impact investment markets. This has contributed to a sense of greater coherence, energy and momentum across a more connected effort that amplifies the transformative potential for impact investment. Conscious effort will need to be applied to sustaining these effects as the work progresses.

The dynamics will change again as the SIITF moves to implementation and as more people and countries enter the discussion. A new, quite possibly broader, range of challenges will no doubt emerge. The implementation process will need to be responsive to these challenges. It will therefore be important to maintain the vision for what a global market for impact investing could be, and at the same time allow the process to adapt to the next phase of work. Those who take up the next phase of work will need leadership, a rigorous plan of action and an entrepreneurial and collaborative approach. The SIITF has indicated that it will continue to work to oversee implementation of its recommendations (SIITF Report 2014). The shape of their role has not yet been determined and will be a key agenda item for the SIITF meeting in October 2014.²

MOBILIZING MARKETS

The SIITF, with its working groups and National Advisory Boards, has identified some key dimensions of market building.² It is one of only a handful of initiatives to have explicitly targeted market building for impact investment. Beyond looking at the components of the market, the SIITF process has articulated a collective vision for a global impact investment market. They likewise attempted to map the ecosystems of participating countries, allowing them to chart commonalities and differences across country settings. At minimum, this process constitutes a starting point for discussion and analysis; at maximum, it has provided a basis for drafting the course from where we are to where we need to go.
A clear vision mobilizes people to act and creates momentum for change. The vision provides a frame within which to develop strategies and organize action. It solidifies focus and commitment in light of uncertainty. The global market for impact investment is developing, but not yet fully formed. Developing and refining a clear vision for a well-functioning market is therefore critical.

The SIITF process is not the first to frame a vision for the impact investment market. Market leaders including the Monitor Institute, CAF Venturesome, JP Morgan, the Global Impact Investment Network (GIIN), and ET Jackson & Associates have each articulated their own iterations of their vision. The article on “Market Analysis In Social Impact Investing: Design Considerations And International Experience” in this very report seeks to incorporate these perspectives into key market dimensions.

The SIITF work is new in that it starts to shape a collective vision, at least one broadly shared among participants, which can then be tested and refined with others as they come into the process. The SIITF report does not use the term vision, although some of the ancillary reports do (e.g. Impact Measurement Working Group 2014). However, tenets of a vision for a global market are clearly framed in the central themes and messages of the report (Box 3). The report establishes a vision that entails harnessing entrepreneurship, innovation and capital and the power of markets to transform the way we solve social issues and deliver vastly better outcomes for people. It also articulates an ambitious target for scaling the market, set at $1 trillion unleashed for impact investment.

**BOX 3: ELEMENTS OF THE SIITF VISION FOR A GLOBAL IMPACT INVESTMENT MARKET**

- Doing good and doing well are no longer seen as incompatible objectives.
- Entrepreneurial leaders have access to finance to scale up their ideas and do not face undue constraints to the growth of their organizations.
- There exists a critical mass of impact-driven business and “profit with purpose” companies.
- The social sector has the capability and scale supported by access to management talent and investment capital.
- Investors consider three dimensions in their decision-making: risk, return and impact, understanding that impact investment enhances a diversified asset portfolio managed by mainstream investors.
- The finance sector demonstrates it can be a powerful force for social good and deliver inclusive economic growth.
- Philanthropic foundations focus on impact rather than the act of giving and have new ways of deploying some capital in their endowments to achieve their social mission.
- Governments and other commissioners have made decisive moves to focus on outcomes incentivising innovation and effectiveness.
- Impact investment is prominent in domestic and foreign policy across countries.
- A full range of financing forms: from seed and early-stage risk capital to debt and growth capital, is available for impact, and impact investment is fuelling constructive financial innovation.
- Measureable impact objectives are routinely set and achievement is measured; in capital markets, measures of social return are produced alongside financial performance metrics, as well as indicators of their volatility, to make it possible to identify risk-adjusted financial and social returns.
- Impact investment has a strong role in international aid and foreign investment with the intention of achieving better social outcomes and economic growth in developing countries.
- Bold, enlightened leadership is evident from across sectors, including grassroots leadership from the public actively engaging with impact investment.

*The core messages of the SIITF Report frame a vision for a dynamic global market.*

*Sources: SIITF Report (2014)*
EMERGING MARKET PARTICIPANTS

Mobilizing markets, local or global, is only possible if important players that drive and influence different elements of market systems are part of the process. That means including governments, investors, the finance sector, entrepreneurs, the social sector, philanthropy, and above all, local communities. This inclusive approach was built into the SIITF mandate (SIITF Role & Remit 2013).

The SIITF work has added to and extended other market development initiatives. A number of people and organizations that have led other market building efforts participated in and contributed to the SIITF or its processes in different ways.

There is both a need and an opportunity for industry leaders to join together to catalyze a powerful further acceleration – a surge in the rate of growth – across a wider range of dimensions, in order for the field to reach maturity, scale and sustainability.¹

Engagement has not yet included all parts of the system. In particular, entrepreneurs and social organizations were less well represented than others in the SIITF process, and there has been limited opportunity for meaningful engagement with local communities.

Recently networks such as the Global Learning Exchange on Impact Investing (GLE) indicate a strong appetite for engagement and significant latent demand across sector and geographic boundaries at all levels.² Extending the reach and depth of the movement beyond the immediate reach of SIITF is an opportunity, and an imperative, for a global market to develop.

FROM HERE TO THERE: MAPPING

The SIITF process is one of the first exercises in attempting to map current ecosystems across countries. A few market mappings have been carried out in the past 2-3 years at country-level with support from the Impact Investing Policy Collaborative (IIPC) – quite a few with nascent social impact investing markets, such as Australia, Canada, Hong Kong, Ghana, India, Israel, Morocco, Senegal and Turkey. Other efforts have taken a global approach, most notably the global field-scan Accelerating Impact.³ However, none have been produced through a collective endeavor across a number of countries, simultaneously bringing together local and global factors, as was done by the Taskforce.

The SIITF conclusion from these mapping exercises – that there are common opportunities and challenges amidst enormous potential for a global market – is significant and encouraging. Participating countries found the process of working through a common mapping template both challenging and useful. It required comparison of different starting points, strengths and weaknesses in the market systems, a task that illuminated the limitations of such a mapping template. As a consequence, at the country level, National Advisory Boards made adaptations for context.

Exploring similarities and differences enabled representatives to articulate the ecosystem locally and how it relates to the global, or at least the broader developed world, context. The mapping process showed that there are principles that can be applied everywhere, even though country-level implementation needs to be tailored.⁴ It helped to identify broader themes across political systems, different approaches to social service delivery and the level of acceptance of market-based approaches, models of the welfare state and the degree to which provision of social services has been contracted out by governments to market and social sector providers. As can be seen from the National Advisory Board recommendations, it also helped National Advisory Boards to identify and understand interventions in other countries that might prove suitable in their own countries.

The outputs of this process can be used broadly in individual country contexts and to develop the larger, global market. No doubt there will be room for expansion and refinement as the market mapping is tested more broadly.

In addition to the process of mapping ecosystems, the SIITF mapped key global trends placing them in the context of the element of the impact investment market they fall under (Box 4). These factors comprise a new paradigm for a thriving global market, as articulated by the SIITF. They will drive the growth of the field and affect its development, particularly if the dynamics of a given market are not well understood. While these trends are not new, the SIITF process confirmed their prevalence across participating countries and relevance to a global impact investment market.

Read the full report at http://globalpolicy.iipcollaborative.org 19
POLICY AT THE CENTER
Several commentators have already clearly articulated the importance of policy and governments in the development of impact investing, including in assessments of other market building initiatives. The SIITF gave particular weight to the central role of governments and policy in its work: without government leadership, the development of an impact investment market will be slow and its impact more limited.

Well-designed policy can make an important contribution to unlocking significant capital that can increase the capacity, reach and effectiveness of organizations to address social issues. Government leadership sends important signals to the market and, when well-targeted, can build confidence among other stakeholders, spurring them to participate.

“We are at an inflection point where smart policy can scale smart capital for social benefit.”

GLOBAL DIRECTIONS
The SIITF confirms the critical and active role for governments in developing impact investment. The report provides clear messages that apply to all governments, notwithstanding that design and implementation will need to be customized for each country (Figure 3). These messages are organized within three distinct roles for governments: as market builder, market participant and market steward, each of which works in different relationship to the impact investment eco-system. Overwhelmingly the emphasis is on actions that incentivize new investment, innovation and an outcomes-orientation.

The SIITF places the emphasis for market building on catalysts that stimulate and encourage investment, the development of enterprises, innovation and market infrastructure. In this context, the SIITF has made a number of recommendations to stimulate different parts of the market, from enterprises to new funds. The SIITF highlights potential for low-cost options that demonstrate leadership and send positive signals to the market, such as recognizing and rewarding successful entrepreneurs, supporting product-specific certifications and social stock exchanges.

The SIITF focused heavily on governments as commissioners of social services. The recommendations indicate huge potential to help scale the market for impact investment by making decisive moves to commission on the basis of outcomes, while recognizing that commissioning social services is not the exclusive focus of governments’ role as market participant. An important second limb of the recommendations is effective utilization of impact investing as a policy tool to encourage the flow of investment from other sources, particularly by de-risking...
opportunities in the early stages of the market. Developing a better and applied understanding of impact investment as a contribution to the “policy toolbox” will be critical for governments to utilize impact investment effectively for targeting and leveraging limited public funds.

As market steward, the focus the SIITF identifies for government is ensuring an efficient and effective market with appropriate regulation that does not inhibit development of impact investment.

SIITF draws upon the role governments have played in supporting economic innovation and entrepreneurship, and encourages a similar role in relation to impact investment. Governments, at least across the countries participating in the SIITF, have regularly taken up these roles to stimulate innovation and investment in their respective economies. Surveys conducted by the OECD on enterprise and early-stage finance underscore the role of governments in building sector capacity and encouraging the development of innovative solutions, enterprise and intermediaries.

The SIITF conclusions reinforce this role for government as enabler and catalyst for new markets, enterprise and innovation. The balance to be struck between priming the pump and unhelpful subsidies, and between correcting market failures and promoting new market opportunities, will always be delicate. Further, systematic consideration of the dynamics of market building for governments at both global and local levels and in the context of local markets is needed.

ADAPTING AND IMPLEMENTING FOR LOCAL CONTEXT

The National Advisory Boards’ work highlights how policy issues manifest in individual markets and how policy actions can and need to be tailored for individual conditions. They underscore the importance of policy in each jurisdiction, though with differing degrees of emphasis in

"Government intervention can play a catalytic role both in facilitating the functioning of the ecosystem and targeting actions to trigger its further development. However, these actions should provide incentives for the engagement, not the replacement, of the private sector and should be conducted in a manner conducive of the market.”

The SIITF makes a series of focused recommendations for governments, supplemented by a report on Policy Levers and Objectives. Source: Adapted from the SIITF Report (2014); Policy Levers and Objectives (2014)

Read the full report at http://globalpolicy.iipcollaborative.org
their country-specific recommendations and actions. For example, the U.S. report is almost exclusively focused on policy, whereas Germany includes actions for government as one of a number of market participants that will need to act reflecting the different stages of market development and different systems of social service provision in the two countries.

Differences across the National Advisory Boards reflect a range of factors including different systems of government and division of responsibilities between levels of government. For member states, the European Union adds an important, additional level of reference and opportunity for action, as reflected in the recommendations of some European National Advisory Boards. Italy, for example, proposed a number of reforms at European Union level. These range from introduction of Social Investment Bonds by the European Commission to reward superior social performance, to the development of a common labeling and impact measurement framework for all European Social Investment Funds, to a new legal definition for social enterprises. Similar opportunities for standardization or harmonization could be considered in federal structures.

Some National Advisory Boards have already proposed measures that apply high-level SIITF recommendations for their country. For example, creating a wholesale investment institution, Recommendation 5 of SIITF Report is picked up with different emphasis for a number of country markets. The French and German National Advisory Boards propose the facilitation of early-stage risk capital, whereas the Italian Board seeks to encourage experimentation with a “what works” fund. Some emphasize the provision of blended capital financing (U.K.), a fund of funds (Italy and German) or using government funding to leverage private capital (Australia, Canada, Germany and the U.S.). How measures can or should be implemented also reflects structural, cultural and philosophical underpinnings, including whether the country has Anglo market origins or underpinnings of a social or solidarity economy.

Each country context is also shaped by existing institutions, economic and market conditions and regulatory frameworks. For example, all National Advisory Board reports pick up the theme of strengthening outcomes-based commissioning irrespective of the country specific background. However, different countries face different levels of preparedness for such commissioning, particularly through social impact bonds. France and Japan propose a feasibility study for Social Impact Bonds, whereas countries like Germany are in the design stage. Other countries have already completed transactions, like Australia and the U.S., or are reviewing results of pilot schemes and scaling up such as the U.K.

The National Advisory Board of Germany and France in particular devoted much attention to the role of impact investing in international cooperation whereas some of the other National Advisory Board’s delegated this topic to the SIITF international development working group. In those two countries recommendations focused on attracting and enabling domestic investor and support organizations to engage in developing and emerging countries, on providing capacity building support to both potential investees as well as financial institutions and intermediaries in developing countries as well as establishing learning and exchange platforms.

The NABs mostly see their respective development (financing) institutions as the main engagement instrument in developing countries. France’s NAB goes somewhat beyond that by recommending to expand access to the French solidarity finance scheme to impact entrepreneurs in partner countries.

**EVALUATING MARKET IMPACTS OF POLICY**

The question remains how the effects of particular policy interventions and the impact of SIITF recommendations can be captured and measured. The standards of measurement the SIITF proposes start with the ultimate test: whether the people most affected by social issues are benefiting from the interventions. Other measures for tracking progress in different parts of the market system include:

- Size of capital flows into impact investment;
- Spread of outcomes commissioning, by governments, foundations and businesses;
- Number of successful impact-driven organizations created;
- Number of impact-driven organizations achieving impact at scale.
The London Principles\footnote{22} may also have a role to play. This framework for effective policy design proposes six principles: clarity of purpose, stakeholder engagement, market stewardship, institutional capacity and universal transparency. This resource was developed by a group of international cross-sector practitioners to inform policy design, but could also provide a useful set of criteria to be applied across jurisdictions as a set of common benchmarks for evaluating the effectiveness of impact investing policy. However, the principles are unlikely to serve as a sufficient measure of market-level impacts.

Another tool could be to apply surveys and frameworks from the OECD where policy has played a role in supporting entrepreneurship and innovation. The work of the OECD to develop recommendations for definitions, data and frameworks for impact investment is ongoing; publication of their work is expected in late 2014 or early 2015.

In one of the articles this publication it is suggested to measure policy and other interventions made by key players in terms of their market impact, i.e. the extent to which they contribute to the development of social impact markets and progress towards market “maturity” (Koenig, 2014b). While the difficulties of capturing market impact, this perspective is essential for directing resources and attention to the strongest catalyst of market development. Secondary effects like the development of new networks and relationships can often have the most powerful and enduring impact on market development. What we have learned from studying other areas of policy is that these effects are often not given sufficient attention.

Meeting the challenge of measuring market-level impacts of impact investing is particularly important because the very existence of field depends on setting impact goals and measuring progress toward them. Practitioners on all sides of the ecosystem therefore must be able to assess whether they are making progress toward their stated goals. For a pivotal initiative like the SIITF, finding ways to ensure that progress is tracked will not only focus new attention on the critical endeavor of market building, but will serve as another opportunity to shape the next steps in growing the market.

FROM POLICY AND MARKETS TO PRACTICE

Translating intention to action will mean keeping focus on the strategic intent of the SIITF and continuing to build momentum. To achieve this vision, it will be necessary to engage a broader range of actors with the same urgency and drive, particularly within governments. At the global level and in individual countries, the work ahead will require navigating the interface between policy and politics and between government and markets. The way forward will not be linear, it will need to be dynamic and responsive to the environment and to opportunities as they arise.

The role for the SIITF in this next phase is being determined. The National Advisory Boards are each assessing how they will continue the movement and begin implementation in their countries. How the effort will be sustained is an open question. Another layer of leadership is also required, one linked to the global effort and the organizations that will need to act. The SIITF has included practical recommendations to start to build such leadership, including that national governments appoint a senior individual as a champion for impact investment within and beyond government.

Beyond leadership there remains important work ahead to equip the people and organizations that need to implement the recommendations with the necessary tools, capability and expertise.

Implementation and change will take time. Actions should be tailored to country context and monitored over time to assess whether objectives are being achieved.\footnote{21} Collecting this information will enable a better understanding across markets of what is driving change and how similar interventions play out in different contexts. However, market building and impact investment are both innovation stories at the core, and therefore success is dependent on constant trial, testing and adaptation.\footnote{22}

POLITICS, CIRCUMSTANCE AND INFLUENCE

Effectively influencing policy requires a range of factors to come together beyond active leaders. Government and policy are often conflated, when in fact they are quite distinct parts of the process. Not only do policy design and implementation involve different actions than politics,
they are carried out by different actors – depending on whether they are inside or outside the government; elected or appointed officials.  

The government context is dynamic and diverse, and can be unpredictable and change rapidly, particularly at the political level. The political dimension also brings in ideology and complex relational aspects. These factors are more complex still where more than one level of government is involved.

Understanding the political as well as policy landscape will require leaders and champions who can navigate that terrain and influence effectively. Lessons from recent market building efforts for impact investing have identified several factors that need to be taken into account to achieve policy influence in different jurisdictions. In addition to policy diversity, navigating the political context features high on the list, in particular tactical diversity, choosing options for the particular climate, asynchronous opportunities, and identifying and mobilizing around unplanned and sometimes unpredictable opportunities arising out of the political and relational circumstances.

Also, governments do not act in isolation. Whether the focus is on particular areas of social need or broader market development, a range of participants is likely to be involved. The SIITF recommendations recognize that not only will this be the case for impact investment, but involving and mobilizing a broad range of actions will be fundamental for the field to grow. The work ahead will include encouraging some of them to work across traditional sector boundaries and with enough coherence that others can see beyond fragmentation to the broader market potential SIITF and others have identified.

THE LEADERSHIP IMPERATIVE

Effective leadership will be essential to embedding, testing, sharing and expanding the insights of the SIITF within the participating countries and global market at large. The SIITF report recognizes this need, calling for bold, enlightened leadership and collaboration across sectors. It also includes practical recommendations for national governments to appoint an “impact investment champion” – ideally from among those heading federal departments or ministries – helping to formulate and implement appropriate policies that build market infrastructure and to support the development of the sector.

Achieving a fundamental shift in the market will also require encouraging and providing incentives for a different type of leadership that takes a systems perspective to embracing diversity, uncertainty and complexity. The SIITF process has highlighted a number of hallmarks of this style of leadership, recognizing that the task at hand requires changing complex systems for more positive outcomes.

The SIITF remit and process provided clear strategic intent, but precise outcomes of the strategy were unpredictable. Linear strategies, the dominant paradigm in finance, were found insufficient to deliver the necessary results required for building a global market. Program logic, the dominant frame in policy and program design, was likewise found inadequate, as was command and control style leadership, common in both finance and government. A more creative, collaborative and entrepreneurial approach is required to ensure collaboration and forge relationships among the diverse stakeholders throughout the impact investment ecosystem.

These characteristics reflect what commentators describe will be required for leaders of and for the future to move to more ecosystem-driven economies and deliver outcomes that benefit the whole system over individual and organizational interests. There are a number of parallels with the hallmarks traditionally associated with successful social innovation, namely: distributed leadership, using intermediary bodies to cross sector boundaries, fostering and maintaining networks, promoting and sharing knowledge and insights and promoting creativity.

These characteristics are also reflective of the ‘multi-lingual’ leadership identified consistently across top performing impact investment funds. That is, the top performing leaders in impact investment move seamlessly between different stakeholders and audiences and cut across silos to draw connections between business as well the social and development finance sectors. These leaders recognize the value of other brokers, who help to connect individuals and organizations across traditional boundaries and in the process create relational trust. These leaders generate solutions collaboratively, rather than attempting them alone.
In the SIITF process, participants benefited from each other’s knowledge, creativity and resources and to establish collaborative partnerships and networks. To drive adoption and implementation, those hoping to carry the SIITF work forward will need to identify leaders that can reinforce and extend the approach, particularly to achieve a greater level of outreach, engagement and influence. Providing a structure that links to and builds from the legitimacy and authorizing environment achieved with the SIITF will also be important in extending the SIITF’s galvanizing effect.

CAPABILITY, COLLABORATION AND PRACTICE

The next stage of work will also need to put capability and collaboration at the center. Beyond leadership, the people and organizations that will actively contribute to market building require proper tools, capability and field expertise.

“Public sector innovation is a long a process, but it is a critical enabler to enhance and scale the impact of social innovation models pioneering solutions to many of the most entrenched social and environmental problems we face today.”

Participants across the market, and particularly in governments, will need support in implementing the SIITF recommendations. The challenge includes content knowledge, adaptation of existing processes, and utilization of networks in the developing impact investment market both locally and globally.

The work of the National Advisory Boards began the process of translating and adapting the SIITF vision for local action and putting the Taskforce’s work and Working Groups into context for their particular environments. Their work has been valuable; however, it is not the same as being in government and shaping policy or being in a major institution and developing the business case.

Appointment and continuity of champions as recommended by SIITF and in a number of the country reports is one way to build further bridges toward implementation. At least some of these champions need to be working toward enacting change internally within governments and other organizations to respond to the challenges and opportunities of the emerging impact investment market with innovative solutions and approaches. Such contributions to market development need to be valued and encouraged to provide incentives to build capability, demonstrate efficacy and develop of a coherent body of practice.

OUTLOOK: WHAT COMES NEXT

There are many opportunities to build on the work done by the SIITF and others to realize potential for a dynamic global impact investment market. Demonstrating concrete actions that deliver in material areas highlighted in the report will be a significant factor in drawing needed practitioners to the field. Prioritizing and sequencing the work – globally and for individual countries – will be part of the work ahead.

Beyond implementation, there are clear opportunities to develop a broader and deeper picture and practice building on the work the SIITF has started. These opportunities center on sharing and expanding the insights of the SIITF with new groups, markets and geographies and bringing the voice, insights and aspirations of those participants into the picture.

Objectives for next steps should focus on:

- Establishing effective communication and implementation to build confidence through matching aspiration with delivery;
- Enabling more individuals – especially in different countries – to make sense of what has been learned and proposed, and to adapt it for their contexts;
- Granting more individuals the opportunity to add their voices and experiences to a growing library of global knowledge and practice;
- Allowing a global market to develop in a way that meets global needs, including the needs of a broader cross section of countries than the initial SIITF countries.

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EXTENDING THE FRAME FOR A GLOBAL MARKET

The SIITF reports highlight a number of areas to extend the directions and reach of the work. There are further areas where there is a constructive opportunity for the market building work to be developed next. A number of these are worthy of papers in their own right; the purpose here is to shine a light on them for further consideration.

BEYOND G8 COUNTRIES

Key among these areas of further inquiry is the extension of engagement from the initial Taskforce jurisdictions of the G7, Australia and the EU to a much broader group of countries and multi-jurisdictional forums. SIITF specifically calls upon the G20, ASEAN, APEC, OAS and the African Union to include on their agendas development of impact investment. Extensive as the SIITF effort has been, they have yet to include participants beyond the Taskforce countries in a meaningful way. Despite the SIITF focus on development investment as a key theme, the market building processes have been driven by developed, largely Western, countries. There are a number of ironies to this exclusion, including the fact that 70 percent of impact investment targets developing countries. Furthermore, impact investing practitioners can and did draw many valuable lessons from development and microfinance. For example, the Contingent Revenue Bond developed in 2008 to finance sanitation in developing countries through private investment contingent on outcomes directly inspired the design of the first Social Impact Bond in the U.K.

In a G-20 world, the leadership, funds and entrepreneurs from the new economic powers and from the developing world more broadly must have a strong voice and choice in impact investing as a market and as a field.

Developing countries have greater potential to contribute to the global market than impact investment destinations for capital from Western countries. Local leaders can, and should, be supported in shaping and building impact investment markets in their own right, as it had been the case for donor assisted comprehensive sector reform programs in microfinance, private sector participation in infrastructure and many other related areas.

In addition, continued efforts will need to include deeper engagement of more advanced emerging economies, many of which are members of the G20, such as China, Indonesia, Mexico, Turkey, Poland, Hungary, or Northern Africa. These countries tend to fall off the impact investment “radar,” as they fall between developed Western nations and developing countries (Koenig, 2013). The interest expressed from people in over 125 countries in various aspects of the work of the Global Learning Exchange, launched alongside the SIITF, is indicative of the interest and appetite for a much broader range of countries to participate in the global effort.

In summary, for impact investing to develop as a global market, leadership, voice and experience from a broader range of nations must be included.

PLATFORMS AND PRACTICE

An evaluation of previous market building initiatives in impact investment by Rockefeller Foundation highlights the importance of thought leadership and practice, of mobilizing allies and champions alongside policy, policy influence as well as mobilizing financial resources. Developing online and in-person platforms for connecting people and encouraging and curating thought leadership – platforms that span language, cultural and sector divides – will be a pivotal element of developing practice in local markets and a necessary contribution to achieving a functional market at global scale. How these critical elements can be developed, sponsored, resourced and sustained is an
element of market building still under development. The SIITF report highlights the need for global platforms as well as local initiatives that can connect people, ideas and resources to share best practice and grow the market.

Such platforms should facilitate knowledge-sharing and synthesizing insights developed across the Working Groups and National Advisory Boards. They should also enable learning and allow participants to address obstacles and accelerate progress. Over time, these platforms will need to link the work of the SIITF with other initiatives underway in different countries, such as ecosystem mapping in countries as diverse as Turkey, Israel and China and Brazil. There is work ahead to determine how new and existing platforms can meet these needs.

MARKETS IN FEDERAL SYSTEMS

Many countries have more than one level of government. The contribution that state, regional and local governments – as opposed to national governments – can and should make in impact investment is yet to be fully explored. Also, how the relationship between levels of government affects policy and practice for impact investment has not yet received consideration. This is an area worthy of further work, at least on a country level and also across other inter-governmental bodies such as the European Union.

ENGAGING THE DIASPORA

Diaspora communities could and should play a more proactive role in impact investment, making links across borders and going beyond sending donations and remittances to their countries of origin. Their local knowledge and networks make them uniquely placed to play a role in advancing the investment proposition for their countries of origin, countering false assumptions about local investment risk, and brokering meaningful connections with market participants and policymakers.

DEMOCRATIZING IMPACT INVESTMENT

For impact investment to become a global movement, it has to reach the hearts and minds and investment choices of the average citizen. For impact investment to be truly inclusive, ordinary citizens need to have options to participate in the market. The retail market has been explored more in some markets than others; for example, it is a vital part of the model employed by Triodos Bank NV and other members of the Global Alliance for Banking on Values. Recent research indicates that 73% of people in the U.K. with net wealth between £50,000 and £100,000 are interested in impact investing, yet only a small proportion of individuals yet have access to this market. That research suggests there is significant potential to create retail impact investment funds building on successful models already in the market.

ANGEL INVESTMENT FOR IMPACT

Angel investment plays a lynchpin role in venture capital markets. Often business angels are able to act quickly while contributing high risk capital, expertise and access to networks to early-stage entrepreneurs. This is one area where impact investing can draw lessons from the development of other markets.

Early stage impact investing angel networks such as Toniic in the U.S., Clearly Social Angels in the U.K., or Intellecap's I3N initiative in India present a tremendous opportunity to achieve synergies, channel larger amounts of capital to entrepreneurs, reduce risk and use personal networks effectively to attract additional people to join the movement.

EFFECTIVE INTERMEDIATION

Within the market frame, intermediation is critically lacking in most places. Across all National Advisory Boards, attention has been paid to activities that help to develop national social impact investment markets, including raising awareness, sharing data, increasing transparency and developing joint impact measurements for the benefit of all market participants. However, with a few exceptions (e.g. Australia), there was much less thought about the role and financial viability of market intermediaries. Without conscious development of the range of intermediaries necessary to enable a well-functioning market, there will not be one. Some work has been done on this in individual jurisdictions and parts of the market. This work needs to be developed further, including in the context of a global market.
CORPORATE VENTURING FOR IMPACT

The role of the corporate sector in stimulating impact enterprise and ‘social business’ could be an entire field in its own right. It draws from the influential work of practitioners and commentators such as Simon Zadek and Jane Nelson. Not much practice or literature has yet developed linking this to development of the impact investment market. Recent work on corporate impact venturing and Conscious Capitalism is beginning to make inroads and more case studies are building, with prominent early examples including Vodafone M-Pesa and Danone and Unilever’s impact initiatives, as well as Patagonia’s $20 Million & Change Venture Fund. B-Corporations are increasing focus on how purpose and profit can be comfortable, even helpful bedfellows. The size of the corporate sector and its role in the capitalist system alone signal this as an area for further thoughtful work.

SOCIETAL IMPACTS AND THEIR INTERACTION

Since the term impact investment was coined in 2009 various reports and commentators have considered definitional issues including the extent to which the field should include environmental and cultural impacts as well as social. The 2009 Monitor Report lists social and environmental impact as focuses. The SIITF Report states that social impact investment as used in the report encompasses environmental. However, within the focus of the report, there is not material consideration of environmental impact or how outcomes between environmental and social are related. Investment for environmental outcomes has arguably developed on a trajectory in advance of other areas of impact, presenting clear opportunities to learn from what has and has not worked. Also, the extent to which social and environmental outcomes intersect and interrelate is important, particularly when considering sustainable development or issues faced by indigenous peoples.

With a few exceptions, cultural dimensions of impact have not yet received serious attention in the context of impact investment. Developing a more comprehensive picture of impacts across social, environmental and cultural factors will be important to informing the development of impact investment. Such considerations will help us better understand the different factors that affect people and communities.

STEPPING FORWARD

There is much to learn that can inform next steps, for the SIITF and for others that join the movement or work on sector and market development in their own countries. The significant work of sharing, analyzing and building upon this effort is just getting underway, even between the people and countries directly involved. The great examples of what is happening in impact investment that were presented to the SIITF should be shared more broadly so that the stories can inspire and build confidence among a broader audience. Some of the other articles in this report contribute to that process. A number of other opportunities for sharing policy and practice are highlighted in this article.

Together we can seize the opportunity to tackle social and environmental issues in new and more powerful ways and bring about a revolution to improve lives of those who would otherwise be left behind.
REFERENCES


SOCIAL IMPACT INVESTMENT TASK FORCE REPORTS

The reports can be downloaded at www.socialimpactinvestment.org.

INTRODUCTION

Successful impact-driven organizations and impact investors do not act in isolation. Their ability to impact the market at scale as well as the successful replication to other locations, sectors and circumstances depends as much on the performance of individuals and enterprises as on the environment in which they operate. This includes the specific country-context, the availability of market and government infrastructure as well as the strength of human relationships, networks and leadership.

Social impact investment experts have therefore rightly argued for some time to expand the conversation from engaging with individual organizations and deals to developing sector, industry or market-wide analysis for social impact. The key mandate of the Social Impact Investment Taskforce (SIITF), established under the UK presidency of the G8 in June 2013 was to “catalyze the development of the social impact investment market, including identifying what more can be done to grow the global market.”

If social impact investment is to be expanded beyond those geographies, sectors and people that are already actively engaged, local leaders across developed, emerging and developing countries need to identify strategies and interventions that both fit the specific country-context, the state of local markets as well as bring in international experience.

Practical guidance for public sector officials and other market builders on how to analyze the existing state of social impact investment markets is still limited. There has also not been much debate on the ideal state of social impact investment markets nor about how to how to assess progress or compare maturity across country markets. Finally, the flow of capital and support towards market builders and intermediaries providing crucial market infrastructure, goods and services is still insufficient.

This article aims to make a contribution to the field of market analysis and market development in social impact investment by raising questions in areas where practical experience is limited and consensus is missing. Recognizing the novelty and complexity of this topic and the limited scope of this article, the author does not claim to provide a comprehensive set of answers to these questions but instead offers a framework for further debate. At a more practical level the note aims to offer some initial guidance on market analysis based on a review of existing mapping work in SIITF member countries and elsewhere.

The article focuses on the following four questions:

• What are typical market elements that can help structure social impact investment market analysis and help make it comparable across countries (see A systemic view: What should be included in our market analysis?)?

• Are there typical traits of well-functioning and mature social impact investment markets that can be used as a reference when developing a vision, or planning development interventions and measuring progress? And is there a way to characterize these traits in different phases of a typical life cycle (see The “ideal” state: Where do we want to go?)?

• What can we learn from recent market analysis and mapping exercises across the world (see The current “state”: Where do we stand now?)?

• How does our understanding of mature social impact markets help to better account for market impact (see Market impact: How to account for positive effects on market development)?
As market development is mostly perceived to be the responsibility of governments, their influence is considered greatest in shaping nascent social impact investment markets. However, experience shows that activities of market players other than government can also be equally instrumental. Their importance is even more important in countries with weak governments and institutional capacity.

The article is therefore addressed to both government officials as well as any other champion in foundations, impact investment firms, civil society and the private sector wishing to shape and catalyze social impact investment markets.

A SYSTEMIC VIEW: WHAT SHOULD BE INCLUDED IN OUR MARKET ANALYSIS?

Social impact markets are systems, institutions, and social relations in which parties engage for monetary and non-monetary exchange of goods, services and information for social impact.⁴ In a simplified way, social impact markets consist of the following core elements:

- **Demand** for social investment capital by **impact driven organizations** such as social organizations, impact entrepreneurs and social businesses. The products and services provided by organizations and thus the demand for capital is driven by societal needs. The demand for services and products provided by the organization is influenced by the main **beneficiaries** and/or “impact-seeking” **purchasers** including governments, foundations, socially and/or environmentally conscious consumers.

- **Supply** of social investment capital and related services which is determined by the **sources of capital** from governments, foundations, corporations, high net-worth individuals or retail investors; investment channels (e.g. social value banks, investment funds or crowd-funding platforms) and characterized by the **financial products and services** offered to asset owners or asset managers to raise capital and to impact driven organizations to develop their products and services and increase their scale.

- **Market infrastructure** enables **financial intermediation** that supports the matching of demand and supply, the pooling of capital and the development of new financial products; developing of products as well as providers and services that support the **demand side** (e.g. capacity development and investment readiness) or the **supply side** (e.g. investor education and advice). **Market facilitation** is provided in a range of areas such as impact measurement, convening of events, education, awareness raising, market creation or research.

The core of social impact investment markets outlined above is shaped by a number of other contextual factors across these elements:

- **Policy framework** determined by the strategy and institutional set up of government, the legal framework, as well as specific tools that government apply to strengthen demand for impact capital, to direct capital and to attract new impact capital.⁵

- **Approaches to impact** with regard to how market players plan, invest, manage, measure, and report on impact including the level of **standardization**

- **Leadership** demonstrated by individuals and institutions across the ecosystem as they break new ground, facilitate system change and human interactions as well as the level of capacity, collaboration, and trust in a society or in the community of leaders driving this field forward.

Furthermore, such markets are embedded in, and influenced by, a range of factors that are unique to each country, including the role of government, the private sector and entrepreneurship, philanthropy or the third sector in society; the government welfare system, effectiveness of public service provisions; level of economic development, innovation systems; cultural values including the acceptance of market-led solutions to address social challenges; collectivism versus individualism, the level of trust and strengths of networks.
In reality, social impact investment market dimensions are less clearly defined than shown in Figure 1 above. Instead, dimensions may overlap and organizations, products or services may not fit neatly in one category. Underpinning these elements are a network of human relationships, values and country specific factors that are difficult to capture but greatly influence the functioning of social impact investment markets.

THE “IDEAL” STATE: WHERE DO WE WANT TO GO?

Ultimately, what are we aiming for? Are there typical characteristics of well-functioning and mature social impact investment markets across different geographies, cultural context and levels of economic development? With our current policies and interventions are we progressing towards that state?

Having a vision in mind how social impact investment markets should ideally look like is essential for mapping and analyzing markets successfully as it is for designing policy or measuring progress towards achieving that vision. A vision helps focus research, improves policy design and mobilizes people.

WHAT ARE THE TRAITS OF MATURE SOCIAL IMPACT INVESTMENT MARKETS?

As explicit visions statements are rare, market leaders’ vision for the development of the impact investment field can in most cases only be identified indirectly, for example, through the recommendations made by the SIITF and the National Advisory Boards.

The author reviewed key publications and in addition, asked global leaders when they consider social impact investment markets to be mature. The responses can be linked to typical elements of social impact investment markets as listed in the previous section.

Supply

- **Holistic investment strategies**: “Every investor – but particularly large institutional – have models that incorporate a) long-term time horizons (e.g. 50 years), b) externalities are no longer considered ‘external’ but integral to models, c) greater transparency and accountability around Environmental Social Governance (ESG) reporting.”
• **Access to advisory services:** “The ‘average retail investor’ can have honest, fruitful and informed advice considering all three dimensions: impact, risk and return.”

• **Proliferation and diversity:** “Markets serve more impact-driven organizations with a larger variety of financial products and services at lower costs.”

• **Three dimensional investment:** “Investors consider three dimensions in their decision making: risk, return and impact.”

• **Philanthropic capital:** “Philanthropic foundations focus on impact rather than the act of giving and have new ways of deploying some capital in their endowments to achieve their social mission.”

**Demand**

• **Business case for impact:** “Entrepreneurs integrate and report on social and environmental issues (e.g. same criteria on B Corp assessment, but also other factors) simply because there is a business case to do so, either for employee retention, customer engagement and demands, industry norms, etc.”

• **Critical mass:** “There is a critical mass of impact-driven business and profit with purpose companies.”

• **Access to suitable finance:** “Entrepreneurs have access to tailor-made finance that fits their needs to scale up their ideas.”

**Market infrastructure**

• **Prominence of intermediaries:** “Intermediation is strong, sophisticated, and ambitious.”

• **Ease of market entry:** “There is a credible track record of risk, financial and impact performance to attract new sources of capital and players.”

• **Economies of scale:** “Costs for transactions are minimal.”

**Government**

• **Focus on market expansion:** “Government have reduced their catalytic market making role (no need any more) and now focus on broadening opportunities in outcome-based commissioning.”

• **Prominence in international policy:** “Impact investment has prominence in domestic and foreign policy across countries.”

• **International aid and investment:** “Impact investment has a strong role in international cooperation.”

**Impact**

• **Aligned financial and social returns:** “We have robust, triangulated, multi-faceted evidence that financial and social returns can/do move in the same direction (i.e. there is no inherent tradeoff), as well as lots of examples/evidence to inform how risk, return and impact considerations relate (causation, correlation, etc).”

• **Systematized and integrated impact:** “Impact as such not remarkable anymore but part of mainstream” and “Impact considerations are embedded and visible across all mainstream retail and institutional products (e.g. similar to the nutritional labels on food/drinks), and that this information is comparable (for the most part), has benchmarks and expectations, and regulatory protections.”

**Leadership**

• **Bold enlightened leadership:** “As is evident from across sectors for a dynamic global social impact investment movement including bottom up leadership from a public and grass root organizations.”

• **Access to talent:** “We have good leaders who are able to attract the best talent in the field.”

• **Multilingual leadership:** “We have multilingual leaders that are able to talk to everybody, be it a banker, a business or a social organization.”

The variety of statements shows that all market elements play a role and need to be considered in formulating a vision and second that within each market element a variety of aspects are included, but the emphasis varies depending on individuals’ perspectives.
Social impact investment markets, similar to other markets, industries or organizations, develop over time and pass through life cycles. Across different countries, we can therefore observe different stages of maturity, ranging from uncoordinated innovation and infancy to market building, to growth and maturity.⁸

Table 1 outlines possible typical traits at different life cycle stages.⁹

**TABLE 1: TYPICAL TRAITS OF SOCIAL IMPACT INVESTMENT MARKETS**

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<tr>
<td><strong>Policy</strong></td>
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<tr>
<td>Legal restrictions on IDO, retail, institutional, and philanthropic investors</td>
<td>Lack of awareness</td>
<td>Strong government role in market building, stewardship; Public co-investment, legal reforms, incentives for pioneers and high risk, “social value” based commissioning</td>
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<tr>
<td><strong>Demand</strong></td>
<td><strong>Demand</strong></td>
<td><strong>Demand</strong></td>
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<tr>
<td>Pilot IDO; small scale; limited capacity, and HR constraints; Unsatisfied start-up capital and support services</td>
<td>Larger variety and number of innovative business models; Qualified demand for capital including growth capital</td>
<td>Impact at scale (through growth or replication, cross boarder activities); Sustainable IDO that are able to attract sufficient capital</td>
</tr>
<tr>
<td><strong>Supply</strong></td>
<td><strong>Supply</strong></td>
<td><strong>Supply</strong></td>
</tr>
<tr>
<td>Investor unawareness; Mainly grant funding, subsidies or entrepreneurial finance; Pioneering direct investment</td>
<td>Investment funds, business angel networks; entry by mainstream investors; hybrid, layered financing; Small transaction sizes, limited capital flow</td>
<td>Retail investment markets &amp; stock exchanges; variety of products; exits; Larger transactions, sufficient capital flow to meet demand</td>
</tr>
<tr>
<td><strong>Market Infrastructure</strong></td>
<td><strong>Market Infrastructure</strong></td>
<td><strong>Market Infrastructure</strong></td>
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<tr>
<td>First facilitators emerging: research, awareness raising, education; Incubation &amp; accelerator programs; Mostly grant dependent</td>
<td>Increasing variety, capacity of facilitators; Supply side and financial intermediation emerging offerings, cross-subsidization</td>
<td>Variety of strong intermediaries; Shared infrastructure; Transaction volume high enough to make services sustainable</td>
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<tr>
<td><strong>Impact</strong></td>
<td><strong>Impact</strong></td>
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<tr>
<td>Limited accountability, outcome-orientation; Individual organizations develop their own practices</td>
<td>Best practices emerges, alignment across organizations; Application by an increasing number of organizations</td>
<td>Required standards for performance measurement, disclosure requirements; Standards integrated in mainstream; Demonstrated impact, no trade-off</td>
</tr>
<tr>
<td><strong>Leadership</strong></td>
<td><strong>Leadership</strong></td>
<td><strong>Leadership</strong></td>
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<tr>
<td>Individualistic leadership style; command and control style; rigid planning; Limited career opportunities in social sector; Leaders who are not well-versed in cross-sector terminology and activity</td>
<td>Community building and bilateral, diverse partnerships; shared knowledge; Flow of talent attracted to social impact organizations, investors</td>
<td>“Ecosystem behaviour, deliberate leadership; flexibility, collaboration &amp; networks; Highly skilled, multilingual talents”; preferred career choice</td>
</tr>
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</table>

Based on Koenig, Anja-Nadine (2014), p. 29. (KEY: IDO = impact driven organizations)
PROVIDING FOR COUNTRY SPECIFIC CONTEXT, COMPLEXITY AND UNCERTAINTY

While Table 1 is an attempt to capture typical traits, not all traits will be of the same relevance in all countries as country-specific circumstances and market characteristics vary. Each country therefore needs to go through a process on develop its own “mature market vision” and key milestones.

The temptation should be resisted, however, to be too rigid both with regard to setting long-term objectives and the development of a roadmap on how to move through the different stages of market development.

Instead of rigid planning and implementation, emergent leadership and strategies should play a more important role than in the past:

“Those interested will need to connect, experiment, learn and get more deals done, and in doing so test potential and navigate the challenges ahead. Moreover, committed leaders will need to step forward to carve the path and start to scaffold the frameworks for practice to make that possible.”(Addis, R. 2013).

THE CURRENT “STATE”: WHERE DO WE STAND NOW?

As leaders around the world are seeking ways to support social impact investment, a mapping exercise or a more comprehensive market analysis would often be the first step. If designed and conducted effectively, such an exercise:

- Helps leaders understand needs and constraints affecting key market players as well as opportunities emerging from existing constellations;
- Connects initiatives in this field in order to avoid overlaps, design better interventions and explore opportunities for collaboration;
- Promotes trust between leaders, market players, and local communities and ideally creates a sense of community;
- Allows for comparison of market maturity and competitiveness across a range of jurisdictions;
- Increases the attractiveness of countries “off the beaten impact investment track” to international investors, funders and facilitators;
- Allows to monitor progress on market development and the extent to which past interventions have been effective in moving the field closer to the respective “mature market vision.”

PRACTICAL CHALLENGES

- Only few market studies have been carried out outside of those countries with a longer track record in the social impact investment field. Market analysts, seeking to gain a better understanding of the current state of a given social impact investment market, are faced with very practical challenges, including:
  - How to define the boundaries and players of the respective markets? In the absence of an agreed definition of impact entrepreneurs and other impact-driven organizations or the use of the social impact investment terminology, what kind of organizations, products and services should and can realistically be considered in the analysis?
  - Given the lack of policy, legal and regulatory framework analysis in social impact investment globally, which are the most critical areas to be reviewed in a country’s framework that enable or hinder the functioning of social impact investment markets?
  - Where can one find qualified experts who could work on such a mapping exercise, given that international experts lack the understanding of the specific local context and often face language constraints whereas local expertise in this field may not be as yet available?

How can one identify an adequate budget for such an exercise, given that resources are often insufficient due to the lack of prior data collection as well as political support?

These challenges are particularly relevant for countries with nascent social impact investment markets, little or no prior data and research in

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this area and weak government leadership in this field. Once the importance of such an exercise will be accepted within a market as well as the international community, it should be possible to address the lack of resources, guidelines, and expertise in the short to medium term.

**FIRST STEPS TOWARD A PROMISING FUTURE**

Despite these challenges some pioneering market analysis and research has been carried out recently in countries as diverse as Australia, Brazil, Canada, China, Germany, Morocco, Senegal, and Turkey – much of it with support from the Impact Investing Policy Collaborative (IIPC). In addition, a big push came under the Social Impact Investment Taskforce. All Taskforce members (France, Germany, Canada, Italy, Japan, U.K., U.S., and Australia as an observer) engaged in a market-mapping exercise based on a common template, to provide a market overview across countries, to identify gaps, and to develop recommendations for market development. Brief market overview presentations identifying strengths and gaps were prepared in June 2014 and more comprehensive country reports were launched mid-September 2014.10

Most of the studies describe key players on the supply side and the demand side, review key market activities and products, outline specific government interventions, and define gaps in the current market and frameworks. Some include or are based on demand side surveys previously carried out (e.g. Australia, Turkey, U.K., U.S.) and/ or supply side surveys and interviews (e.g. Brazil, Canada, Turkey, India). Several studies on investor preferences are particularly noteworthy (e.g. U.K.). One study (Hong Kong) critically reviews current government policies in this field against the London Principles, a set of principles for policy making in impact investing developed under the guidance of the IIPC in 2013. Two studies have a regional dimension (Asia and West Africa). Three of the reports by National Advisory Boards specifically emphasize the role of impact investing in international development (U.S., Germany, France). A few point to market dimension of leadership, access to talent, information and collaboration as well as to the role of trust, cultural values and the country specific socioeconomic and political context (Germany, Canada, Turkey).

The ANNEX provides a list of recent, relevant social impact investment market studies with explanatory notes. These studies may serve as valuable orientation for the design of future market studies.

**USING THE “MATURE MARKET VISION” AS AN ITERATIVE BENCHMARK**

If a market mapping exercise is to be analytical rather than descriptive it needs to relate to some form of normative framework to identify critical issues and gaps. The vision of how mature social impact investment markets would eventually look like could be used as such a normative framework. Elements of a market could be further broken down in performance areas and analytical questions that:

- Help understand the maturity level of a specific social impact investment market;
- Provide a starting point for cross country comparison – a Social Impact Investment Market Index or a Social Competitiveness Report similar to the *Doing Business Index* offered by the World Bank since 2002 which now includes 189 countries, the *Global Competitive Report* published by the World Economic Forum for more than a decade, as well as the draft index proposed by BCG in 2013 to compare the maturity of social impact investment markets across G8.

Figure 2 provides an example of a market analysis design template for further refinement and development depending on the purpose of the market analysis exercise.
MARKET IMPACT: HOW TO ACCOUNT FOR POSITIVE EFFECTS ON MARKET DEVELOPMENT

Impact is created at different levels depending on the perspective of the respective player in the social finance chain. Beyond the impact created by impact-driven organizations through the goods and services they provide to beneficiaries and the environment (entrepreneurial impact), some players in the social finance chain create investment and market impact. We argue here that these impact levels should be separated from entrepreneurial impact to allow for transparency, accountability and better targeting of capital and support measures.

INVESTMENT IMPACT

Beyond reporting on the impact achieved by their investees, fund managers need to be accountable on the delivery of their impact investment thesis and the contribution they make within their local context (investment impact). Investors wish to understand and compare fund managers' impact, but their information needs are different from the impact information collected by impact-driven organizations.

As a result, some approaches look at the impact from an investor's perspective (see also Box 1):

- **Additionality**: What is the increase in outcomes of the investee beyond what would have been achieved by a “socially neutral investor”?

- **Gamma model**: What is the “impact adjusted return” and how much capital was invested to achieve what level of effectiveness?

- **Implied impact**: Linking financial to social returns, what is the desirability of the perceived social impact expressed as a financial discount or premium in the pricing of capital, investments, options?

- **Investment thesis and context**: Does the fund manager deliver on the fund’s investment thesis and does this investment thesis/the fund manager address gaps and development needs in the local context?

Investment impact overlaps with market impact if the investor or investment fund defines market development need in its investment thesis (as in the case of Aavishkaar).
MARKET IMPACT

Market impact is defined here as any net effect on the way social impact investment markets work that brings the field closer to maturity (strong impact driven organizations, effective intermediation, mainstream capital in social sectors, choice of products and services, standardization of impact measurement etc). How maturity is exactly defined in each specific context, however, can be derived from the local leaders’ and decision makers’ vision on mature social impact markets in their countries – or by global leaders in relation to the global social impact investment market.

A few examples: Pioneering entrepreneurs often have high market impact by de-risking business models, negotiating new financing arrangements with investors or establishing new partnerships. Suppliers of impact capital may have market impact if they address identified gaps in the social impact investment market (e.g. by providing early stage capital, developing new financial products that may be used by other participants or engaging in rural areas). Market infrastructure providers such as research institutes or event organizers create significant market impact by provide goods and services that are needed by most market participants but are more efficiently provided collectively.

BOX 1: INVESTMENT IMPACT MEASUREMENT AT AAVISHKAAR

Aavishkaar is a private venture capital investment firm incorporated in 2006 in India providing risk capital and support to early stage ventures. The company measures the four funds in relation to its impact investment thesis which includes the following "mantras":

- Risk taking ability by investing in early stage enterprises operating in high-risk geographies
- Nurturing enterprises and entrepreneurs
- Focus on scale in a manner that our companies are able to attract mainstream capital
- Finding responsible exits

In cooperation with the German Development Agency GIZ and IFC, Aavishkaar created the Performance risk, impact and sustainability measurement tool (PRISMA). PRISMA allows for the assessment of fund performance beyond portfolio performance considering the fund performance as well as context factors such as geographical targeting, choice of financial instrument and investment stage.


BOX 2: EXAMPLE OF IMPACT LEVELS

For profit-company Bridges Academies International in Kenya successfully standardized low-cost high-quality education showing that such services can be offered profitably and attract investment. The direct effect for children is improved access to school (entrepreneurial impact). After initial investment by Omidyar Network the company was able to attract various development financing institutions such as OPIC, IFC and CDC and venture capital firms. By de-risking investment in this sector and a franchising business model in education other followers will benefit from improved access to finance and support as well as the experience generated in running an education business in low income markets (market impact).

There may have also been clear investment impact of Omidyar Network assuming its investment thesis at that time included criteria such as “early stage investment in education sector” or “de-risking of innovation to attract more impact capital.”

Source: www.bridgeinternationalacademies.com
Promoting organizations and funds with high levels of market impact is highly desirable when catalyzing social impact investment markets and many leaders consider this aspect in their funding and support decision. Omidyar Network, for example, considers the total impact of a firm as a combination of “direct impact on beneficiaries and “sector level impact.” Bridges Ventures identifies system level impact as part of their impact evaluation, whereas in India the Michael and Susan Dell Foundation actively supports “market enablers” with grants. The Indian consulting and investment firm Intellecap has strategically contributed to shaping the eco-system for impact entrepreneurship and impact investing through industry research, convening of annual Sankalp Forum events, establishing crucial initiatives such as I3N, a network of individual and institutional angel investors, the Council of Impact Equity Investors or Intellegrow as a “venture capital debt” provider for the “missing middle.”

In most cases, however, leaders across sectors and geographies are still “externality-unaware” with regard to market impact and too often regard investing in market infrastructure providers and any other organization with an explicit effect on market development inferior to funding programs that have a direct impact on the needy. This is not surprising, since admittedly market impact is difficult to communicate, even more difficult to measure and is therefore often not well understood.

Furthermore, market development is commonly seen an area reserved to government rather than market players. Seeking to capture and report on the extent to which organizations make a contribution to market development referring to the mature social impact market vision therefore is an opportunity to direct resources and attention to the strongest catalysts of market development.

FIGURE 3: ENTREPRENEURIAL, INVESTMENT AND MARKET IMPACT

OUTLOOK

A holistic market development strategy is key to accelerating the growth of impact investment markets beyond those countries who are already actively involved. Ways have to be found to share existing experiences made in leading countries with a wider group of people, organizations and countries and work collaboratively in developing guidelines and toolkits that can be used by local leaders to adjust international experiences to local circumstances while considering the importance of comparability.
The process of sharing experience in reforms in the infrastructure sectors, regulation, and public-private partnerships in the past twenty years may serve as a useful example.

Experience gained from regulatory (ex-ante/ex-post) impact assessments as well as from methodologies used to assess the impact of sector reform programs or sector-wide approaches in international development cooperation, may be a good starting point to refine the concept of market impact and strengthen methodologies on measuring progress.\(^6\)

It is important to continue the cross-border, cross-sector learning process of the SIITF and working on the comparability of country performance with regard to establishing a conducive environment to social impact investing. This may help to attract international impact investment into high performing countries and in fact, incentivize countries to compete with each to create the best environment for social impact investment.

The author would like to acknowledge Rosemary Addis, Karim Harji, and the IIPC.

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Schramer, Oliver. 2013. Leading from the Emerging Future: From Ego-System to Eco-System Economies. ADD


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Read the full report at http://globalpolicy.iipcollaborative.org 42
## ANNEX: MAPPING INDEX

<table>
<thead>
<tr>
<th>Country</th>
<th>Author, year, title of document or publication</th>
<th>Market dimension</th>
<th>Description/Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>ADB. 2011. Impact investors in Asia: Characteristics and preferences for impact investors in Asia and the Pacific</td>
<td>Supply</td>
<td>Survey with current and potential impact investors to understand what attracts investors to impact investing as well as the current level of interest. Carried out in view of informing the design of Asia’s first social stock exchange but findings equally relevant for any market builder or facilitator.</td>
</tr>
<tr>
<td>Brazil</td>
<td>Mapping the impact investing sector in Brazil: Summary of Findings, May 2014 supported by Aspen Institute, LGT Venture Philanthropy.</td>
<td>Supply</td>
<td>A survey carried out amongst 21 fund managers and investors to gain a better understanding on their profile, investment strategy.</td>
</tr>
<tr>
<td>Canada</td>
<td>Reynolds, Joanna, and Karim Harji. 2014. The State of the Nation: Impact Investing in Canada.</td>
<td>Market assessment</td>
<td>Describes the (unmet) demand for impact investing via investment potential in nine key sectors; reviews main investors’ activities, challenges and opportunities for each investor type, financial intermediaries and other market enablers including numerous case studies and interviews with key players</td>
</tr>
<tr>
<td>Germany</td>
<td>Scheck, B., Höchstädt, A K. 2014. Mapping the social impact investing market in Germany. An overview of opportunities in the education space. Impact Investing Policy Collaborative.</td>
<td>Market assessment</td>
<td>Describes the supply, demand and market infrastructure with a sector emphasis (education) and identifies key gaps and barriers.</td>
</tr>
<tr>
<td>India</td>
<td>Intellecap. 2014. Invest. Catalyze. Mainstream. The Indian Impact Investing Story</td>
<td>Market assessment</td>
<td>Analytical market study based on significant data collected from online surveys, interviews and literature reviews on entrepreneurs, enablers and investors.</td>
</tr>
<tr>
<td>Senegal</td>
<td>Dalberg, 2012. Assessment of Impact Investing Policy in Senegal.</td>
<td>Market assessment</td>
<td>One of the first studies to review impact investing opportunities in a developing or emerging country. The study includes a social needs assessment; examples of impact entrepreneurship activities in Senegal; a review of existing government policies, identification of main barriers as well as a way forward.</td>
</tr>
<tr>
<td></td>
<td>Koenig, Anja. 2013. What do impact investors think of Turkey? Istanbul: Istanbul Policy Center. Impact Investing Policy Collaborative.</td>
<td>Supply</td>
<td>The results of a market testing exercise to understand the interest of international investors in engaging with Turkish social investment opportunities</td>
</tr>
<tr>
<td></td>
<td>Koenig, Anja. 2014. Developing Social Impact Markets in Turkey: Framework for Government Engagement and Review of Policy Options</td>
<td>Market assessment</td>
<td>Makes the argument for government engagement by identifying social needs and market barriers for Turkey (finance, legal, capacity, information). It calls for decisions at various levels including the development of a coherent strategy, the right institutional set up and the identification of appropriate tools. Examples for government engagement are provided based on international experience</td>
</tr>
<tr>
<td>U.K.</td>
<td>Nesta. 2011. Understanding the demand for and the supply of social finance.</td>
<td>Demand</td>
<td>Identifies market gap for specific financial products to inform design of Big Society Capital by analyzing the demand and the supply side of the social investment market in the UK</td>
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<tr>
<td></td>
<td>Gregory, Dan, Hill, Katie, Joy Ioana and Sarah Keen. 2012. Investment readiness in the UK.</td>
<td>Demand</td>
<td>Investors, intermediaries and investees perspective on investment and investor readiness in the UK (interviews, surveys and case studies)</td>
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<tr>
<td></td>
<td>Hill, Katie. 2012. Investor perspectives on social enterprise financing. ClearlySo, Big Lottery Fund and City of London.</td>
<td>Supply</td>
<td>Identifies type of investors that may be attracted to social investment opportunities and requirements they would expect to see in an social investment offering.</td>
</tr>
<tr>
<td></td>
<td>Nesta. 2010. Investing for the Good of Society.</td>
<td>Supply</td>
<td>Study to identify motivations and test interest of HNWI in impact investment by one-to-one interviews presenting them with different social investment products and vehicles.</td>
</tr>
</tbody>
</table>
**West Africa**
Dalberg. 2012. Impact Investing in West Africa

One of the few regional studies in impact investing looking at West Africa as a market for impact investment. This exploration begins with an analysis of different sectors to understand in which sectors West African enterprises can have a significant social, economic, or environmental impact. Using specific sector examples, an overview of the different types of enterprise in each sector and their types of financing needs are presented as well as case studies of specific enterprises. The supply side analysis includes a profiling of various investors that match the criteria set by the authors of the report. It proposes a series of steps that can be taken to accelerate impact investing in Africa.

**Forthcoming:**
Morocco

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### G8 Social Impact Investment Taskforce reports

<table>
<thead>
<tr>
<th>Country</th>
<th>Author, year, title of document or publication</th>
<th>Market dimension</th>
<th>Description/Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Australian National Advisory Board to the Social Impact Investment Taskforce. 2014. Delivering on Impact, the Australian Breakthrough Strategy to Catalyze Impact Investing.</td>
<td>Market assessment</td>
<td>The report provides a summary of the status of impact investing in Australia including a SWOT analysis both based on earlier work. It identifies drivers for future demand and supply of impact investment capital. It develops a clear vision and strategic perspective on how to grow this field by listing both policy areas as well as recommending practical steps to be taken at all levels of government.</td>
</tr>
<tr>
<td>Canada</td>
<td>Canada National Advisory Board to the Social Impact Investment Taskforce. 2014. Mobilizing Private Capital for Public Good: Priorities for Canada</td>
<td>Market assessment</td>
<td>The National Advisory Board has identified two priority areas based on recommendations made by a working group in 2010: 1) Addressing legislative and policy barriers to social entrepreneurship and impact investment in the non-profit and charitable sector, with a focus on the Income Tax Act; and 2) Encouraging impact investment through “catalytic capital” measures. These priority areas are to be addressed as part of an overall impact investment strategy still to be developed.</td>
</tr>
<tr>
<td>France</td>
<td>French National Advisory Board to the Social Impact Investment Taskforce. 2014. Why and how prioritize impact investing? Innovate financially to innovate socially (in French only)</td>
<td>Market assessment</td>
<td>The report is provides an overview of the French market and investment channels, the market size and presents the results of a SWOT analysis. It also includes a thorough demand side review of 13 different impact driven organizations and their specific needs as well as feasibility of social impact bond for each of these categories. Its recommendations are provided in much detail and include a description of the problem, the solution and the impact this solution would have on market building. The report draws on expert documents on: a typology of impact driven organizations and investors as well as their specific characteristics as well as analysis of mismatch; the role of impact investing in international development and on impact measurement.</td>
</tr>
<tr>
<td>Germany</td>
<td>German National Advisory Board to the Social Impact Investment Taskforce. 2014. New Sources of Finance to Address Societal Challenges. (in German only)</td>
<td>Market assessment</td>
<td>The report identifies the following as determinants for the demand of impact investing: prevention, innovation and scaling in education, care for the elderly, unemployment. The report also reviews existing and future supply of impact investment capital, intermediaries, approaches to impact measurement as well as impact investing in international development. Based on this analysis it makes recommendation for further action.</td>
</tr>
<tr>
<td>Italy</td>
<td>Italian National Advisory Board to the Social Impact Investment Taskforce. 2014. Report by the NAB to the G8 Task Force: Investment for impact for a new economy. (in Italian only)</td>
<td>Market assessment</td>
<td>The Italian report reviews social organizations including the social enterprise form as actors on the demand side. It also provides a comprehensive review on different (potential) providers of capital to the social economy looks at government regulations and impact measurement as main market infrastructure. In its recommendations it also provides recommendations for development at EU and G20 level beyond national recommendations.</td>
</tr>
<tr>
<td>U.K.</td>
<td>UK National Advisory Board to the Social Impact Investment Taskforce. 2014. Building a social impact investing market: the UK experience.</td>
<td>Government infrastructure</td>
<td>As the report aims at sharing UK experience with the international community it provides an comprehensive analysis of the history of market development in the UK, a presentation of key organizations and their significance in market development. In a second part it makes specific recommendations to leaders in the UK for next steps in market development by proposing six areas of intervention.</td>
</tr>
</tbody>
</table>
ARTICLES & CASE STUDIES

46  Policy Symbiosis Toolkit: Helping Investors Engage With Governments
50  Innovating The Role Of The Private Sector: Lessons Learned From Citi
54  Scaling Impact By Way Of Cross-Sector Partnerships: The Case Of Providing Broadband To The Base Of The Pyramid
59  Understanding Infrastructure Investment As An Asset Class With Positive Social Impact
62  In Brief: Pay For Success Models

CASE STUDIES ON SECTORS, POLICIES OR GEOGRAPHIES

64  Mapping A Nascent Impact Investing And Enterprise Market In Brazil
75  Social Impact Investing In The German Context
79  Impact Investing In Canada: Iterative Experimentation With Policy And Practice
84  Bringing Mass Retail To Impact Investing: The French “90/10” Solidarity Investment Funds
88  Regulation 28: An Effective Tool For Market Growth In South Africa?
91  Leveraging CSR Policy To Develop The Impact Investing Market In India
By their nature, impact investors represent a marriage of public and private interests. They combine a commitment to improving public welfare with the power and efficiency of capital markets. Policymakers – who have a vested interest in maximizing the social and environmental well-being of their constituencies and hold massive power to influence the market through laws, regulations, and resources – are natural partners for impact investors.

The nurturing and leveraging of this relationship between the private and public sectors – a critical element of success in impact investing – is what we call “Policy Symbiosis.”

In the study of 12 outstanding impact investing funds that anchors our new book, “The Impact Investor,” we expected to find some direct public sector interest—and perhaps a few outlying funds that had been especially significant beneficiaries of public policy. Instead, we discovered that the influence of government in impact investing had been far more prevalent. By way of example, fully eight of the 12 funds had been direct recipients of public sector investment, whether through grants, equity, loans, or guarantees.

The Impact Investing Policy Collaborative (IIPC) has done an exceptional job supporting policymakers interested in catalyzing private capital for public good, including through the London Principles; a very practical set of guideposts.

The toolkit that follows is intended to play a similar role for private investors, presenting a variety of approaches and strategies that funds and other private actors should consider and ultimately execute in order to develop “Policy Symbiosis” in their own work. The toolkit includes four steps:

1. Acquire knowledge
2. Build partnerships
3. Be visionary
4. Proceed with integrity

ACQUIRE KNOWLEDGE

There are a multitude of policies related to the work of impact investors. As the IIPC and its co-conveners Pacific Community Ventures and the Initiative for Responsible Investment have explained for many years, these policies do everything from mandating or incentivizing the supply of capital to impact investing, to “directing” that capital to more impactful investments by setting standards or using tax credits to make markets more attractive, to creating the demand for impact investing (building the capacity and “investability” of enterprises) through early-stage R&D and other direct or intermediated technical and financial assistance.

Add the government’s role as a convener, provider of data, and regulator more broadly, across the variety of market sectors in which impact investors operate, and the picture quickly gets complicated.

To operate as effectively as possible in the market, impact investors should understand the full array of policies that influence the market and that might be harnessed to increase the probability of both social and financial success, not just those policies that directly effect on their own organization.

There are numerous ways in which to become more knowledgeable about the role of government in the work you do as an impact investor. For starters, you should join sector and field-level trade groups, where influencing public policy tends to be a strategic priority (on behalf of members) and where information on the policy environment and its development is more readily available and targeted specifically to an investor’s needs.
Independent research—including broadening your typical reading list—is also critical. A selection of organizations with a (sometimes nascent) focus partly on policy in impact investing follows. This list is intended to be representative and is certainly not exhaustive:

- Asia Community Ventures (www.asiacommunityventures.org): nonprofit organization focused on cross-sector collaboration in Hong Kong
- European Venture Philanthropy Association (www.evpa.eu.com): membership organization of primarily European social investors and foundations
- Impact Investing Australia (www.impactinvestingaustralia.com): nonprofit organization coordinating the Australian impact investing sector’s engagement with the Social Impact Investment Taskforce (created by the United Kingdom under the auspices of the G8) and building a platform for collective action in Australia more broadly
- Impact Investing Policy Collaborative (www.iipcollaborative.org): international network of researchers and public officials focused on the role of government in impact investing
- Opportunity Finance Network (www.ofn.org) and Community Development Finance Association (www.cdfa.org.uk): the industry groups for CDFIs in the United States and the United Kingdom, respectively
- USSIF (www.ussif.org), UKSIF (www.uksif.org), and Eurosif (www.eurosif.org): membership associations for responsible and sustainable investment in the United States, United Kingdom, and Europe, respectively
- World Economic Forum (www.weforum.org): co-convenor, together with the IIPC, of the Global Learning Exchange on Social Impact Investing, created in partnership with the U.K. Cabinet Office with a strong focus on public policy in its work (WEF has also published on the subject of policy in impact investing.

BUILD PARTNERSHIPS

Impact investors should strive to build authentic partnerships with public officials whenever possible, either directly or through platforms of engagement created by others. Only then will the “transaction costs” associated with developing, implementing, and iterating on smart public policy be mitigated. Partnership demands an unusual level of openness on the part of government, which is why special-purpose institutions like Development Finance Institutions (DFIs), or Big Society Capital in the United Kingdom and the SBA in the United States, have been created to work directly with the private sector in markets where cooperation is essential. This same heightened level of openness and engagement characterizes the approach of outstanding impact investing funds.

You should therefore ask yourself a range of questions:

1. Are there industry convenings where policymakers are not present? If so, why not? As a field, we should be working diligently to attract representatives from the public sector to meetings, just as we do any other stakeholder. Every opportunity to educate policymakers on impact investing should be cultivated.
2. Is there more you could do to help policymakers? Public officials frequently hold hearings and solicit input on regulations, and are often looking for committed private sector leaders to join various advisory committees. Are you supporting these efforts with the same urgency you apply to growing portfolio companies, bringing all of the resources and networks at your disposal to bear?
3. Do your political leaders at the local, regional, or national level know what you do? Have they visited with any of your investees? It is important that those who directly represent you in government understand why and how to advocate on your behalf.
4. Have you identified areas of shared concern with public officials? Even if impact investing is not, in and of itself, something a policymaker cares to understand or prioritize, there are surely interests you share—the development of the sectors you invest in or the impacts of your work on key constituencies (for example, your efforts to deliver high-quality health and education services to kids, in places with safe and affordable housing infrastructure). Are there high-priority policy programs already operating in key sectors locally that could be strengthened by adding an element of impact investing?
5. Are there any initiatives you could be pursuing jointly with public officials? Could research be jointly commissioned, for example, or could you help facilitate hearings or other events focused on key issues of practice and concern? Could you create a “residency” or “exchange” program that allows individuals to be seconded in either direction? There will always be opportunities to partner creatively
and appropriately in impact investing, so long as you are mindful of the need for public officials and institutions to operate with the utmost integrity.

The emergence of a more authentic form of partnership should also flow naturally from a deeper sharing of knowledge. Partnerships make it possible to have an easier form of give and take, and to clarify the needs, priorities, and limitations of both parties. It is important for impact investors to share their insights as leading practitioners with public officials, who are eager to understand what does and does not work as they develop new markets and policies enabling product innovation. Data and insights from the front lines are essential. For public officials, the opportunity to put themselves in the shoes of investors and to test ideas as part of a continuous cycle of learning is invaluable.

To some extent, knowledge-sharing happens automatically, when investors interact directly with the public sector by applying to be part of a government program or fulfilling mandated reporting requirements. However, there are many opportunities for investors to provide information more intentionally. The following practices in knowledge sharing are indicative:

- Blogging regularly on experiences and key learnings;
- Maintaining an active presence on social media, by disseminating your own experiences and “curating” third-party content;
- Partnering with established thought leaders or conveners on events, research, and other forms of field-level engagement;
- Publishing white papers and reports, and undertaking deeper research;
- Contributing data and insights as part of a larger peer group (for example, an industry association);
- Participating on conference panels and at other in-person events;
- Participating in “advocacy days” together with peers, visiting with legislators and public officials;
- Providing formal feedback on particular policy initiatives (through well-considered comments; letters of support; testimonials; or in direct, private conversation with public officials).

As this list indicates, you can cultivate informal relationships with public officials in numerous ways, from participating in conferences to being part of an active industry group. You can also cultivate more formal relationships, where insights are actively solicited by policymakers, directly or through the facilitation of a trusted intermediary.

It helps to be mindful of the different types of information that public officials require. Career officials tend to have sector or market-level interests. They need details about where and why there are inefficiencies in the system and about the clear, addressable barriers on which they should focus. Elected officials are committed to bolstering the economic vitality of the communities they represent and will be eager to understand the broader benefits of impact investing in these places.

**BE VISIONARY**

Impact investors seek to explicitly generate social and environmental impacts and are embracing this “public” purpose, positioning their small and innovative contribution within the bigger picture of social change that many policymakers have in mind.

As Elevar Equity notes on the homepage of its website, “Every community and person has intrinsic economic and social value. Accordingly, our entire investment focus is to capitalize entrepreneurs who create global systems access for disconnected communities." According to its site, Calvert Foundation “enables people to invest for social good.” And Accion Texas is “helping the most vulnerable people in our society who are striving for a better life.”

In other words, Elevar, Calvert Foundation, and Accion Texas are unequivocally stating their intention to serve a broader public purpose. This is a vision and message that speaks directly to policymakers and distinguishes the three organizations as contributors of social value to be reckoned with and leveraged by public officials.

Vision may seem like a question of semantics. However, it is primarily strategic. Being visionary means having a robust and clearly articulated Investment Thesis of Change (the term we use to describe a fund’s commitment to creating explicit social outcomes using a very particular strategy of capital raising and deployment). In mainstream investment markets, organizational vision tends to be more narrowly construed, emphasizing value creation and the centrality of clients as guiding principles. To the extent that Policy Symbiosis remains and continues
to grow as an essential best practice in “Collaborative Capitalism,” you should embrace the ideals of (and manage to) your public purpose, ensuring that this is confidently communicated to public officials.

PROCEED WITH INTEGRITY

The final step in the Policy Symbiosis toolkit is translating a vision into a public commitment. Broader notions of accountability and sustainability are implicit in impact investing and should be reflected in a firm's commitment to operating ethically, including through such mechanisms as industry and sector codes of conduct and voluntary principles. Reflecting on Deutsche Bank's ongoing commitment to impact investing, initiated with the Global Commercial Microfinance Consortium, former managing director Asad Mahmood emphasizes the ethical dimension:

“Ethical behavior is crucial, no matter what form it takes, whether it is good customer service, appropriate pricing, or after-sale service. It simply means setting and maintaining high standards. It means addressing the needs of the customer.”

Deutsche has been a leading participant in the drafting of microfinance client protection principles—just one example of the work that has already been undertaken at the sector and field levels to establish performance standards, as the following examples illustrate:

- **GIIN's definition of impact investing.** In 2013, GIIN reaffirmed that the core characteristics of impact investing include intentionality, investment with return expectations across a range of asset classes, and impact measurement. It also put a stake in the ground on what it means to track and report impact rigorously.

- **Smart Campaign.** In 2008, Smart Campaign brought together hundreds of key stakeholders in microfinance to endorse six core Client Protection Principles and commitments to implementing specific improvements in products, practices, and policies. The principles address such issues as the appropriateness of a product for clients, over-indebtedness, transparency, responsible pricing, fair and respectful treatment of clients, privacy of client data, and complaint resolution.

- **UN Principles for Responsible Investment (UN PRI).** With more than eleven hundred signatories representing almost $35 trillion in assets under management, UN PRI has emerged since 2006 as a “license to do business” in many countries, utilized by investors and intermediaries to publicly demonstrate their commitment to responsible investment and incorporation of environmental, social, and governance (ESG) issues into their investment decision making and ownership practices. The six principles focus on ESG integration, active ownership, encouraging reporting on ESG issues by investees, advocacy for the principles in their own right, collaboration on the principles and related best practices, and reporting on the implementation of the principles.

Mahmood rightly argues that proceeding with integrity is good business. Yet this was not always the case. The three examples listed here are all relatively recent. Impact investing is only now emerging; and in any case, there will always be opportunities to approach all elements of impact investing more ethically. That effort, in and of itself, has the potential to engage and enthuse policymakers.

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Investing for impact – to improve the state of financial inclusion and access around the world – has been Citi’s mission since long before the term “impact investing” was coined. We continue to build on our decades of activity in entrepreneurship, microfinance, affordable housing and financial capability, alongside the dynamic philanthropy of the Citi Foundation.

Our strategy is based on the premise that the private sector can utilize its resources and expertise to advance public policy, especially when aligned with business goals and when engaged in partnerships with a range of stakeholders – private, public, and nongovernmental organizations. At Citi, we embed investments that make impact into our core businesses and policies, rather than in a separate corporate social responsibility portfolio. At the heart of our approach are three basic principles: partnership, scale and innovation.

PARTNERSHIPS
Partnerships with public, private and nongovernmental organizations help us leverage the knowledge and trust that different actors may have in local communities, while broadening and scaling outreach. These relationships allow financing to be designed and deployed most effectively. Without collaboration, scarce commercial, public and philanthropic dollars may be invested in isolation, with potential inefficiencies and missed opportunities for innovation and leverage. In our experience around the world, early-stage philanthropic and public sector investments have been important catalysts, and partnerships have proven critical in tackling some of the most pressing development and policy issues. In their book, The Impact Investor: Lessons in Leadership and Strategy for Collaborative Capitalism, authors Cathy Clark, Jed Emerson and Ben Thornley highlight Citi’s uncommon strategy, saying, “From the perspective of Collaborative Capitalism, Citi is in fact experimenting with new forms of constituent alignment and stakeholder-oriented governance.”

While Citi’s work in improving financial access constitutes progress the work is far from done: according to The World Bank, more than 2.5 billion of the world’s adult population does not have a bank account. It will take the alignment of public policy, regulation, and joint investment to significantly expand access to financial services. Additionally, the majority of women-owned small enterprises in developing countries remains underserved, according to the International Finance Corporation (IFC). Meanwhile, savers stranded in the informal sector lose between 15-25% of their savings annually, according to the Consultative Group to Assist the Poor (CGAP). The solutions to these immense challenges will not be found by taking a siloed approach.

SCALE AND REPLICATION
Citi has entered a multi-year partnership between Citi Microfinance – a specialist team that works with Citi businesses to develop platforms and solutions that enable the bank, its clients and partners to expand access to financial services and advance economic progress – and the Overseas Private Investment Corporation (OPIC) – the U.S. government’s development finance institution that mobilizes private capital to help solve critical challenges. This collaboration constitutes a prime example of partnering to enable scalable and replicable approaches that result in significant social impact.

Building on Citi and OPIC’s long-standing partnership spanning different areas of development, both organizations structured a Risk Sharing Program to provide local currency funding to microfinance institutions around the world. Through this effort, OPIC provides a comprehensive partial guarantee for loans originated and extended by Citi’s local offices in developing markets. Since the program’s inception, Citi and OPIC have provided $386 million in total lending to 42 microfinance institutions in 22 countries, reaching more than 1 million customers – more than 90% of whom are women. The program’s success has led to the expansion of the partnership, with the announcement earlier in 2014 of a
new Global Inclusive Finance Framework that will finance inclusive businesses, supply and distribution chains of Citi clients around the world.

For Citi, a strong indicator of the success of an investment is whether its structure is replicated elsewhere, and whether it can be scaled up by additional organizations interested in the ideas we helped to foster.

For example, in 2011 Citi Community Development and CASA de Maryland launched an innovative microloan program, with the support of community development financial institutions (CDFIs), for legal permanent residents in the United States seeking to become naturalized citizens. The partnership grew out of our shared recognition that citizenship is an economic asset – fully naturalized citizens receive an increase in earnings, access to scholarships, and the right to vote – yet there are more than 8.5 million eligible residents in the U.S. who have not begun the process of becoming full citizens. One of the primary barriers is the $680 naturalization fee, compounded by costs for supportive services, such as English language or citizenship preparation classes. Through our partnership with CASA, the program offers education alongside capital, instructing borrowers on credit building, savings accounts and financial literacy, as well as providing assistance for taking the United States naturalization exam.

The program offered through our partnership with CASA, called Citizenship Maryland, caught the attention of the City of New York, as well as Chicago and Los Angeles. In 2014, all together, we launched Cities for Citizenship, which essentially replicated CASA de Maryland’s idea to achieve broad national scale. Now, the three largest cities in the country are leading the effort, and engaging mayors across the country to implement the same program. In addition, the White House has recognized Citi for this effort as a “Champion of Change,” an honor bestowed on those who are working in communities to promote innovation and growth.

Creating Capital Market Opportunities for Investors

Private bank clients, foundations and a growing number of traditional institutional investors are interested in and researching investment alternatives that align with their values and strategies. They are looking into new opportunities to co-invest with banks and other institutions that can creatively balance mission, risk and returns.

For example, in 2002, Citi helped MiBanco in Peru access for the first time the local capital markets to fund the expansion of its microcredit portfolio, with a 50% guarantee from USAID. Similarly, in Mexico during the same year, Citi distributed the first capital markets transaction for Compartamos, a Mexico-based microfinance bank, among its retail investor base. Two years later, Citi structured the first local investment-grade bond for a microfinance institution for Compartamos, with a partial credit guarantee from the IFC, targeting the first-time Mexican institutional investors. In Bangladesh, Citi structured a AAA locally-rated securitization for one of the largest microfinance institutions, BRAC, in 2006.

More recently, together with the Inter-American Development Bank (IDB), Citi designed a new social investment bond – the first-of-its-kind, four-year Education, Youth and Employment (EYE) bond – focused on the education and employment of young people, providing a more varied set of capital market investors with the opportunity to participate in the IDB’s work in a specific development area. According to the Organisation for Economic Co-operation and Development (OECD), individuals in Latin American and Caribbean countries score below average on reading exams, compared to OECD peers, due to significant socioeconomic differences. Additionally, the youth-to-adult unemployment ratio in these nations is exceptionally high, at 3:1.

Built from the IDB’s extensive experience financing programs and infrastructure to address poor educational performance, economic immobility and unemployment in Latin America, the $500 million EYE bond will direct proceeds to early childhood care and formal primary education, as well as to vocational and teacher training, among other related projects.

In an area where there are few options or financial instruments for investors to engage, this bond attracted the interest of a broad range of investors. With a AAA-rating, an appropriate financial return, and measurable impact results, investors were both institutional and mission-related, seeking investment opportunities that align with their values, mission, and risk appetite.

The oversubscription of this IDB bond demonstrates the demand for new assets aligned with a broader range of investor interests. Similarly, Citi has been a leading arranger of ‘green bonds’ for multilateral institutions and corporations, providing a way for investors concerned with

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environmental sustainability to make focused investments.

BUILDING INCLUSIVE PLATFORMS
Citi has also worked with municipal governments to develop solutions that have required investment in product innovation.

The City and County of San Francisco wanted to develop a college savings program that would run parallel to its efforts to prepare more students academically for college, and to reverse rising high school dropout rates and falling college enrollment. A child with a savings account is up to seven times more likely to enroll in college versus a child who does not have an account, according to the Center for Social Development at Washington University in St. Louis.

In 2009, Citi began working with the San Francisco City Treasurer, Jose Cisneros, to develop Kindergarten to College (K2C), a universal children’s savings program to empower and encourage children and parents to build long-term savings for college. Citi invested in a solution, which put in place a children’s account structure participating in school savings initiatives. After an initial pilot period, San Francisco Mayor Edwin Lee signed the program into the City’s budget in 2012, making K2C the nation’s first universal child savings account program in the country. Our infrastructure and banking tools—the strengths of our financial institution—became the backbone for a government initiative. By the end of 2014, there will be more than 16,000 students with accounts. We hope this program can serve as a model of public-private partnership that will be replicated in other cities.

Similarly, Citi has partnered with Grameen America in New York City and Oakland to provide its micro-entrepreneurs and borrowers—many of whom have never had a formal bank account—with savings accounts at Citibank. As of September 2014, more than 10,000 women clients of Grameen America have opened accounts with Citi under this jointly developed program and platform. Our work with Grameen America is another example of a partnership that can provide financial outreach and product solutions that neither institution might have achieved on its own.

INVESTING IN PAYMENT SOLUTIONS
Citi’s corporate institutional clients are important partners in expanding access to appropriate financing and payment solutions, as they seek to deepen their distribution or purchasing value chains into small enterprises or farms. Here, technology is playing an increasingly important role in enabling corporate clients to achieve their market expansion while providing the crucial foundation for mobility in underserved communities. New technologies offer exciting opportunities to provide platforms for impact at low cost while expanding access at a scale not deemed imaginable even a few years ago.

Citi has worked on the implementation of mobile platforms that can connect very small businesses with larger providers or distributors, bringing them into a modern payment chain that improves efficiency and lowers costs. In the Dominican Republic, for example, Citi Mobile Collect enables small business owners to pay their merchandise suppliers through mobile transactions, as opposed to cash payments. Citi corporate clients, including large global brands and suppliers, are now able to make more efficient and safe collections from micro distributors. This was achieved in partnership with Asociación Dominicana para el Desarrollo de la Mujer (ADOPEM) – the leading microfinance bank in the country, offering bank accounts, microloans and financial education to small retailers – and mobile payment administrator GCS Systems.

Aligning partnerships, networks, products and services, and technology enables scalable and sustainable impact. The growth of programs like Citi Mobile Collect creates the conditions necessary for innovation in meeting the specific needs of underserved small businesses – while utilizing the resources of larger corporate institutions that are part of the same supply chain. This service has now expanded to India, China and South Korea.

FROM MICROFINANCE TO INCLUSIVE FINANCE
Today, many traditional definitions, roles and relationships between the private, public and philanthropic sectors no longer apply. Microfinance itself defies easy definition – today it can mean different things to different people. The growing trends of urbanization, globalization, and
digitalization are presenting both new challenges and new opportunities.

That is why, almost a decade since the launch of Citi Microfinance, we are renaming our unit to Citi Inclusive Finance. From concentrating primarily on financing global microfinance institutions and U.S. savings platforms, to focusing now on a wider array of products and solutions with corporate, government and other partners, Inclusive Finance more accurately reflects the mission of the unit and of Citi as a whole: advance financial inclusion, enable progress, serve clients and bank businesses with responsible finance. Inclusive Finance offers a new opportunity to deepen partnerships and enhance and expand investments that have positive impact.

BOB ANNIBALE is Global Director of Citi Microfinance and Community Development. He leads Citi’s initiatives and partnerships supporting community development and inclusive finance through financial inclusion, education, asset building, neighborhood revitalization, and small-business and micro-enterprise development. He also leads Citi’s global commercial relationships with microfinance and community institutions. Working with Citi businesses and community partners, Inclusive Finance and Community Development strive to develop appropriate, innovative and sustainable products and services that contribute to expanding access to financial services.
These days, you need look no further than the New York Times or the Financial Times to know that a growing group of investors are supporting new businesses that serve low income populations by delivering quality and affordable products and services, creating employment, or enabling low-income producers and consumers to join the formal economy and markets. These impact investors balance expected sustainable financial return with intended social impact, all while having to ensure that the local enabling environment will allow the company to accomplish its objectives and achieve scale. Governments play a big role in providing the incentives and frameworks required to facilitate these business solutions, which can have a transformational impact on the lives of the majority in developing countries. Development banks are well positioned to act as honest brokers with governments and the private sector to address some of the most common coordination failures that limit the number and scale of innovative ventures across sectors of the economy.

THE CASE FOR BROADBAND

The global influence of Internet connectivity, and broadband in particular, has been swift and transformational. An estimated 3 billion people are now connected worldwide, exchanging information in entirely new ways, fundamentally changing the channels for social and civic engagement, business transactions, and the delivery of basic services. Internet access has created industries, stimulating growth in new areas while also propelling traditional sectors towards higher productivity. McKinsey Global Institute estimates that private firms that are connected to the Internet can increase their annual profitability by 10%. A recent Inter-American Development Bank (IDB) study showed that countries that increase broadband penetration by 10% can increase economic growth by 3.2% and productivity by up to 2.6%.

Yet these advances still disproportionately benefit those in developed markets where access is the highest or those in developing economies within urban areas and with higher incomes who can afford broadband services. This phenomenon is now referred to as the “Double Digital Divide.” In developing countries, two out of three people lack connectivity. This limits their access not only to more affordable communication, but also to new opportunities to access previously unavailable or higher quality basic services like education, healthcare, financial services, or market tools like training, weather and pricing data, among others. Broadband adoption and use (thanks to its many applications) is a vital tool for economic development and social inclusion, while a widening gap in access can further isolate populations and exacerbate inequality. Globally, the offline population is disproportionately rural (64% compared to 24% of the online population), low income (50% in the countries researched, compared to 33% of the entire population), elderly (18% compared to 7% of the online population), illiterate (28% compared to 19% of the entire population), and female (52% compared to 42% of online population).

In the Latin America and Caribbean (LAC) region, access to broadband services has been increasing at an annual rate of between 16 and 18%. However, even at that pace, only 1 out of 8 people has access to broadband, and there are approximately 100 million homes without any form of connectivity in the region. These are mostly low-income families, many in rural areas. Households that do have access pay a significant premium for very poor service. Connectivity in LAC is 8 times more expensive, at only 10% of the speed, compared to OECD countries.

SUCCESSFUL BROADBAND MODELS FOR REACHING THE BOP

Recognizing the importance of increasing the access to quality and affordable connectivity while closing the Digital Divide in LAC, the IDB launched its Broadband Initiative in 2013. The initiative was designed to foster public policy that promotes broadband implementation plans, strategic regulations, development of infrastructure, last-mile access and promotes its adoption. With a view to narrowing the Digital Divide at the Base of the Pyramid (BoP) population, the IDB’s Opportunities for the Majority (OMJ) along with the Broadband Initiative team recently conducted a research study to better understand how private enterprises across the globe are leveraging the use of broadband to give access to opportunity to the BoP. Companies trying to reach the BoP market typically face many challenges, particularly with respect to reducing costs, reaching scale, and developing effective distribution channels. Broadband connectivity offers a myriad of new possibilities that can transform the ways to address these challenges; with new business models or by transforming the old ones.
To better understand the characteristics of successful models, “The Broadband Effect: Enhancing Market-Based Solutions For The Base Of The Pyramid” looked at eight case studies of businesses from Asia, Africa and Latin America, in education, health, agriculture and financial services that: (i) use broadband or Internet connectivity in their business model, (ii) target the base of the pyramid, and (iii) are economically sustainable. The tables below summarize the cases and categorize their type of model, region, sector, need for connectivity, technology used and services provided and the benefits of the adaptation for the BoP clients.

<table>
<thead>
<tr>
<th>Project</th>
<th>Country</th>
<th>Sector</th>
<th>Model</th>
<th>Device and Network Used</th>
<th>Main Service Provided</th>
<th>Need for connectivity</th>
<th>Advantage for BOP Compared to Alternative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baped</td>
<td>Mexico</td>
<td>Financial services</td>
<td>Local agent</td>
<td>iPads with high-speed broadband through own Wi-Fi antennas</td>
<td>Access to financial and telecommunications services closer to home for urban BoP users</td>
<td>Essential for real-time secured banking transactions, telecommunications, and other Internet services at a fixed transaction point</td>
<td>Increased revenues for participating store owners increased convenience for users</td>
</tr>
<tr>
<td>Bridge International</td>
<td>Kenya</td>
<td>Education</td>
<td>Optimized internal process</td>
<td>Cloud-based ERP and mobile apps with second/third generation connectivity</td>
<td>High-quality, low-cost pre- and primary schools for BoP children</td>
<td>Essential for audio/video files that are too large for current network. Useful for quality information-sharing and real-time monitoring</td>
<td>Better and more reliable teachers via standardization/quality control, lower education cost via school process optimization</td>
</tr>
<tr>
<td>eKutire Agro Initiative</td>
<td>India</td>
<td>Agriculture</td>
<td>Local agent</td>
<td>Tablets, mobile phones, and Internet data cards with wireless connectivity at various speeds</td>
<td>Increased access to market and agro-expertise for BoP farmers</td>
<td>Essential for video-conferences with experts. Useful for faster aggregated sales and purchase and data sharing</td>
<td>Increased farmers’ market access via e-aggregation. Better harvest via customized advice</td>
</tr>
<tr>
<td>Enova</td>
<td>Mexico</td>
<td>Education</td>
<td>Local agent</td>
<td>PCs and tablets with high-speed broadband</td>
<td>Better and lower-cost classes and Internet service for BoP children and adults</td>
<td>Essential for student access to rich and evolving educational content and real-time monitoring</td>
<td>Better and lower-cost classes via access to the Internet</td>
</tr>
<tr>
<td>FINS Pay Tech</td>
<td>India</td>
<td>Financial services</td>
<td>Local agent</td>
<td>Broadband or GPRS-enabled POS terminals depending on available networks; offline mode available</td>
<td>Access to lower-cost payments technology and financial services at their doorstep for rural BoP users</td>
<td>Enables real-time secured banking transactions and data transfers, including stocking data for later download in unconnected areas</td>
<td>Access to lower-cost financial services at customers’ doorsteps</td>
</tr>
<tr>
<td>Kilimo Salama</td>
<td>Kenya and Rwanda</td>
<td>Agriculture and financial services</td>
<td>Optimized internal process</td>
<td>Weather stations using GPRS</td>
<td>Micro-insurance for BoP farmers</td>
<td>Useful for real-time weather updates and index comparison and automated payouts</td>
<td>Increased access to micro-insurance via process optimization</td>
</tr>
<tr>
<td>Narayana Hospitals</td>
<td>India</td>
<td>Health</td>
<td>Optimized internal process</td>
<td>Cloud-based ERP/videoconferencing tools with high-speed broadband</td>
<td>Lower cost and better quality of care for BoP patients</td>
<td>Essential for expertise sharing (including image and video) and patient monitoring. Useful for medical data-sharing and process monitoring</td>
<td>Lower cost and better quality of care via standardization and process optimization</td>
</tr>
<tr>
<td>Urban Planet</td>
<td>Global</td>
<td>Education</td>
<td>Direct to consumer</td>
<td>Ringtone-like lessons on mobile phones; web-based apps</td>
<td>Low-cost daily English lessons for BoP learners</td>
<td>Useful for sending quality content on customers’ devices and for real-time student scoring</td>
<td>Better access to and lower cost of daily English lessons</td>
</tr>
</tbody>
</table>
The business cases were categorized into three groups according to the use of technology and the nature of the relationships with the end-user.

1. Direct-to-consumer projects that provide data- or broadband-enabled services directly to the devices of BoP consumers.

2. Local agent projects that offer data- or broadband-enabled services to BoP consumers through an intermediary or local agent that operates a device (e.g. tablets, computers) with various functionalities.

3. Optimized internal processes projects that leverage data- and broadband-enabled connectivity to enhance business processes to provide better services to the BoP at lower costs.

Several common characteristics of the successful cases came through.

• The models provided solutions that were tested, comprehensive and fully reliable from the start.
• They maximized the benefit of connectivity to continuously improve their services by standardizing processes, monitoring key indicators and performance, and making necessary adjustments to the business model based on results.
• Given the existing connectivity gap, some of these models adjusted to available technology and infrastructure. In some cases they provided different solutions for end-users with different speed connectivity and/or types of devices. (For example, FINO PayTech has an “offline mode” for its mobile devices in areas without connectivity, though this lessens its value proposition. In contrast, companies like Barared are making the necessary investments in infrastructure to overcome the connectivity gap.

The eight business cases demonstrated the important socioeconomic benefits of broadband for the BoP. Some provided access to goods and services, like health and education that would be otherwise inaccessible due to high cost or distance. Others increased productive capacity. In rural Kenya, for example, sick people need to transport themselves to a hospital, which can be very expensive. Using the Internet for a first consult through a video conference call can substantially reduce these costs and improve diagnosis. In Mexico City, instead of making the often long trip to a bank branch, people can go to the nearest “mom-and-pop” shop for a financial transaction or to pay their bills.

In other cases, one observed increased productive capacity. A small farmer can access market information on certain crops to make future decisions, as well as learn about the newest available techniques to increase productivity via video. They can gain access to micro-insurance due to the reduction of costs from the use of connectivity to replace costly field visits to determine payouts with analysis of weather data from GPRS weather stations.

The models sometimes rely on local agents as part as their business. People from the local community and part of the BoP are hired, trained, and empowered to be a key component in the value chain of the business. They can work as teachers, banking correspondents, and insurance advisors.

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“agents.” These models can create a substantial number of jobs for people who know the community, but who also learn how use the technology, represent the company and provide the goods and services to the end users. These local agents are able to improve their income and living standards as they improve access or service delivery to their BoP neighbors.

WHAT GOVERNMENTS AND INTERNATIONAL DONORS CAN DO TO SUPPORT BROADBAND ROLLOUT

Given the demonstrated impact of adopting broadband connectivity for use in BoP business models, questions revolve around how governments and private companies can work together to build and incentivize its adoption and scale.

The study concludes that governments should provide incentives to expand and improve the level of investment devoted to broadband infrastructure, especially to improve last-mile connectivity and affordability. Governments can also broker public-private partnerships that would enable affordable access to existing broadband infrastructure to businesses that would use it to provide better access or better goods and services to the BOP. Economic incentives as well as increasing competition among providers are some of the policies that have helped to increase investments in infrastructure generally and they could be effective here as well.

It is also important that governments create regulatory environments that enable the use of broadband by BoP businesses. Where it is lacking, there is the need to promote regulatory environments that allow the private sector, including BoP companies like Barared, to invest in the development of broadband infrastructure. Sector-specific regulation that adapts to the use of this technology is also needed, so that, for example, “mom-and-pop” shop owners can become banking correspondents, remote learning can be certified or a doctors can conduct medical consultations via Skype. In other cases, governments need to eliminate taxes on broadband itself and on some of these services, so that they are affordable for the poor.

Another area of action is aligning the incentives of public sector institutions, such as federal ministries or departments (e.g. ministries of finance and telecommunications) in order to develop strategic national broadband plans which not only consider investments in infrastructure but also its applications in other different sectors. Governments can also benefit from the innovation of some of these broadband-enabled BoP businesses by sourcing services from them. For example, Enova was hired by the Mexican government to help reduce the “Digital Divide” and improve education in underserved communities by setting up digital centers to provide online courses. As of March 2014, 85% of Enova revenues come from the government, which reduces the costs to end-users by 70%, compared to alternatives. Today, Enova has 95 centers that have benefited over 478,500 people in Mexico. Overall, as governments create an ecosystem where there is competition, consumer protection, and financial stability, innovation should thrive.

IDB’S SUPPORT TO PROMOTE BROADBAND

The IDB is committed to accelerating broadband access and to promote its many applications as tools of economic development and social inclusion. The IDB can support governments in the region in their efforts to boost broadband access, adoption and use by bringing successful models from other regions, engaging the public and private sectors in dialogues, and providing technical and financial assistance.

Some of the efforts the IDB is supporting are listed below.

- Peru launched a broadband law and an ambitious broadband plan that seeks to provide access to citizens, enterprises, and public institutions to increase competitiveness and social inclusion in the country. Among others, the Government of Peru is pushing for the deployment of a national backbone network and of regional backhaul and last-mile networks along with elements such as the proliferation and geographical spread of devices and capacity building programs. The IDB has supported the Government in these efforts, from the start at both the technical and financial level.

- Mexico promoted a Constitutional Reform in Telecommunications that emanated from the Pact for Mexico. The Reform, among other things, mandates the development of a more openly competitive market along with adoption and use of components to spread the use of broadband services and the digitalization of the Mexican society. The IDB is supporting the Government of Mexico in the development of the National Broadband Plan and the valuation and management of spectrum, both crucial aspects for the success of the Reform.
Nicaragua has developed, with the support of the IDB, an ambitious National Broadband Plan to transform Nicaraguan society. The fast pace of implementation is evidence of the importance given to broadband by the Government of Nicaragua, not only to expand access for their citizens and public officers, but also to enhance the competitiveness of their businesses, including those at the BoP.

Bolivia is also an example of how broadband has gained visibility and importance. In addition to developing an infrastructure feasibility study, with the support of the IDB, to bring connectivity to the whole country, the Government of Bolivia launched a satellite to provide interim connectivity to individuals, businesses, and public institutions while the terrestrial infrastructure is deployed.

The case of broadband is emblematic of the potential that public-private sector coordination can have in accelerating the development of solutions that address the needs of the BoP businesses, through innovative partnerships and business models. International donors, banks and in particular, impact investors, have an important role to play in this sector, from financing the needed infrastructure to financing the innovation of BOP businesses; whether early on or to replicate and scale-up proven models. Understanding the trade-offs between the costs of broadband infrastructure investment versus the financial and social outcomes that it can generate will strengthen the call to both governments and the private sector to work together in order to bridge the connectivity gap.

JULIE T. KATZMAN is COO and EVP of the Inter-American Development Bank, the largest provider of development finance to Latin America and the Caribbean. Ms. Katzman joined the IDB after a successful career on Wall Street. She is on the Boards of the MacArthur Foundation, the International Center for Research on Women and Instituto de Empresa and is a member of the International Council on Women’s Business Leadership (ICWBL).

8. OMJ was created by the IDB in 2007 with the exclusive mandate to promote market-based initiatives with the private sector in order to increase access to quality and affordable goods and services and income-enhancement opportunities for the BoP population in the region.
11. http://www.barared.mx
Infrastructure offers a unique opportunity to mobilize vast amounts of capital for social good. The estimated global funding gap for infrastructure is estimated to be in the trillions of dollars annually. This includes socially vital investments into assets such as power, sanitation, transport, healthcare and education which, when executed right, contribute to critical social needs and goals. Social goals such as cleaner power, more inclusive growth, expanded access to health and education, increased mobility, as well as greater resilience to social, natural and economic shocks and stresses are all naturally underpinned by good and sufficient infrastructure.

Good and sufficient infrastructure, in turn, is almost always underpinned by good public policy. Infrastructure investments always include some form of public-private interaction and given their often large ticket-size and long duration, they are particularly sensitive to public policy regimes. These investments also raise important issues about the appropriate role of public and private sectors in infrastructure provision and maintenance.

This raises the question: What is needed from a public policy perspective for socially useful infrastructure investments to take off both domestically and internationally? And, what are the appropriate ways to finance these investments?

Over recent years, this question has received increased attention as the infrastructure investment universe faces a puzzling challenge. On the one hand, there is widespread acknowledgement of the social and economic benefits of infrastructure investments. On the other, there has been significant and growing demand for investment opportunities for infrastructure, particularly from institutional investors such as pension and sovereign wealth funds with long-term liabilities targeting stable-yielding investments. In addition, there has been increasing interest from responsible and impact investors attracted by the social as well as financial benefits of infrastructure.

And yet, large investment flows into infrastructure – from both the public and private sector – have not materialized contributing to a widening gap between estimated need and supply. According to a recent McKinsey & Company study, it will cost $57 trillion to build and maintain the world’s infrastructure needs between now and 2030, more than the estimated total value of today’s infrastructure.

Good public policy is critical to resolving the funding gap. Recent history points to several ways in which, both directly and indirectly, good public policy may facilitate greater investment flows into infrastructure that is socially productive:

- **Strategic subsidies and risk-mitigation instruments**: A key policy lever for increasing investment allocation to socially productive infrastructure is to make sure that these investments compete on a risk-return basis with conventional investment opportunities. Subsidies and risk mitigation instruments such as feed-in-tariffs and debt guarantees offer a means to reduce risk for investors who are entering into an unfamiliar, but socially productive, sectors. For example, in 2000 Germany introduced feed-in-tariffs, guaranteed over 20 years, for renewables resulting in billions invested into wind, solar and biomass power. Today, an estimated 30% of electricity produced in Germany comes from renewable sources, up from 6% in 2000.

- **Stability and predictability over the regime of incentives and risk-mitigation instruments**: For the successful development of a market particularly around new technologies (e.g. renewables) it is essential that the regulatory regime be stable and predictable. Longer-term commitments to emerging market sectors that extend beyond political cycles can help address the political risks that investors see in infrastructure.

- **Clear and transparent standards for evaluating projects**: Public policy plays an important role in attracting investment capital, but also in ensuring that it is effectively directed towards public purpose. Standards for social and environmental performance tied to public policies can help define the universe of potentially investable projects, and ensure that social benefits are prioritized in their development. These standards can help direct subsidy dollars, establish construction and land-use norms for new projects, and provide important signals as investors shape infrastructure investment strategies.

- **Access to project planning and project preparation financing**: Project preparation support in the form of targeted subsidies or guarantees allows project sponsors to shift technology and construction risk to government, and can link the predevelopment cycle to project standards. Investors can then enter high priority infrastructure sectors with a clearer opportunity set for investment.

- **Public-sector capacity to develop and manage projects**: Creating greater expertise within government to coordinate and executive
on complex infrastructure projects is a critical lever for encouraging greater resource mobilization into targeted sectors. Several examples, notably from Canada, Australia and the U.K. have demonstrated the effectiveness of this approach for channeling additional investment into infrastructure. For example, in 2002, the Canadian Province of British Columbia set up Partnerships B.C., a unique public-private entity that provides transaction analysis, bidding, structuring and management services for public project owners. To date, Partnerships B.C. has supported approximately $12.5 billion in public-private partnership investments.

- **Development of alternative models for project development and investment:** There is growing evidence that policymakers can achieve better value for dollar and achieve greater impact through new models of project development such as performance-based contracts with private entities. Advocates have also argued that the current “private equity” model for infrastructure investment is inappropriate to the delivery of long-term stable cash flows, and that public-private co-investment could be built along different lines. The “Canadian model,” in which have funds have insourced infrastructure investment expertise on staff, or the “Australian model” in which superannuation schemes have created an investment intermediary, have received increased attention from institutional investors as potential options.

Development of national or regional infrastructure development plans: The development of an explicit strategic plan for infrastructure development helps galvanize and coordinate public-sector efforts while fostering private sector interest and engagement. These plans can help coordinate public investment from different sources into high priority sectors and projects, and can offer a framework for the development of public-private negotiations.

Good policy may be a necessary condition for socially useful infrastructure to flourish, but it is not sufficient. In addition, other actors beyond the policy domain have a critical role to play.

- **Institutional investors:** Investing in infrastructure is complicated and requires specific expertise, which is often lacking among but the largest of investors. Institutional investors need to find better ways of coordinating efforts through, for example, shared investment platforms. They may also wish to develop different channels for infrastructure investment that rethink co-investment platforms, appropriate financing structures and risk-return profiles that better match their long-term needs.

- **Project sponsors and developers:** There is substantial research published on specific criteria that helps improve the social impact of infrastructure projects, whether in terms of sustainability, resilience, or economic/social return. Project sponsors should seek to incorporate this research as developed, for example, by Global Infrastructure Basel or the West Coast Infrastructure Exchange to develop better projects.

- **The impact/responsible investment community:** The growing number of investors choosing to target specific social outcomes, or to incorporate environmental, social, and governance criteria into their investment decision-making, offers important and potentially transferable lesson on social and environmental standards, measurement, transparency, and the creativity and resilience involved in blending public, private, and nonprofit resources high-profile complex deals that have a social purpose.

- **Advocates and the philanthropic/nonprofit sectors:** Complex infrastructure investments will inevitably require public/private/nonprofit collaboration, and mechanisms for making that collaboration work. Advocates and the philanthropic sector can play important roles in building cross-sector collaboration, and in keeping social goals embedded as projects move from planning to implementation.

Infrastructure is of increasing interest because of public needs, the desire of institutional investors for long-term assets, and the strong case of the social benefits of infrastructure that explicitly incorporates high environmental and social standards into project preparation and execution. For the impact investing community, infrastructure is especially important because it sets the framework for subsequent economic activity, and involves substantial sunk costs that will condition how societies address key issues such as demographic change, rising inequality, carbon mitigation, and climate resilience.

We believe the lessons of impact investing policy design can both inform and be informed by the ongoing discussion around financing socially valuable and environmentally sustainable infrastructure. The opportunity to engage different kinds of investors, at vastly different scales, makes this a particularly intriguing domain for the impact investing discussion. And the tools of infrastructure policy design – standard-setting, incentives for risk mitigation and long-term stability of projects, coordination among stakeholders – offer a compelling illustration of the potential and the complexity of mobilizing private sector resources towards public purpose.
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DAVID WOOD is an Adjunct Lecturer in Public Policy and the Director of the Initiative for Responsible Investment (IRI) at the Hauser Center for Nonprofit Organizations. Current projects range from work with pension fund trustees on responsible investment policies, mission investment by foundation endowments, research on the changing nature of the supply for and capacity to receive capital for community investment in the U.S., and a global survey of the relationship between public policy and impact investment. Recent work has included the publication of the Handbook on Responsible Investment Across Asset Classes (Boston College, 2007); the development of a Responsible Property Investing Center; field definition in sustainable emerging market SME investment; and research into the investor use of corporate reporting on non-financial information. He was elected in 2008 to the Board of the Social Investment Forum. Before he came to the IRI, he taught the history of ethics, including the history of economic thought at Boston University. He received his Ph.D. in History from the Johns Hopkins University.
Pay-for-success (PFS) models have drawn interest from policy and practitioner audiences around the world as a potential way to deliver services more cost-effectively, and as a way to innovate in social service delivery. With many different variations worldwide – including social impact bonds (SIBs), payment by results, social benefit bonds (SBBs) and development impact bonds (DIBs) – these pay for success models use private finance to support new models of service delivery that yield investment returns when costs of delivery are reduced. In elaborate public-private partnership, intermediaries provide private capital to service providers that are normally supported by public funding—if those service providers are able to supply agreed-upon results at a reduced cost, private investors receive a return out of the savings to the government.

The first pay for success program, a social impact bond in Peterborough, U.K. in 2010, targeted recidivism. The results of the Peterborough project are still unclear as the project has not been completed, but that has not stopped governments at all levels around the world from looking into the model and starting their own programs. In this relatively short time, there have been numerous examples of how SIBs are being introduced, implemented and positioned around the world, including many discussed in the IIPC *Impact Investing Policy in 2014* report. Policymakers and practitioners are drawn to the promise of pay for success for a variety of reasons, including:

- **PFS offers the promise of reducing risks** to the public sector of supporting innovations in social service delivery by only obligating the government to spend if results are achieved.
- **PFS may generate savings** for the public sector by reducing the costs of service delivery and encouraging spending on preventative rather than mitigating measures.
- **PFS may unlock innovation** and drive improvements in service delivery among service providers by purposefully seeking out, scaling, and providing stable funding to successful service providers.
- **PFS offers the opportunity to generate and collect data** on interventions that has not yet been gathered, allowing for further learning and exploration of best practice.

As governments around the world increasingly allocate funding to these models and implement their own projects, it is imperative to look beyond the theoretical potential of these schemes and to be mindful of a series of potential challenges beyond the relative lack of results to date, including:

- The results targeted by PFS and SIBs are often **challenging to measure and evaluate**, and may not sync to the timeframe of an investment deal. Results may also not be clearly traceable to a single agency budget, which can complicate payout.
- A focus on quantifiable metrics and what investment capital will support can **skew deals** towards those sectors that are relatively “easier” to measure, and where investors are thus more confident of getting their expected return.
- In practice, **the costs of structuring SIB and PFS deals** to date have been substantial, and largely supported by federal and philanthropic grants. The ability to scale deals, and see true overall cost savings, may not be clear.
- **PFS schemes and contracts exacerbate already prevalent fears relating to the privatization** of social service provision. In particular, this hesitation relates to the concern over leaving target populations more vulnerable to the less accountable and less transparent profit-driven private sector firms.

While it is too soon to draw any solid conclusions about the overall impact of SIBs and other PFS programs, it is important for both proponents and challengers of this model to remain agnostic and inquisitive as pilot programs proliferate and results begin to come in. As with any policy...
solution, ensuring that PFS is an appropriate solution for the problem at hand—and not a hammer seeking a nail—is a crucial first order consideration for prospective PFS utilizers.

In implementing these models, governments have shown themselves to be open to exercising more innovative financing solutions, adaptable to finding new ways of addressing persistent social problems, and capable of collaborating with the private sector, even in spheres traditionally governed by the public sector. However, when looking to scale and replicate these pilot programs, it will be essential to gain more insight into the longer-term ramifications – both socially and economically – of these models.

The author would like to acknowledge Katie Grace, Tonusree Basu, David Wood and the IIPC.
INTRODUCTION BY THE IIPC

Like several other country markets, the Brazilian impact investing market has generated growing interest in the last few years, particularly with regard to its potential to use private capital to create the necessary infrastructure and opportunities for greater social impact. Similar to many other developing markets, Brazil is grappling with the challenges of a fast-growing population, high levels of income inequality, and the challenge of building and sustaining infrastructure to address protracted social problems.

It is within this context that a growing movement of impact enterprises has emerged in Brazil, working to expand the pool of available capital and service organizations providing social benefit to underserved communities.

A recent study led by ANDE, LGT Venture Philanthropy and EQOM Partners on the Brazilian impact investing market identified 22 impact investors active in Brazil in 2014, claiming that between 2012 and 2013, the number of new investors had tripled. Taking a more holistic look at the impact investing market, the following article presents two distinct approaches in evaluating, landscaping and subsequently building the ecosystem of the social impact investing market – predominantly through federal policy support.

In its work to assess various impact investing policy markets around the world, the IIPC has applied policy framework design as a practical strategy for identifying concrete opportunities to grow markets for impact investing and social enterprise. This exercise comprehensively includes policies that currently support the growth of impact enterprises, as well as those that have the potential to unlock additional private capital for public good.

This article showcases two key efforts in market landscaping, providing examples from the Brazilian market. Leaders of each effort have approached Brazil’s market from a different perspective, while recognizing the importance of developing the market holistically and taking into account the need to (a) drive more private capital into the social impact market; (b) develop the architecture to incentivize and support creation of social enterprises; and (c) elevate the need for intermediary infrastructure to develop market capacity.

The first section, authored by the Instituto de Cidadania Empresarial (ICE), traces the foundational steps taken by leading stakeholders to take stock of Brazil’s impact investing market. The analysis documents the process of creating a national Taskforce (the Brazilian Social Finance Taskforce) and provides useful insights into how various players, sectors, and timeframes intersect to develop and evaluate a nascent market.

The second section is authored by NESsT, a social enterprise intermediary that works across Latin America and Eastern Europe to support the development of impact enterprises. NESsT recently launched a report on positioning social enterprise in the policy framework in Latin America, focusing specifically on activities of social enterprises and how these contribute to developing the public agenda. This analytical piece by NESsT includes recommendations on creating a legal framework for social enterprises and involving large private sector companies in their development, particularly through mentoring programs and various other initiatives.

What follows is an inside look at how the Brazilian Social Finance Taskforce conveners identified key priorities for their work and established a mandate for the near-to-medium term. In describing these preliminary steps, ICE provides a useful guide to navigating the market mapping process for other countries that have not yet attempted it.

Complementing this analysis, NESsT illustrates a sector-level (as opposed to macro) mapping effort. Given the scale of Brazil’s geography, government bureaucracy, and complex economic and social factors, NESsT has recognized the need to conduct in-depth analysis of individual sectors and issue areas. By mapping the flow of capital unlocked through policy interventions in the Early Childhood Development sector, the authors utilize this micro-level approach.
Interestingly, one of the first challenges that ICE identifies is finding a definition of social finance that would be acceptable to all participating stakeholders. Readers will observe a range of terminology used in this article (as well as throughout the full IIPC Global Policy report), demonstrating the evolving conversation in the market on the role, value and scope of using private capital to achieve social outcomes.

ICE and NESsT represent only two of the diverse efforts underway to map the Brazilian market. They use similar approaches in their market mapping, encompassing definitional exercises, framework development, network-building, setting an initial agenda for all market players, and working with the government. Such analytical exercises inevitably raise important, relevant questions of how best to approach sector-specific policy opportunities, potential for cross-sector collaboration and effective capital gap alleviation.

In highlighting such policy-shaping engagement in select countries, the IIPC strives to facilitate global and inclusive cross-national conversations and knowledge sharing. Our overarching goal for this piece is not to provide a comprehensive landscape of initiatives shaping Brazil’s market, but to identify concrete opportunities within the Brazilian context for further work on impact investing policy initiatives. We also aim to offer examples for use by other countries at similar stages of development in their endeavors to map their markets.

**BRAZILIAN SOCIAL FINANCE TASKFORCE: OUR JOURNEY**

—Istituto de Cidadania Empresarial (ICE)

Brazil has 200 million citizens and is the 7th largest economy in the world. The social sector has seen significant growth since the end of the last dictatorship (1964-1985) and access to basic health and education services has greatly improved since 1994’s economic stabilization. Income inequality is high, with the richest 10% of Brazilians receiving 42.7% of the nation’s income and the poorest 34% receiving less than 1.2%. Philanthropy is limited (Brazil is ranked 91st in the World Giving Index) and the income of the majority of the population is low: 66% of families have an income of less than R$2034 (US$833) per month.

In this context, impact organizations and impact businesses have emerged in the last few years to contribute to finding new solutions and mobilizing new capital to address Brazil’s social problems. The formation of a Social Finance Taskforce represents an important milestone to this movement in Brazil.

Unlike countries like the U.K. where the Social Finance Taskforce work was commissioned by the government, the process of creating the Brazilian Social Finance Taskforce started from the bottom-up. Between August 2013 and March 2014, the Instituto de Cidadania Empresarial (ICE), with the support of Fundação Getulio Vargas – Centro de Estudos do Terceiro Setor (FGV-CES) invited over 20 organizations to form a Social Finance Working Group with the goal of mapping and prioritizing topics and obstacles related to the social finance field. This process was designed to inform the work of a high-level Social Finance Taskforce that would be formed at the conclusion of the mapping exercise. We believed that the engagement of actors representing the whole ecosystem – supply of and demand for capital, as well as financial intermediaries and facilitators – would provide legitimacy for recommendations that would emerge from such a body.

“One of the first challenges for the Working Group was to come up with a definition for Social Finance that would be acceptable to all the parties at the table. The group settled on “Social Finance: financial instruments, new and pre-existing, which mobilize capital for investment in activities intending to produce social impact and financial sustainability, which may or may not generate financial return on invested capital. The social impact must be measurable and analyzed periodically.”

During this extensive process, involving more than 20 Brazilian public, private and nonprofit organizations within the social finance ecosystem, 28 topics were identified as important to the development of the field in Brazil. The critical topics were originally organized along the lines of the groups of actors involved: capital supply, capital demand, and intermediaries. But in the process of prioritizing these topics, other dimensions were explored and deemed to be more relevant specifically for the social finance space. For example, improving the ease (or reducing the cost) of doing business in Brazil would certainly have a great impact on the development of social enterprises – but it
would also have an impact on all business in Brazil, and there are several players advocating changes in that area (see SEBRAE example below). For the group, this meant we were not the “natural owner” of such actions, and would monitor them but they would not become a core part of the Taskforce’s workplan.

Example:

SEBRAE (Brazilian Micro and Small Business Support Service), a Brazilian nonprofit, already has operations in business development and training of entrepreneurs. To prevent duplication of work, the working group should not be focusing on whether or not to create a new agency, but observing what can be done within existing agencies like SEBRAE to support impact businesses through existing programs or identify new programs and approaches that can meet their specific needs.

Engaging with government either as a potential investor or a facilitator of new regulations became a cross-cutting theme. The critical topics the working group identified encompassed three types of activities – general regulation, advocacy, and education/market building. These topics were plotted in a matrix with the potential social impact of the idea on the y-axis, and the viability of implementation (simplicity, vocation and likely time required) on the x-axis, as seen in Figure 1.

<table>
<thead>
<tr>
<th>Regulatory Changes</th>
<th>Potential Social Impact</th>
<th>Viability of Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government as a source of funding for intermediaries</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>The role of universities and research centers</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Education, Training and Dissemination</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Incentives to create endowments funds</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Support agencies and training programs for the business environment</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>The input of new partner in business under SIMPLE taxation</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Government as a facilitator of the Ecosystem</td>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

As a result of this mapping process, the working group identified four major themes of challenges and potential opportunities for social finance in Brazil. These high-priority themes serve as the foundation for the Taskforce’s work, with some example policy issues, are discussed in below.

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**FIGURE 1: CRITICAL TOPICS IDENTIFIED BY THE WORKING GROUP ORGANIZED BY SOCIAL IMPACT AND FEASIBILITY**

![Diagram](image)

As a result of this mapping process, the working group identified four major themes of challenges and potential opportunities for social finance in Brazil. These high-priority themes serve as the foundation for the Taskforce's work, with some example policy issues, are discussed in below.
1. Enable access to existing resources and promote impact investing among key investors in Brazil.

Enlarge and facilitate the access of players in the social finance field to resources and institutional mechanisms already existing (that through improved communication, articulation or relatively simple amendments could be better used in order to strengthen this field) as well as new mechanisms that could be created by engaging investors not yet familiar with the field of social finance.

**Examples:**

- **Private Resources:** Private resources from foundations and institutions are essential to the social finance ecosystem’s development and the social sector’s activities, and there are no restrictions for supporting players in this field using philanthropic capital. There is, however, regulatory uncertainty about the possibility of this support through transactions that generate monetary return or equity to the investor. Despite this uncertainty, some foundations and institutes have been structuring investment mechanisms and applying resources as impact investments (e.g. service provision agreements).

- **Foreign Private Resources:** The foreign investor can count on legal support to invest in Brazilian companies (according to Law 4131, which regulates investments in funds and Resolution 2689, regarding investment in mutual funds). The cost of these investments’ transactions is high, due to taxation (IOF 6%), documentation requirements and legal representation. These factors combined create an environment inhospitable to foreign investment in social businesses and impact investment funds. It is important to find solutions to make this category of investment more appealing to outside investors.

- **Associating Public and Private Resources:** Since 2010, BNDES (Brazilian Development Bank) has been spurring key investors in the fields of energy, mining and infrastructure to support social development around their enterprises though social subprime loans, spending more than R$356 million to date. These resources could be invested in impact businesses, and combined with the resources of other institutional investors to create a movement that fuels social finance and contributes to local sustainable development.

In addition, BNDES manages various Non-Reimbursable Funds such as the Social Fund, which can be accessed by practitioners in the field of impact enterprise and combined with private resources to support entrepreneurs who require patient capital. Since 2008, these funds have selected projects that support, for example, recyclable garbage collector cooperatives, conservation of the Atlantic Forest, and urban mobility. These investments demonstrate that there exists a willingness to support other mechanisms, players and businesses in the social sector. Since 2008, R$215 million has been spent by the Social Fund to promote productive inclusion alone.

2. Promote and take advantage of institutional procurement opportunities.

Mobilize public and private organizations – either within their current rules of governance or through relatively simple amendments – to use their purchasing processes to strengthen the field of social finance.

**Examples:**

In the private sector, several policies allow businesses to commission goods and services in socially responsible ways, including the Value Chain of Innovation and Sustainability (GVces) and Tear Program (Ethos Institute and BID – Banco Interamericano de Desenvolvimento). In the public sector, it is worth mentioning examples such as PAA, or the Programa de Aquisição de Alimentos da Agricultura Familiar e Alimentação Escolar (Program of Family Agricultural Nourishment Acquisition and School Nourishment), among many other initiatives within the scope of Sustainable Public Contracts’ scope.

Some quantitative data may illustrate this field’s potential: within organizations, the acquisition of goods and services could represent over 50% of budgets, sometimes even reaching 80% in retail sectors and electronic and car manufacturing industries.\(^5\) Regarding supply chains, 4.5 million Brazilian small companies – responsible for 60% of the labor force in Brazil – supply to large corporations.\(^5\) Thus there is enormous potential to fuel the social finance industry by enacting policies that incentivize commissioning from impact enterprises, including local small businesses.

3. Provide incentives/ support to intermediaries and while strengthening the pipeline of investments.

Read the full report at http://globalpolicy.iipcollaborative.org
Foster and strengthen the field of social finance by providing incentives and support to organizations that aim to promote the field’s development, such as incubators, accelerators, consultancies, social impact research and assessment organizations, accreditation institutions and representative bodies.

Example:

SEBRAE is giving the kick start to SEBRAE TECH, which will open for public calls that may eventually focus on intermediaries in the field of social finance. The Brazilian government has a history of funding technical assistance programs, but programs are fractured and uncoordinated. An effort to think through gaps in technical assistance funding, as well as funding and investment that helps impact enterprises throughout their development process, would be beneficial.

4. Production/dissemination of knowledge and support of human capital

Develop practical tools and knowledge, including publicly available data that supports the decision-making process, including new methodologies and management analysis for business and investment. Think through the education and training needs of the social finance and impact business ecosystem, including potential certification programs.

Example:

In order to bring the theme of social finance and impact business to professors to the top business schools of Sao Paulo State, ICE, with a matching fund of Rockefeller Foundation, Avina and Omydiar Network, has 15 invited professors to be partners in this project. This project started last year with the top three business schools in Sao Paulo – FGV, FEA-USP and Insper and expanded to six schools as partners. ICE has since then supported professors from those schools in different ways, e.g. financing case studies, researches, articles and their participation in global and local conferences in social entrepreneurship and impact business.

NEXT STEPS

Our efforts to map the Brazilian impact business and social finance ecosystem have been collected in a document entitled “Mapping of Crucial Topics to the Development of the Social Finance Ecosystem”. Its aim is to support the future Brazilian Taskforce on Social Finance (TFSF) in its work to attract and unlock more capital for social finance while supporting positive social outcomes for low-income populations.

In May 2014, ICE and the Working Group announced the initial members of the Taskforce on Social Finance, and invited SITAWI Finance for Good, a pioneer organization in the field, to be a co-executive director of the initiative. The Taskforce is currently engaged in a two-year workplan, centered around the themes identified in the initial mapping process.

By the second quarter of 2015, the Taskforce expects to publish its initial recommendations as well as a Brazil ecosystem map (prepared by Deloitte), a white paper with recommendations for the role of development banks in social finance in Brazil, analysis and recommendations for government and corporations to include impact business in their operations, an Impact Business Charter/Frame and suggestions for use, and several cases, articles and research pieces produced by a network of professors teaching on social finance and impact.

IDENTIFYING OPPORTUNITIES FOR GROWTH OF THE IMPACT ECONOMY: THE CASE OF EARLY CHILDHOOD DEVELOPMENT IN BRAZIL

—NESsT

In the last two years, impact enterprise and impact investing have become increasingly relevant and visible in Brazil. However, actors from both sides are realizing how difficult this work really is. The pipeline of investment ready impact enterprises is quite slim, a challenge for
investors searching to find those businesses that can provide their funds both a social and financial return.

It is important to build support, tailor incentives and figure out ways to mitigate risk for impact enterprises, and government policies have an important role to play in addressing these challenges. Well-crafted policy will help scale proven models and begin to close the huge income and quality of life gaps that exist in Brazil today.

In 2013, NESsT set out to assess policy best practices to foster impact enterprises in Latin America. Because we didn’t find very many policies that target impact enterprises, we reengineered our research to focus on develop a framework that would position impact enterprise on the policy agenda of countries like Brazil, where it is still off the radar screen. Through five critical steps, the framework we’ve developed identifies key social needs where impact enterprise has a role to play, and policies that could help these enterprises address these needs.

A key point in the first step of the framework is to keep the definition of impact enterprise fairly flexible, as an overly narrow definition of impact enterprise may lead to an inability to find a role for impact enterprises in solving social challenges. The second step is to identify both the social needs that impact enterprises could fill, as well as the capacity and investment needs associated with developing and scaling these businesses. The third step is to select case studies, policies and experiences to be used as references, including those national or local policies that might be able to be tweaked or altered. Drawing on proven experiences is critical to “opening the policy window” and will be important when trying to convince authorities or leaders. Maintaining permanent dialogue with stakeholders is the fourth step, important to building support for the policy. The last step is to develop a positioning strategy that places impact enterprises in public and policy debates as a vehicle to that can play a specific role in helping to solve a single or set of social problems.

APPLYING THE POSITIONING FRAMEWORK TO EARLY CHILDHOOD DEVELOPMENT

In testing this framework in Brazil, early childhood development arose as a clear impact economy opportunity. In Brazil, there are 20 million children under the age of 6 and 45% are members of families with incomes below the poverty line. Despite trends of decreasing infant and child mortality, rates are still quite high—in 2012, 6.6 million Brazilian children ages 0-5 died. Of the 10 million children between the ages of 0-3, 80% are not in childcare centers. It is widely accepted that the early years in a person’s life is what will most affect their ability to cope and contribute to society. Despite the critical long-term implications that early childhood development has for Brazil, neither the government, the private sector nor civil society have been able to adequately address the needs of Brazil’s children.

Read the full report at http://globalpolicy.iipcollaborative.org
Early childhood development has become especially relevant for the federal Brazilian Government, which is endorsing and supporting a national effort to engage key stakeholders in developing innovative solutions for the sector. This federal focus provides a pivotal moment to affect change through sound policy. Early childhood development is an issue that requires the integration of various sub-sectors—education, health, employment, and housing among others—making it a complex issue, but also one where well-crafted policies can have a far-reaching impact.

IDENTIFYING THE NEEDS OF THE SECTOR

A recent study conducted by NESsT, Negócios Zero a Seis identified the needs of the early childhood development sector and explored how impact enterprises in Brazil are already addressing these needs as a complement to government action. The sector touches on almost every type of social issue:

- Strengthening and improving the quality of work of the caregiver and educator, and the expansion of the supply of childcare and early childhood education.
- Expanding health coverage and improving the quality of prenatal care, obstetrics and pediatrics for low-income population.
- Addressing specific chronic and structural issues such as obesity, under-nutrition/malnutrition, inadequate housing, lack of sanitation, family violence and extreme poverty.
- Providing assistive technology solutions and therapies that significantly impact the lives of children with disabilities and their families.
- Supporting the role of the family in the development of their babies by providing information, guidance and high quality services for mothers and fathers.
- Strengthening breastfeeding as the first and most important source of nutrition for babies and encouraging companies to adopt the conditions for working mothers to breastfeed or store breast milk.
- Investing in the empowerment of women as a way to break the cycle of poverty, addiction and the cycle of domestic violence.
- Fostering a multidisciplinary approach to childcare with the specific goal of strengthening families in extreme vulnerable situations.

IDENTIFYING THE NEEDS OF IMPACT ENTERPRISES IN EARLY CHILDHOOD DEVELOPMENT

Negócios Zero a Seis included a study of over 50 impact enterprises in early childhood development, revealing a series of capacity and financing needs identified by these enterprises. There were four business models identified:

TABLE I: BUSINESS MODELS OF EARLY CHILDHOOD DEVELOPMENT IMPACT ENTERPRISES IN BRAZIL

<table>
<thead>
<tr>
<th>Business Model</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1- Products and services to people at the base of the pyramid across varying income levels (defined as sectors C, D, E)</td>
<td>Dr. Consulta: This clinic offers top clinical care at low cost in the favela of Heliopolis, the largest in Sao Paulo and one of the largest in the country, with 300,000 inhabitants.</td>
</tr>
<tr>
<td>2- Products and services to higher income levels (sectors A, B) that cross-subsidize those offered to the base of the pyramid.</td>
<td>Casa Angela: Located in the favela Jardim Monte Azul, provides personal integrated care from prenatal through postpartum and supporting families in monitoring the growth of their infants until the first year of life.</td>
</tr>
<tr>
<td>3- Products and services to the government who in turn provide them to the base of pyramid at low costs or for free.</td>
<td>Instituto Avisa Lá: Develops continuing education for teachers to improve the quality of early childhood education; reaches an average of 10,000 teachers from 200 municipalities whose professional development directly impacts the lives of 140,000 children.</td>
</tr>
<tr>
<td>4- Products and services that are developed by the base of the pyramid for higher income levels (sectors A, B).</td>
<td>Coopa-Roca: A cooperative of women residents of Rocinha, a favela with approximately 180,000 inhabitants, that produces clothing for the fashion industry. The women work in their homes, increasing the family budget while caring for children.</td>
</tr>
</tbody>
</table>
The needs of these enterprises were grouped in three categories: The first set of needs was around the lack of understanding among the public sector on the need to approach early childhood as an integrated social issue which includes the family overall and all of its social needs, not only of the child. This is reflected in the lack of an effective dialogue around a holistic understanding of childhood development and the prevalence of fragmented policies.

A second category of needs were those associated with the market, and the lack of successful policy incentives that could foster market-based solutions and models serving the needs of early childhood at the base of the pyramid. Here, the separation of social classes in Brazil, and tendency to underestimate the potential of the base of the pyramid to address this issue in a sustainable manner work against market-driven models.

And finally, a third category and perhaps the one that requires most immediate attention, is the support needed to strengthen and scale impact enterprises addressing early childhood issues. This includes the lack of patient capital and capacity support, and the need to take a longer term view for the consolidation and scaling of these enterprises.

SELECTING RELEVANT CASE STUDIES, POLICIES AND EXPERIENCES
Impact enterprises within and outside of Brazil are currently providing thousands of children access to quality healthcare and education. Enterprises like those mentioned in Table 1 and others such as Project Saútil and Cies in Brazil, and AeioTU,Bridge International Academies and Crescendo in Europe, show that there is already a vibrant array of cost effective, public-private subsidy models that provide quality and affordable health and education. Within the “Desenvolvimento de Capacidades” track of the Maria Cecilia Souto Vidigal Foundation's program Primeirissima Infancia, there are a number of impact enterprises offering high quality professional development for early childhood care providers.

From the policy side, there are several important policies in Brazil that that could be leveraged particularly in education and health. Todos para a Creche – Creche para Todos is a civil society program working to ensure children ages 0-4 years have access to full or part time childcare. This is one of the biggest challenges facing Brazilian municipalities and the public education system. In 2007, the Ministry of Education developed the PROINFANCIA program under the assumption that the construction of kindergartens and nurseries, plus the purchase of equipment, is key to improving access to public education for this age group. Since this date, over 5,500 pre-school facilities have been constructed and an additional 3,000 units are due to be constructed by 2014. The main national health care strategy for early childhood is the Family Health Program, which provides pediatric care for infants and children. Data from the Ministry of Health indicate a high positive correlation between investment in this program and a reduction in child mortality. There are also programs to encourage breastfeeding and the Rede Cegonha (Stork Project) which aims to guarantee high quality care to all Brazilians for the first two years of life through the public health system. The national immunization program is one of the best regarded public health services by the Brazilian public and most well recognized worldwide. National campaigns focusing on compulsory vaccines for children have reached nearly 100% coverage.

Perhaps the greatest opportunity to leverage and build on successful impact enterprise models and early childhood policies that currently exist in the country is the newly adopted National Plan for Early Childhood. It is the guiding document of government actions in the area of early childhood development. There are several factors that make the plan a good platform for impact economy policies. First, the plan guarantees financing for childhood development programs at the federal, state and municipal levels, which can potentially be utilized to provide incentives and support for impact enterprises. Second, the plan recognizes the need to address early childhood in an integrated fashion and to involve the private sector. Third, the plan is for twelve years and is being monitored by the federal Secretariat of Strategic Affairs (SAE), which reflects a federal mindset that is prioritizing investment in early childhood development and understanding its strategic importance for the country.

SELECTING RELEVANT CASE STUDIES, POLICIES AND EXPERIENCES
The inability of current early childhood public services to meet high demand among the lower income levels of the population creates a particularly promising opportunity for impact enterprises that are operating innovative and sustainable models. The commitment of the Brazilian Government to early childhood development, and its recent adoption of a national strategy sets the stage for developing policies.
that can build and scale these models. To follow is a set of policy impact opportunities that could be explored by policymakers in dialogue with impact enterprises and investors, as they set out to implement this National Plan for Early Childhood.

### TABLE 2: POLICY IMPACT OPPORTUNITIES FOR EARLY CHILDHOOD DEVELOPMENT IN BRAZIL

<table>
<thead>
<tr>
<th>GOVERNMENT AS BUYER</th>
<th>GOVERNMENT AS FINANCIER</th>
<th>GOVERNMENT AS POLICYMAKER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase high quality services provided by impact enterprises and help these enterprises to increase their coverage. Transition some services to impact enterprises.</td>
<td>Purchase and help the base of the pyramid to purchase services from impact enterprises that offer integrated solutions to early childhood and that are focusing on the issues that have the highest impact potential (i.e. prevention).</td>
<td>Purchase and help the base of the pyramid to purchase services from impact enterprises that provide low cost social technologies and services to remote regions and to lower income populations.</td>
</tr>
<tr>
<td><strong>GOVERNMENT AS FINANCIER</strong></td>
<td>Support intermediaries that provide effective enterprise capacity support to impact enterprises. Provide risk or non-reimbursable capital to help them expand these programs.</td>
<td>Provide financial incentives for the base of the pyramid to purchase impact enterprise services (cross-subsidy models).</td>
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<tr>
<td>Foster patient capital for early stage impact enterprises such as seed capital and guarantees to help them to consolidate and become investment ready.</td>
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<tr>
<td><strong>GOVERNMENT AS POLICYMAKER</strong></td>
<td>Develop Social Impact Bonds to leverage investors to replicate or scale proven models.</td>
<td>Develop public-private investment funds to invest in impact enterprises at early or seed stages.</td>
</tr>
</tbody>
</table>
CELIA CRUZ has served as Executive Director of the Instituto de Cidadania Empresarial (ICE) since April 2013. Before joining ICE, Célia served as Director of Ashoka Canada, Managing Director of Ashoka Global Fellowship and Director of Ashoka in Brazil and Paraguay (2002-2011). Before Ashoka, Célia worked with the Institute for Development of Social Investment, where she was a Program Coordinator for two years, creating community foundations in a number of Brazilian cities. She founded the fundraising consulting firm Philanthropics in 1994 and served as fundraising coordinator for EAESP, Fundação Getulio Vargas (EAESP/FGV), until 2000. Célia also served as EAESP/FGV's liaison to the Fundraising School of Indiana University's Center for Philanthropy from 2000–2003 and taught fundraising from 1995-2007 in the first management nonprofit program in Latin America, also at EAESP/FGV. Célia has a master degree on Economic (EAESP/FGV) which included exchange programs at ESSEC, Paris, France (1990) and York University, Toronto, Canada (1993). Célia holds an undergraduate degree in Economics from the Faculdade de Economia e Administração da Universidade de São Paulo (FEA/USP). Célia is a co-author of fundraising book Captação de Diferentes Recursos para Organizações Sem Fins Lucrativos, 2000.

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LEONARDO LETELIER started SITAWI – Finance for Good (www.sitawi.net), a nonprofit with the mission to develop financial infrastructure for social/environmental impact in Brazil. Prior to founding SITAWI, Leonardo worked for McKinsey & Co and Ashoka. Leonardo holds an Industrial Engineer degree from the University of São Paulo and an MBA from Harvard Business School. His baby daughter Clara is his latest passion.

THAIS MAGALHÃES , an engineer with an MBA on Social and Environmental Business Management by University of São Paulo, started her career at the financial markets unit of ABN-AMRO–Real and joined its Sustainability team in 2004. Between 2007-2011 coordinated the implementation of Alcoa’s sustainability strategy for Latin America and Caribbean. Since 2011 is an independent consultant supporting the development of organizations on the social and environmental field. Amongst her clients are Banco Itaú, IFC, Amata, Instituto Arapyaú, Danone and ICE, where is part of the team involved in the Brazilian Social Finance Task Force project.

RENATA TRUZZI de Souza is the Country Director for the NESsT Brazil office and is responsible for managing the NESsT portfolio of social enterprises and further developing NESsT activities in Brazil. She has worked on building and developing teams, individual and corporate fundraising, communication, media and direct marketing. She has also developed database structures for major organizations, representative of social and cultural areas in Brazil. Renata’s background is in Business Administration, Social Sector Administration and Direct Marketing. She lives in São Paulo, with her husband and her 5 year-old son.
In May 2014, in the closing ceremony of the Brazilian Social Finance and Impact Business Forum organized by ICE in partnership with Vox Capital and Artemisia, the Taskforce was presented to the sectors, with the following members:

1. World Bank (2014)
2. Brazil is rated 52.7 in the Gini Coefficient Index 2012.
4. Impact businesses are organizations with intention to offer scalable solutions for social problems affecting the low-income population. Impact business: 1) are focused on low-income people; 2) have an explicit mission to cause social impact and are led by ethical and responsible entrepreneurs; 3) have potential to scale; they can increase their reach by way of expansion of the business itself, replication in other places and by other people, or dissemination of critical elements for other entrepreneurs and organizations or public policy; 4) have a robust business model that guarantees profitability and does not rely on donations or subsidies; 5) have social impact tied to core work; 6) may or may not distribute dividends.
6. Ibid
7. In 2014, the exercise that is at this stage of life that nearly all brain synapses that determine the main cognitive and social skills of the individuals are formed for the rest of their lives.
8. There is a National Plan of Recommendations that was developed by civil society and endorsed by the Government and we explain some of the national policies currently in place that need to be leveraged through the plan and impact investing and enterprise in our report, Negócios Zero a Seis.
9. With the support of the Maria Cecilia Souto Vidigal Foundation (MCSV), the largest foundation dedicated to early childhood in Brazil, NESt conducted an in-depth study on the existence and potential of impact enterprises to solve problems related to early childhood development in the country and to scale these solutions. Negócios Zero a Seis – Revelando soluções baseadas no mercado para o desenvolvimento da primeira infância no Brasil (2013) [Business Zero to Six – Generating Market Based Solutions for Early Childhood Development in Brazil (2013)].
10. D and E households average monthly income of R$ 776.00 (USD 326.0); the C2 class, those with an average income of R$ 1,147.00 (USD 482.5); C1, income of R$ 1,685.00 (USD 708.8); B2, individuals with a family monthly income of R$ 2,654.00 (USD 1,116.4); B1, income of R$ 5241.00 (USD 2,204.7); and class A, those with average monthly income of R$ 9,263.00 (USD 3,896.6). Secretaria de Assuntos Estratégicos (2013). “Research promises to set economic classes.” Retrieved from http://www.sae.gov.br/site/?p=17711#ixzz3AUlDQFI3 (in Portuguese) (1 USD = R$ 2.377 as of October 8th, 2014).
11. Brazil is rated 52.7 in the Gini Coefficient Index 2012.
12. The PROINFANCIA Program was established in Resolution 6 in April 2007, housed in the Development Plan of Education, Ministry of Education and funded through the National Fund for the Restructuring and Acquisition of Equipment for the Network of Early Childhood Education Public Schools.
13. A civil society initiative lead by Ação Educativa that lobbies the government to provide daycare and pre school access to all children in Brazil. The government had a law to provide daycare to all children in Brazil since 2001, but since they were not meeting this promise, Creche para Todos was born and they are influencing the government who has in turn through the ProInfancia Program has created more daycare and pre school facilities but still has not met the goal. Article 54, section IV, the Statute of Children and Adolescents, which expresses that it is “the duty of the State to ensure child day care and pre-school children of 0-6 years old.”
15. The PROINFANCIA Program was established in Resolution 6 in April 2007, housed in the Development Plan of Education, Ministry of Education and funded through the National Fund for the Restructuring and Acquisition for the Network of Early Childhood Education Public Schools.
17. See Negócios Zero a Seis Study for descriptions of these enterprises.
18. For instance, many models use a varied fee structure where users that can pay more are charged a higher fee and users that can pay less are charged a lower fee, counting on the higher price fee to “cross subsidize” the more reduced fee.
19. An innovative program created by the Maria Cecilia Souto Vidigal Foundation to address early childhood challenges in Brazil. http://www.fmcsv.org.br/pt-br-o-que-fazemos/programa-primeirimissima-infancia/Paginas/default.aspx. This is a private initiative managed by MCSV but has been implemented by a few municipalities.
21. Brazil is rated 52.7 in the Gini Coefficient Index 2012.
22. The Civil Society Initiative lead by Ação Educativa that lobbies the government to provide daycare and pre school access to all children in Brazil. The government had assigned a law to provide daycare to all children in Brazil since 2001, but since they were not meeting this promise, Creche para Todos was born and they are influencing the government who has in turn through the ProInfancia Program has created more daycare and pre school facilities but still has not met the goal. Article 54, section IV, the Statute of Children and Adolescents, which expresses that it is “the duty of the State to ensure child day care and pre-school children of 0-6 years old.”
23. The National Program for Restructuring and Acquisition for the Network of Early Childhood Education Public Schools.
25. Later, Pedro Parente, former Ministry of Energy, Planning and Chief of Staff under President Fernando Henrique Cardoso and then CEO of BUNGE was added to the group.
26. Luiz Lara, president of Lew Lara, premier advertising agency in Brazil
27. Luiz Lara, president of Lew Lara, premier advertising agency in Brazil
28. Luiz Lara, president of Lew Lara, premier advertising agency in Brazil
29. Luiz Lara, president of Lew Lara, premier advertising agency in Brazil
30. Luiz Lara, president of Lew Lara, premier advertising agency in Brazil
31. Guilherme Affonso Ferreira, partner at Bahena Participações, one of the largest investors in the country
32. Pedro Parente, former Ministry of Energy, Planning and Chief of Staff under President Fernando Henrique Cardoso and then CEO of BUNGE was added to the group.
33. The National Program for Restructuring and Acquisition for the Network of Early Childhood Education Public Schools.
34. See Negócios Zero a Seis Study for descriptions of these enterprises.
35. For instance, many models use a varied fee structure where users that can pay more are charged a higher fee and users that can pay less are charged a lower fee, counting on the higher price fee to “cross subsidize” the more reduced fee.
36. An innovative program created by the Maria Cecilia Souto Vidigal Foundation to address early childhood challenges in Brazil. http://www.fmcsv.org.br/pt-br-o-que-fazemos/programa-primeirimissima-infancia/Paginas/default.aspx. This is a private initiative managed by MCSV but has been implemented by a few municipalities.
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39. The National Program for Restructuring and Acquisition for the Network of Early Childhood Education Public Schools.
40. The PROINFANCIA Program was established in Resolution 6 in April 2007, housed in the Development Plan of Education, Ministry of Education and funded through the National Fund for the Restructuring and Acquisition for the Network of Early Childhood Education Public Schools.
42. Study on opportunities for health related businesses for low income populations in Brazil.
43. The plan was developed by the National Network for Early Childhood, comprised of over 100 civil society organizations, government, and the private sector – and approved by Conanda – the National Council for the Rights of the Child and Adolescent. There is an effort underway to construct indicators to monitor and measure the effectiveness of the plan. The Network has a working group that focuses on the inter-sectorial needs of early childhood.

REFERENCES

IS0 rules about purchasing including responsibility criteria and sustainability (existing rules and the ones under elaboration process)

74 IMPACT INVESTING POLICY IN 2014
The promise of impact investing – the elusive combination of positive social intentions, rigorous impact measurement and financial returns – is slowly beginning to generate interest in Germany. It has in particular captured the imagination of a new generation of investors and entrepreneurs. These individuals and organizations do not regard profits and positive social outcomes as necessary trade-offs, instead bringing an entrepreneurial mindset to solving social problems, often by borrowing, combining and applying ideas from a range of sectors and fields. At the same time, Germany boasts a sizable, historically-grown and institutionally-entrenched non profit sector, which is based on the principle of corporatist self-administration.

The non profit sector in Germany is responsible for much of the delivery of social services in the country, and operates within a strict framework of legally-binding guidelines and public funding. Therefore, proponents of impact investing looking to attract the attention of policymakers need to demonstrate that impact investing can complement, rather than displace, the existing toolkit for financing social outcomes. At the same time, they must harness the presumed transformative powers it can unleash. Impact investing, then, must show that it can simultaneously dovetail with Germany's tradition of social welfare and add value to it. Impact investing actors can do this by helping to address social problems more holistically and by increasing the volume and focus of resources available to tackle them. Irrespective of its ambitions, potential and accomplishments, Germany's fledgling impact investment industry will need a good deal of support to prove that it can deliver.

Prompted by a Social Impact Investment Taskforce, established during a G8 meeting in the summer of 2013, a German National Advisory Board (NAB) took initial steps towards outlining an appropriate place and function for impact investing in Germany's social economy. The NAB convened experts from the social, financial, and public sectors, as well as representatives from foundations and academia, including both proponents and skeptics. In this format, the assembly laid out the types of medium- to long-term social challenges faced by Germany, highlighted the projected funding gaps for addressing these burdens, and outlined the difficulties with the current social welfare system of addressing these hardships without additional support. These challenges include: an ageing population, as Germany is demographically imploding, and the integration of the long-term unemployed back into the labor market. These and other social ills are already putting pressure on the public sector – as social expenditure in Germany is growing faster than GDP – and at current levels of social service provision, a public financing gap is projected to be approximately €82 billion ($104.5 billion) in 2025.

Against this background, the NAB's analysis revealed several gaps in the current state-led welfare system. One is the inability of the system to make preventative investments. The German social system is built to deal with issues reactively (for instance, a person must display certain disabilities before being eligible for care) and in an insular way (for instance, a person requiring care will fall under the responsibility of multiple agencies, which are often unable to offer integrated or coordinated services). Meanwhile, social innovation, which has the potential to address these challenges more efficiently and effectively – either through the implementation of new ideas or simply the reform of existing programs – is hampered by a lack of funding. Such innovations, which exist in spite of insufficient funding, rarely make it to scale. To use a German metaphor, the social sector resembles a cemetery of outstanding pilot projects that withered away when funding ran out. The NAB's experts found that the German welfare system struggles most with identifying and maintaining preventative, innovative, and scalable approaches to solving social problems.

These inherent limits to Germany's state-funded welfare system are arguably rooted in Germany's social code, which sets out the organization and funding of social welfare across the country. The code distinguishes broadly between two types of provision. The first type of service provision describes services that, owing to a statutory right on the part of end-users, are legally guaranteed. Importantly, delivery of these state-funded services is based on an assessment of individual need. For instance, an elderly person's care requirements will be rigorously analyzed, the type and level of need categorized, and a diagnosis issued. This categorization, in turn, results in eligibility
for services ranging from assisted home care to full-stationary care. This type of service – depicted in the inner circle of Diagram 1 – comprises the core of the social welfare system. The volume and depth of services offered in this capacity are substantial relative to other countries, and the system is considered an essential ingredient of the German welfare state.

This type of service, however, differs from the services that fall under cross-sector provision; for instance, neighborhood management projects or integrated delivery of healthcare. Despite any positive social impact generated, this type of service provision is inevitably subject to issues of insufficient competency, responsibility and financing on the part of public commissioners and policymakers. As a result, these types of activities are funded – if at all – by social-purpose organizations which, based on their own analysis of social need, effectively become their own impact investors. Alternatively, these service providers may look for funding from the associations or networks they belong to, solicit private donations or wrestle for a one-off public grant. Unlike the more isolated service programs, however, these ‘integrated’ service providers more often than not employ approaches that involve prevention, innovation and scaling. These issues are crucial ingredients to a social sector that sufficiently meets the country’s needs in the decades to come. Nevertheless, they tend to fall within what is effectively a “voluntary” area of social services, with limited funding and thus a heavily curtailed incentive system. This part of the social sector is depicted as the outer circle of Diagram 1.

**DIAGRAM 1: CURRENT STATE OF THE GERMAN SOCIAL SECTOR**

The NAB’s analysis suggests that it is within the “outer circle” of the German social sector that the ethos of impact investing can drive the creation, testing, and implementation of new approaches to tackling social ills. By remapping the conditions currently outlining the available financing, impact investors can help to integrate different types of social services, unbound from the non-interdisciplinary, departmental approach of state-funded projects, whereby helping to realign the incentives of all stakeholders to maximize social impact. In doing so, this outer circle – effectively the research and development department of the social sector – can strengthen and sustain the inner core of Germany’s social welfare system.

It is arguably this possibility of complementing the existing welfare system – which goes beyond the mere provision of extra money – that is elevating the interest in impact investing as a prospective financing method. Impact investing is appealing in that it has the potential to spread well beyond social business start-ups, to include large-scale, established, and influential social organizations and associations with greater visibility and a more influential voice among public commissioners and policymakers. Yet the shift from appeal to implementation, resulting in a social sector depicted in Diagram 2, will require a strong impact investing industry – one that collects and deploys capital in a manner that adequately services this type of demand.
The capacity for Germany’s impact investment industry to move in this direction is limited, but growing. A self-identified “impact-sector” – eager to keep abreast of international ideas, methods, and terminology, and increasingly aware of the limits and opportunities of the national setting – is taking shape in the country. It consists of specialized investment intermediaries, social entrepreneurs, a small group of investors, and a fledgling support structure. Central players include intermediaries such as BonVenture and the Social Venture Fund, which manage a combined total of around €40 million ($50 million) in assets and provide equity, mezzanine capital and debt to social ventures in the range of €200,000-1.5 million (~$255,000-1.9 million). The third biggest investor in Germany is the Kreditanstalt für Wiederaufbau (KfW), the country’s state-owned promotional bank, which invests up to €200,000 (~$255,000) per deal through a matching fund program for social enterprises and is currently looking at ways to broaden its activities. To date, these funds have screened more than 3,000 investment opportunities.

Funding has been provided to 29 socially-motivated organizations in Germany, of which nine have already been withdrawn from investors’ portfolios. In 2014, the country saw the closing of a small Social Impact Bond (SIB), designed to help young people get into the workforce. Benckiser Stiftung in the German city of Augsburg developed the project, and various organizations have already announced feasibility work around further SIB-like financing models. The main sources of capital for intermediaries like BonVenture and the Social Venture Fund, as well as for the SIB pilots, include high net worth individuals (HNWIs), foundations, and a small number of institutional investors.

Going by the strict GIIN definition of impact investing, which stresses intentionality, the commitment to measure results, and the possibility of financial returns, the current cumulative market size of investments made by investors into social purpose organizations was estimated at €24 million ($30.6 million) at the end of 2012. While the German market still lacks a diversity of products, market agents like Impact in Motion, a Munich-based think tank, or FASE, a specialized financing agency launched by Ashoka Germany, are trying to broaden the spectrum of available social investment instruments. There is a particular interest in hybrid financing structures, whereby investment capital is combined with philanthropic funding. In this vein, a group of German foundations has launched a Mission-related investment (MRI) pilot fund intended to support education projects. A particular objective of the fund is to allow small foundations to reconcile their investments with their missions, and to help them understand how best to overcome legal and technical difficulties.

The global zeitgeist calls for a whole-of-society investment in positive social change. This idea is taking root in Germany. Yet the terms of the debate are specific to the burly, inelastic German welfare system that has been traditionally state-led, geared towards selected market participants with heavily entrenched interests and, at times, counterproductive financial incentive systems. In a seemingly parallel realm, the impact investment market, lead by a small number of pioneers, is emerging in Germany. Policymakers are becoming increasingly aware of the possibility of having the civil society contribute to state-funded efforts by means of financial investments.

In the meantime, impact investing continues to carve out its niche alongside the traditional non profit space. This has contributed to conversations on several issues:
• The recognized need in Germany’s social economy for the types of activities traditionally funded by impact investments – notably those aimed at prevention, innovation and scaling.

• The opportunity to channel such “impact capital” specifically into those areas of the social sector where there is a specific need, as opposed to simply opening up the social sector to conventional forms of private investment capital looking for quick returns.

• The growing interest of strong, established players in Germany’s non profit sector, in addition to newly created social businesses looking for early-stage funding.

Moving from debate to action will require a proven track record and evidence of success (and failures) so that practitioners on all sides might reach a consensus about the risks and opportunities of impact investing. According to the NAB’s experts, action is required within three overlapping areas of activity: proof of concept, new business models, and risk mitigation.

A more systematic proof of concept must demonstrate that this type of financing can work. The two areas of social need outlined above – care for an aging population and integrating young people into the workforce – lend themselves as testing grounds, based largely on the pronounced need for action to stave off long-term consequences (care) and a sense that existing interventions have simply not worked (integration). Providing such systematic proof of concept, however, will require appropriate support structures for investees, investors, and intermediaries.

New business models must be supported and promoted with more targeted measures than are currently available. This is possible, for instance, by including social purpose organizations in the vast array of state-run funding and support programs for conventional businesses. Foundations, in turn, can support specialized intermediaries in the field whose services are required, but are not yet able to sustain their own business models. State-backed funds, possibly with a regional focus, could create new incentives on the part of public administration to engage in prevention, innovation, and scaling strategies in selected areas of the social economy – for instance by systematically testing instruments such as SIBs. Germany’s federal system, with much of the responsibility for social issues delegated to regional- and municipal-level agencies, offers numerous opportunities for experimentation.

With respect to investors, risk-mitigation mechanisms in support of pioneering social impact investors will be needed. Public promotional banks and charitable foundations could play an important role in this respect. There is much to be learned in this context from the field of international development, where the German government is involved in a variety of innovative initiatives.

Impact investing could soon take root in Germany, in much the same way as it is gaining traction in other local contexts around the world. The speed and effectiveness with which the field establishes itself will depend on (a) evidence that this approach works at the technical level; (b) the tone of the debate that surrounds it; and (c) the speed with which policymakers acknowledge the role that impact investing can play to support local, regional and national development, and create an enabling environment for field development. Germany has much to gain from the growth of an impact investing market; namely, more flexibility in methods of delivering social services, new ideas drawn from fresh talent in the social sector and, ultimately, better social outcomes. This, however, means a shift in the traditional concept of top-down, state-led funding. It also means that new stakeholders will have to navigate and respect an established market, dovetailing their initiatives to complement existing social practice rather than looking to reinvent it.


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1. Along with projections of negative overall population growth through 2060 and an increase in the old-age dependency ratio (i.e. Germany will see a rising number of retired citizens relative to those of working age), Germany is also expected to experience a significant decrease in the working age population projection by 2060. Federal Statistical Office (2009). Germany’s Population by 2060: Results of the 12th coordinated population projection.

2. Under the strict definition of Social Impact Investment (SII), SIs are “investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return” and hence do not include responsible investments, which rely on negative screening to avoid creating negative impacts. The Global Impact Investing Network (2014). About Impact Investing. Retrieved from http://www.thegiin.org/cgi-bin/iowa/resources/about/index.html
INTRODUCTION
Impact investing in Canada has been steadily gaining momentum, and builds on a long history of creatively leveraging private capital to address social issues. As a recent comprehensive survey has described, impact investing in Canada is characterized by a diversity of approaches and organizations.1 There has been steady growth in the amount and range of capital that is intentionally seeking social and financial returns, and it is being deployed across a wide range of sectors and regions. Yet there is still much to be done around generating greater activity and realizing positive social outcomes.

The impact investing marketplace must have a supply of capital, a demand for that capital, the intermediaries who link them, as well as an enabling environment to facilitate the interaction between these players. But if any one of these key elements emerges without the others, the market cannot be sustained. Like the building of the national railroad in 1885, creating the enabling infrastructure for impact investing in Canada requires both private and public action. In 2009, the Monitor Institute identified four stages of growth when building a robust impact investing marketplace.2 At the time, we argued that Canada was very much in the initial phase of uncoordinated innovation.3 Over the past five years, Canada has moved along this continuum to the next phase of marketplace building. From a policy perspective, there is still significant fragmentation across various levels of government. Nevertheless, structural barriers to market growth will continue to require public policy levers in order for the impact investing market to thrive and develop.

The current state of impact investing in Canada could be characterized – particularly as it relates to policy and practice – as one of iterative experimentation. In some cases, such as the exploration of social impact bonds across several provinces, these are relatively recent experiments with early-stage evidence. In other cases, such as multifaceted support for social enterprises in the province of Québec, the process of testing has developed over several decades, with notable successes, challenges, and learning. Together, Canadian activity is dynamic, yet still evolving. In this light, there is significant opportunity for Canada to chart a more deliberate approach to the design, implementation and evaluation of impact investment policy and practice.

CONTEXT
There are a number of structural barriers that have restricted the growth trajectory of impact investing in Canada. Canada’s sheer geographic size, combined with its small population, acts as a barrier to growth. A risk-averse investor culture and weak entrepreneurial traditions within Canadian civil society are other barriers. The philanthropic sector in Canada, which is often the initial catalyst for impact investing growth, is comparatively small at $46.1 billion of assets compared to the US at $3 trillion.4,5 Additionally, there is a patchwork of regulatory restrictions on investors, charities, non profits and social enterprise at both the federal and provincial levels. These factors, among others, demonstrate the need for carefully designed public policy incentives and strategically designed and implemented impact investing strategies.

Traditionally, government has played an important role – and will likely continue to do so – in stimulating and enabling impact investing. This has varied markedly among the different levels of government. In many ways, government action remains a key catalyst for impact investing activity – whether it is enabling legislation around corporate form, provision of technical assistance grants to strengthen investee capacities, or providing “soft” capital to leverage additional commitments in impact funds. There is seemingly still a bias in Canada, to “follow the lead” of the government when it comes to impact investing.6

While this research has not made notice of any level of government that has created an “impact investment policy,” this would be a
mischaracterization of the level of interest and activity from the public sector. At the federal level, there has been some visibility on social finance despite limited follow-on activity.⁷ Recently, there have been positive signals from several provincial governments, with several notable examples of programs, policies and instruments that intentionally seek to mobilize and deploy capital seeking a blended financial and social return. A majority of these initiatives has a thematic focus – such as affordable housing, renewable energy or aboriginal economic development – and aligns closely with impact investing, even if not explicitly labeled as such. However, for the most part, this activity still remains fragmented and ad hoc. While it is relatively early to assess whether they will succeed, most of these initiatives have been in the making for at least a couple of years.⁸

RECENT POLICY DEVELOPMENTS
The good news is that enabling policies are emerging in Canada, addressing investor risk aversion on the one hand, and encouraging investment opportunities on the other. In 2012, the Canada Revenue Agency (CRA)⁹ released updated the Community Economic Development Guidelines for Charities that clarified the use of Program Related Investments (PRIs) by the sector.¹⁰ While this regulation allows for some impact investing activity, it continued to stipulate that below-market PRIs could only be made to qualified recipients and other charities. Additionally, investments by charities and foundations in unrelated businesses (including limited partnerships) are restricted and/or not allowed.¹¹ These federal rules continue to limit the growth of impact investing in Canada, and there have been pointed calls for them to be amended.¹²

A number of financial instruments, which have been co-funded by governments, have emerged at the provincial level in recent years. The Fiducie du Chantier de l’économie sociale in Québec leveraged a $22 million federal government grant into a $52 million fund to provide blended financing to social economy organizations.¹³ Provincial tax credit programs have enabled Community Economic Development Investment Funds (CEDIFs) to be established in Manitoba, Nova Scotia, and Prince Edward Island. New crowdfunding investment models are being encouraged through new rules from the provincial securities commissions.¹⁴ Additionally, the launch of a Canadian secondary trading platform, the Social Venture Exchange (SVX) required a public-private partnership model to clear the many regulatory hurdles. There have also been several highly-visible community bond offerings recently launched in Canada, with prospectus exemptions¹⁵ that lower the costs associated with bond offerings for community groups.¹⁶

On the demand side, sector capacity building is evident from all levels of government. In the last two years, both British Columbia and Nova Scotia have introduced new legislation for hybrid corporate forms, allowing for social enterprises to integrate the benefits of traditional for-profits, while embedding a social mission.¹⁷

NEW POLICY DEVELOPMENTS
Across the country, there are several emerging initiatives that represent the next wave of testing and experimentation around impact investing. Most established impact investing programs in Canada began as pilot projects at the municipal or provincial level, designed to test the viability of the approach, and demonstrate to other jurisdictions that such approaches are feasible.¹⁸ In some ways, despite its geographic size, having a total population of 35 million allows for experimentation in one part of Canada to be adopted in another. However, these pilots require robust impact metrics if they are to be implemented elsewhere and also require a high degree of transparency to encourage others to adopt and adapt the innovation. This form of evidence-based policy development is grounded in small, local experiments that are well-tested before they are scaled up.

Some of the most interesting experimentation is happening in Québec, with a range of interwoven initiatives that are being led by social economy organizations, solidarity finance, development capital and academic institutions.¹⁹ For example, creation of the Fiducie du Chantier de l’Economie Sociale in Québec resulted from a single federal government grant that leveraged further investment. The injection of capital into such a fund in 2006 provided evidence of success that other jurisdictions in Canada can build upon, much as we are seeing with the Ontario Government’s establishment of the pilot Social Enterprise Demonstration Fund. Another example from Québec, Fonds de Solidarité FTQ, is a place-based approach to investment that leverages tax incentives, and has deployed billions of dollars across many sectors in Québec.²⁰ The nature of this activity in Québec – now considered a more mature ecosystem of social economy organizations –

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runs counter to small local experiments taking place in other provinces. Through the Chantier ‘network of networks,’ there have been larger, coordinated initiatives that often involved multiple investors (including, but not limited to, government).

One of the most visible areas of experimentation in Canada pertains to social impact bonds (SIBs). Governments across the country are seeking new models to deliver better outcomes at lower costs, and SIBs represent a compelling potential instrument to do so. The federal government, through Employment and Social Development Canada (ESDC), has signaled interest in exploring such instruments in federal policy areas, as outlined in *Harnessing the Power of Social Finance: Canadians Respond to the National Call for Concepts for Social Finance*.21 While there haven’t been any “official” SIBs launched at the federal level yet (though likely some will be in the next couple of years), pay-for-performance contracts have become an appealing mode of program delivery in employment services.22 At the provincial level, Saskatchewan announced the launch of the first SIB in Canada in May 2014, a $1 million initiative focused on providing supportive housing for at-risk single mothers.23 In March 2014, Ontario issued a call for proposals for SIB ideas for affordable housing, youth-at-risk, and unemployment solutions.24 Other provinces, including Alberta and British Columbia, are considering variations of SIB strategies. As SIBs are a relatively new (and somewhat contested) concept in Canada, early experimentation and small scale demonstration projects are being used to better understand this approach to program delivery.

Another area of focus, which is arguably one in high demand, entails strategies to strengthen the capacity of investee organizations to use capital in order to generate financial returns and tangible social impact. Current and prospective impact investors often bring up the ‘pipeline problem’ as a major obstacle in the market. In addressing this challenge, technical assistance grants, or subsidized loans, have often been provided to early-stage or growth-stage organizations, and generally occurs across many sectors under the aegis of R&D support. Some recent initiatives, driven from a desire by the government to bolster the economic and employment capacities of social enterprises by building their “investment readiness,” include: the $4 million Social Enterprise Demonstration Fund in Ontario to support early-stage social enterprises;26 and the British Columbia government’s investment in Hubcap – an online information, resource and networking platform, specifically intended for social enterprises. Given the nature of these initiatives, it is not always easy to gauge whether investments will be successful; further reiterating the importance of developing sophisticated intermediaries that bridge the needs of investors and investees.27

The mobilization of capital into hybrid structures at large scale has also gained some momentum. A recent example is the $1 billion endowment announced by the Government of Alberta in March 2014, which will focus on social innovation – particularly, the creation of new research and knowledge, the drafting of approaches and interventions, and the identification and testing of new funding models.28 In addition, at a larger scale, green bonds have become attractive to governments seeking to raise large sums of capital for infrastructure and transit development; the most notable illustration being the Government of Ontario’s intention to issue green bonds in 2014-15 to finance an ambitious public transit expansion.29 For some, these are variations of public-private partnerships, but it is noteworthy to observe the inclusion of new, targeted language, which relates more closely to impact investing, social innovation, and social enterprise.

New legal forms, such as the Hybrid Company Act, comprise another example of new funding models. Launched by two Canadian provinces in the last two years, provincial governments drew on other countries’ experiences, most notably that of the U.K., in designing and implementing policy. This strategy of utilizing that, which is already working elsewhere, has the potential to accelerate the pace of policy development and implementation.

**LOOKING AHEAD**

As Canada continues to test and experiment around impact investing policy and practice, there are reasons to remain optimistic about positive developments over the coming years. There is a notable amount of activity across the country, and a slate of emerging initiatives that are demonstrating promise. While these advances have been described as fragmented to date, this should not be seen as a limitation; arguably, the process and results of this exploration will yield even stronger policies, practice and institutions in the coming decades. A diverse number of pilots can support creativity and can test a greater range of ideas, which, if successful, can then be taken to scale.
the near future, however, as activities ramp up in a more intentional fashion, there will be a need to measure progress against the London Principles, and to assess which policy initiatives work best, under what conditions, and contexts.

No policy development ever occurs in a vacuum, and the context matters. For example, a deliberate strategy designed to build champions for impact investing at senior levels of government was undertaken in Canada from 2008 onwards. This included a number of exchanges with key government officials in the U.K., U.S., and Australia, designed to inform Canada’s policymakers about impact investing and its positive impact for Canadian communities. Without individuals championing impact investing in government, momentum for policy change would hardly compare to the pace observed today. In addition, a major catalyst for the Canadian impact investing market was the 2010 Canadian Taskforce on Social Finance (a strategy borrowed from the U.K.), which brought senior Canadian private, social, and public figures together; releasing a ground-breaking report that articulated seven key policy areas that would catalyze the development of the market. This report has been frequently used by government as a reference point, and together with government champions, has provided a platform for experimentation. Working across the public, private, and social sectors will continue to be an important facet of how Canadian policy development is designed, implemented, and evaluated.

The opportunity for Canada, similar to other jurisdictions, is to chart a more deliberate approach to the design, implementation, and evaluation of impact investment policy. For example, Canada requires policies that overcome investor risk aversion, such as credit enhancements, first-loss capital pools, and tax credits. Additionally, there is a need to update and clarify regulations that encourage social enterprise, related and unrelated business, and other profit-generating activities required to breed investable opportunities. A recently-released report by the Canadian National Advisory Board, as part of the process of the Social Impact Investment Taskforce, established under the U.K.'s presidency of the G8, details some of these priorities and associated recommendations. Looking ahead, there is much Canada can do to further iterative experimentation, and to contribute to the global impact investing community.

The authors would like to thank Siobhan Harty (Employment and Social Development Canada), Margie Mendell (Concordia University), and Sarah Doyle (MaRS Centre for Impact Investing).

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DR. TESSA HEBB is Director of the Carleton Centre for Community Innovation, Carleton University, Canada. Her research focuses on Responsible Investment and Impact Investment, and is funded by the Social Sciences and Humanities Research Council, Government of Canada. She has published many books and articles on responsible investing and impact investing policies including the volumes Working Capital: the Power of Labor’s Pensions; No Small Change: Pension Fund Corporate Engagement; The Next Generation of Responsible Investing; and SRI in the 21st Century: Does it make a Difference to Society.

In 2010, the Canadian Taskforce on Social Finance made seven recommendations for the sector. See Canadian Taskforce on Social Finance (2010). Mobilizing Private Capital for Public Development by the Impact Investing Policy Collaborative (IIPC) in 2013, these five principles provide a framework for best practice in impact investing policy development. Impact Evaluating investment readiness and capacity building, particularly of early-stage organizations, is challenging. Common metrics include the following: number of organizations that Government of Ontario (2014). Social Enterprise Demonstration Fund. Retrieved from https://www.ontario.ca/business-and-economy/social-enterprise-demonstration-fund From an investor perspective, this speaks to the lack of quality and reliable deal flow for social enterprises, whose needs match the nature and terms of capital on offer in the market. The Government of Ontario (2014). Social Impact Bonds. Retrieved from https://www.ontario.ca/business-and-economy/social-impact-bonds For example, the Centre for Social Innovation, a co-working space for socially-focused organizations, issued a Community Bond that allowed ‘retail investors’ to invest relatively small amounts, and which was RRSP-eligible. B.C. implemented the Community Contributions Companies and Nova Scotia enacted the Community Interest Company (CIC) Act. One of the most successful examples is the Registered Disabilities Savings Plan (RDSPs), which enabled families to make financial investments for their disabled children. It originated from PLAN in B.C., and has now become a national initiative through new federal legislation, and includes the participation of mainstream financial institutions to administer the program. More broadly beyond impact investing, Canada’s universal healthcare system was first introduced in the province of Saskatchewan, before being adopted by other jurisdictions and ultimately by the federal government. As Margie Mendell has articulated in her report, Socially Responsible Finance in Québec: 2013 Overview. Fonds de solidarité FTQ (2014). Retrieved from http://www.fondsftq.com/en/accueil.aspx While Employment and Social Development Canada (ESDC) has been the lead for social finance at the federal level, there has not yet been significant activity from other important agencies such as Finance Canada and Industry Canada. A cross-departmental working group among federal agencies on social finance, hosted by ESDC, has been one mechanism used to raise awareness and interest. For example, the federal government recently funded two pilot projects focused on workplace essential skills training following the performance-based funding models in Alberta. Private sector investors pay up front for training, and are reimbursed a portion of the training costs if trainees achieve skill improvements. It should be noted, however, that the design and implementation of these types of models, and the assumptions that underpin them, have been contested by a number of academics and practitioners. Government of Saskatchewan (2014). New home for single mothers opens in Saskatoon; funding first of its kind in Canada. Retrieved from https://www.saskatchewan.ca/government/news-and-media/2014/may/12/social-impact-bond Government of Ontario (2014). Social Impact Bonds. Retrieved from https://www.ontario.ca/business-and-economy/social-impact-bonds From an investor perspective, this speaks to the lack of quality and reliable deal flow for social enterprises, whose needs match the nature and terms of capital on offer in the market. The reality is that matching of expectations is often a two-way street, and not just a situation wherein demand does not align with supply. While there have yet to be national assessments of this issue, several reports conducted at a regional level by the Canadian Community Economic Development Network on financing needs of non-profit social enterprises show significant demand for capital among even this sample of organizations. Government of Ontario (2014). Social Enterprise Demonstration Fund. Retrieved from https://www.ontario.ca/business-and-economy/social-enterprise-demonstration-fund Evaluating investment readiness and capacity building, particularly of early-stage organizations, is challenging. Common metrics include the following: number of organizations that get follow-on funding; the amount of funding; or whether the organizations continue to exist after 1-3 years. However, this can be influenced by many factors that go beyond the scope of influence of the initial funding and support (e.g. macroeconomic conditions). More work needs to be done in order to build validity, rigor and comparability, which would accurately assess these types of investments, especially when looking to scale. Additionally, these initiatives are likely to require ongoing support over a number electoral cycles in order to demonstrate results that span multiple cohorts (beyond “one off” successful examples). Despite the broad framing and connection to impact investing, this has not yet been clear how the endowment will be managed and/or deployed to balance financial returns and social impact. See Government of Alberta (2014). Social Innovation Endowment. Retrieved at http://socialpolicyframework.alberta.ca/SIE The Government of Alberta made this announcement in the 2014 Budget, and the first green bond for $550 million was successfully issued (and oversubscribed) in October 2014. Other bond issues are expected to bridge the significant gap (and need) for long-term funding for urban transit facilities in the Greater Toronto and Hamilton Area. Developed by the Impact Investing Policy Collaborative (IPC) in 2013, these five principles provide a framework for best practice in impact investing policy development. Impact Investing Policy Collaborative (2014). The London Principles. Retrieved at http://ipcollaborative.org/london-principles/ For example, in March 2013, the Québec Government introduced the Social Economy Act, whose objective was to recognize the contribution of the social economy to the socioeconomic development of Quebec and to determine the role of the Government in that area. As a relatively new policy lever that has implications across government, there will be a need to assess the extent to which this policy initiative, and others, has yielded results consistent with its objectives. In 2010, the Canadian Taskforce on Social Finance made seven recommendations for the sector. See Canadian Taskforce on Social Finance (2010). Mobilizing Private Capital for Public Good. Canada’s National Advisory Board to the Social Impact Investment Taskforce (2014). Mobilizing Private Capital for Public Good: Priorities for Canada.
The “social and solidarity” economy in France unites individuals and organizations around common principles of democratic governance, limited profit, and community involvement. In 2012, there were an estimated 170,000 organizations classified as part of this economy, employing more than 2.3 million people, and accounting for 10% of national GDP. These organizations have a legal status and are formally defined (in some cases, since the early 20th century) as cooperatives, mutual benefit societies, associations, and foundations.

Over the course of the last forty years, the French legislator has been keen to introduce new, innovative financing tools, specifically catering to the needs of solidarity organizations, with particular regard for their ability to absorb equity. For instance, “participating equity,” – which has existed since 1983 and is composed of both a fixed remuneration and a variable one indexed on the performance of a given company – helps to finance the development of cooperatives. At the beginning of the 21st century, corporate employee savings schemes (defined contribution) began to emerge as a complement to state pension plans (defined benefit). Simultaneously, the French finance minister, Laurent Fabius, sought to bring new long-term, low-rate financial resources to the social economy by way of the private sector.

Against this background, through a regulatory shift in 2001, the so-called “90/10” solidarity investment funds were established.

The original law mandated that a single category of a given company’s employee savings schemes included the option to contribute to a fund, which would then invest between 5% and 10% of its assets into unlisted “solidarity designed” organizations. The other 90-95% of assets in the employees’ portfolios remained classic, listed securities (such as equity, fixed-income, etc.), and today are mostly managed according to core SRI principles – making the full employee savings purse an overall “responsible” retail product.

It is important to note, however, that employees were not obligated to subscribe to this fund.

For social enterprises, in order to obtain the official state-approved “solidarity designation” label, enabling them to access low-rate financing sourced from 90/10 funds, firms needed to comply with one of the following criteria:

• Ensure that at least a third of its staff is comprised of workers who are employed as part of a work integration program, which entails training and integration of long-term unemployed individuals, people with disabilities, ex-convicts, and others; or
• Ensure that management is elected by the workforce, members or owners of the organization, while abiding by rules concerning pay for executives and staff (effectively establishing a salary ceiling).

Organizations were granted the solidarity designation by each French Préfecture (local council) for two years the first time, and then renewed (depending on whether the company continued to satisfy designation requirements) for another five years.

With this process, the French “90/10” solidarity funds were born. The funds continued to evolve with legal addendums issued in 2008, which extended the obligation for companies to provide employees with an option to invest their savings in solidarity-designated businesses to all categories of employee savings schemes. A subsequent regulatory change in 2014 updated the conditions guiding firms in obtaining the “solidarity” label.

**KEY FACTS ABOUT THE FRENCH “90/10” SOLIDARITY FUNDS**

Following the passage of the amended law in 2008, total assets under management from corporate solidarity employee-savings funds skyrocketed from €478 million ($609.3 million) in 2008 to €3.7 billion ($4.7 billion) in 2013 (see Figure 1).
According to Finansol, a French association certifying (or labeling) solidarity banking and investment products, in 2013 solidarity-based retail assets held by nearly 1 million investors amounted to €6.02 billion ($7.7 billion), resulting in the investment of €1.02 billion ($1.3 billion) into some 2,300 social enterprises. Average interest rates are around 2%, and in some cases as low as 1%. The sectors benefitting most are social housing, work-integration organizations (through dedicated social investment intermediaries such as France Active), environmental activities, and international solidarity.

FIGURE 1: GROWTH OF ASSETS UNDER MANAGEMENT FROM CSR EMPLOYEE-SAVINGS FUNDS

French solidarity-based retail assets (€m)

<table>
<thead>
<tr>
<th>Year</th>
<th>Corporate solidarity employee-savings funds</th>
<th>Open-end funds and bank savings accounts</th>
<th>Direct investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>476</td>
<td>957</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>1,022</td>
<td>1,148</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>1,460</td>
<td>1,329</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>1,721</td>
<td>1,479</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>2,577</td>
<td>1,718</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>3,695</td>
<td>1,894</td>
<td></td>
</tr>
</tbody>
</table>

Highly positive mainstream media coverage contributed to the increasing popularity of the products, while raising significant awareness about the usefulness of social enterprises and social finance. Satisfying financial returns also provided incentives for retail investors to subscribe to this investment strategy.

More recently, French crowdfunding platforms (in particular donation-based platforms with solidarity purposes) have been attracting strong interest from investors, with total capital inflows doubling to €66.4 million ($84.6 million) in the first half of 2014, compared to first half 2013, and nearly reaching the amount collected for the whole year in 2013 (€78.3 million, $99.8 million). The law on crowdfunding passed in 2014 should lead to a doubling in the number of platforms in the medium term.

“90/10” ALLOCATION STRUCTURE: KEY TECHNICAL ISSUES

PLAYERS AND INTERMEDIARIES

Like most traditional employee savings schemes or corporate pension funds, the “90/10” solidarity funds are not directly managed by the companies offering them to their employees. Fund management is outsourced to mainstream or specialized asset managers, in the shape of large open-end multi-corporation mutual funds or dedicated funds. Because management of solidarity funds requires specific skills that were not available in-house to most large-scale players when the “90/10” funds first gained momentum, three main fund management configurations emerged, each engaging specific types of intermediaries:

• Several large corporations have launched thematic, dedicated social investment funds, in which the investment themes are linked to the company’s main activities or to the industrial sector, as part of broader CSR strategies. These funds are designed to be embedded into the 10% solidarity portion of one or several “90/10” branded funds offered to the company’s employees, and their day-to-day management is generally outsourced to specialized asset managers.

• Companies that offer an open-ended “90/10” fund usually rely on the services of one of the three biggest employee-savings asset managers – large mainstream asset management companies, including Natixis AM, Amundi and BNP Paribas AM, which are currently managing three quarters of the French “90/10” funds’ assets. These players mostly invest into three national-scale social investment intermediaries: France Active (support and financing for entrepreneurs), Adie (microfinance) and Habitat et Humanisme (affordable/social housing).

• A few boutique or medium-sized asset managers, benefiting from a longstanding knowledge of the social sector (such as Ecofi, the asset management company of the largest social and cooperative bank in France, Crédit Coopératif), are able to invest directly into several dozen social enterprises. These managers act as intermediaries for corporations, who are willing to outsource the management of their thematic, dedicated social fund, and for asset managers, who are willing to diversify their eligible solidarity portfolio.

• Policymakers considering the implementation of “90/10” schemes will first need to estimate and organize available deal flow for the 10% socially-targeted fraction of investments. This would most likely require specialized intermediaries or wholesalers able to bring mainstream capital to social entrepreneurs efficiently. Even as the first law was passed in 2001, “90/10” schemes benefited from longstanding social investment intermediaries like France Active, most of which were created in the 1980s.

LIQUIDITY ISSUES

Within the “90/10” financial models, liquidity of the socially-geared investments is frequently cited as a key concern. In essence, investments into social enterprises are not liquid – nor should they be, as they provide long-term capital and financial stability. However, the “90/10” funds are open, retail investment products, which are subject to risks of massive redemptions. Moreover, capital losses within the 90% listed portion
of the fund have the capacity to move into the social-designated portion, and effectively violate the “90/10” distribution of the fund.

Overall, there is no straightforward solution to this issue; however, new, innovative configurations to these fund structures are still possible, especially in other national contexts. In France, potential methods of addressing these concerns involve the introduction of various types of investments (such as the more frequently issued promissory notes) and entering into liquidity agreements with third parties.

WHAT’S NEXT IN FRANCE: HOW TO SCALE UP SOCIAL ENTERPRISES AND THE SOCIAL ECONOMY AS A WHOLE?

There is a general consensus in France about the need for social enterprises and scaling the social economy more broadly. However, meeting these goals involves several challenges:

BROADENING THE SPECTRUM OF INVESTABLE SOCIAL ENTERPRISES

One way to increase the pool of investible social enterprises involves effectively changing the definition and classification protocol for this group of organizations. The 2014 law on the social and solidarity economy introduced changes to the “solidarity designation” agreement, expanding the universe of social entrepreneurship in France. In particular, the law included the concept of “commercial enterprises with a social aim” and assigned these enterprises some of the same statutory requirements currently in place for organizations with a “traditional” social designation. This new legislation, and the definitions it presents, aligns with the social business definition that the European Parliament has put forward within the European Social Entrepreneurship Funds (EuSEF) framework. This consistency in terminology should facilitate the creation of European Social Entrepreneurship funds in France, potentially bringing additional resources to French social entrepreneurs.

However, there are ongoing discussions in France about whether regular social enterprises can actually meet this French/European definition. In particular, this skepticism pertains to new and innovative organizations, which are backed by young social entrepreneurs who tend to focus more on achieving outcomes rather than on meeting time- and resource-demanding statutory and accountability requirements. Specific laws and tax incentives, such as the recent tax break for social investments implemented in the U.K., set strict parameters around which organizations qualify as social enterprises. As such, the debate about exactly which enterprises fit the designation is unlikely to find a satisfactory resolution anytime soon. In France, the stakes are high, as the benefits of the “90/10” solidarity funds are exclusive to social enterprises satisfying the state-approved “solidarity designation” agreement.

In recent years, retail capital flows to social enterprises have shifted the conversation from the “lack of available capital” to the “lack of investable enterprises.” This is explained in part by the fact that current market players tend to focus more on mature or scaling enterprises. Some experts go so far as to suggest that financing for “solidarity designed” social enterprises could reach a saturation point in the short run.

INVOLVING INSTITUTIONAL INVESTORS

On the supply side, the French market is characterized by a lack of venture capital funds dedicated to early-stage social enterprises and capacity building. Until recently, French institutional investors – with the exception of public investment agencies – showed little interest in impact investing, mainly because of a perceived mismatch between risk and return, as well as fiduciary rules pertaining to asset allocation. The fact that a large majority of French solidarity assets are held by retail investors, mostly through “90/10” funds, is quite uncommon compared with other countries.

Institutional investors have been increasingly curious about impact investing, and their engagement in France will be one of the main factors influencing the growth and development of the country’s impact investing market. Retail investors and “90/10” funds are not able to fill the funding gap among early-stage social enterprises; the growth of these firms will require investment from professional investors and specially-dedicated venture capital funds. Market participation may require heretofore non-existent partnerships and products with more favorable risk-return ratios.
STATUTORY SOCIAL SECTOR VS. IMPACT ACCOUNTABILITY

Impact measurement, as required by the new French law as well as by the European EuSEF ruling, could prove challenging, especially among longstanding, statutory social organizations, which could question their legitimacy. Some of these enterprises are addressing the measurement issue, but impact evaluation and accountability requirements remain unsatisfactory at this time.

WRAP UP: WHAT THE “90/10” STRUCTURE COULD BRING TO GLOBAL IMPACT INVESTING, AND TO THE WORLD

TO INVESTORS: INNOVATIVE RISK PROFILE AND ASSET ALLOCATION

At present, the impact investing market suffers from a lack of investable opportunities, with few “investment-ready” social enterprises, and limited appeal among investors owing to the low-liquidity and high-risk profile of existing products and investment funds. The French “90/10” fund structure is an interesting answer to these issues for several reasons:

• Its risk-return profile tends to be significantly more secure than that of other social investment funds, making it more appealing to mainstream investors and potentially eye-opening on social investment issues;
• The uncorrelated nature of the 10% social portion necessitates creative asset allocation strategies;
• The management of the solidarity portion can be outsourced to specialized social investment intermediaries, eliminating – at least in part – the issue of deal flow.

TO SOCIAL ENTERPRISES AND SOCIETY AS A WHOLE: COST-EFFECTIVE SOCIAL FINANCING

The “90/10” retail funds are only a single item in a long list of policies and rulings devised to foster the development of a specific sector. However, few concepts are as cost-effective as the “90/10” structure when it comes to providing social enterprises with low-cost, long-term funding. They offer the following financial benefits:

• Public spending is minimized, as it is limited to the general tax exemption regime for employee savings;
• Retail investors earn revenue out of their savings;
• Social entrepreneurs gain access to cheaper and larger sources of finance.

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CYRILLE LANGENDORFF is Project Manager at the International Affairs Department of Crédit Coopératif. He's been in charge of the financing of French solidarity organizations for five years working closely with Crédit Coopératif’s fully owned subsidiary Ecofi Investissements. He's rapporteur of the French National Advisory Board on social impact investment and is invited to the Social Impact Investment Taskforce meetings.

3. The idea of matching the management principles of the 90% part to the social value of the 10% part was one of the drivers of the growth of SRI assets in the first part of the 2000s
6. At the time of report writing.

Read the full report at http://globalpolicy.iipcollaborative.org
INTRODUCTION

A 2014 global study by Tower Watson of 13 major pension fund markets, found that South Africa had the fastest increase in pension assets over the period 2003-13. In 2012, South Africa had savings of over R2.7 trillion ($246.7 billion) in pension funds. Further to this South Africa’s largest pension fund, the Government Employees Pension Fund (GEPF), is Africa’s largest pension fund and is eighth in size of state sponsored funds globally. The GEPF has R1.2 trillion ($110 billion) of assets under management, 1.2 million active members and 360,000 pensioners and beneficiaries, which makes it a significant player in the pension fund market. The size of the pension fund industry in South Africa, emphasizes the importance of assessing any salient changes to regulatory oversight within this space.

The piece of regulation that governs the South African pension fund industry is Regulation 28. In 2011, the South African National Treasury and the Financial Services Board finalized revisions to Regulation 28 of the Pension Funds Act 1956. Included in the revised Act was the requirement that trustees integrate Environment, Social and Governance (ESG) aspects into their investment decision-making process. One of the primary changes in the Act was an increased allowance into alternative asset classes, including private equity – an asset class, which has been the focus of many impact investment products.

At the same time that Regulation 28 came into effect, a private initiative was set up to encourage best practice by the investment community, shareholders, and companies to responsible investing. The voluntary Code for Responsible Investing in South Africa (CRISA) was launched in July 2011, which was adopted on the back of the United Nations Principles of Responsible Investments (UNPRI), which was itself launched in 2006. The CRISA applies to pension funds and insurance companies, as well as to their service providers.

Regulation 28 and the CRISA tend to complement each other. Regulation 28 requires trustees to consider ESG factors when making investment decisions, while the voluntary CRISA gives a more refined guideline and roadmap to assist with incorporating these norms, particularly regarding disclosure and ownership responsibilities. Non-compliance by pension funds against the principles of Regulation 28 could see the Financial Services Board (FSB) or National Treasury take action against them. However, there is a large amount of subjectivity when it comes to non-compliance and how the FSB intends to monitor compliance remains uncertain.

A range of policies, laws, and private initiatives guides responsible investment and ESG-geared investments. This paper specifically considers the impact, if any, emerging after the revisions to Regulation 28 under the Pensions Fund Act and the voluntary private initiative of the CRISA. The following analysis highlights the drivers, challenges, and the change in responsible investing since the regulatory amendments of 2011.

EVALUATING THE NEW REGULATION

Though the new Regulation 28 has not been in operation long enough for its implementation and effects to be represented meaningfully in market transactions, research does indicate that the Regulation has led to an increased interest and greater discussion around the topic of responsible investing in the investment community. A 2013 survey by World Wildlife Federation (WWF) South Africa found that 93% of the investment community respondents had cited Regulation 28 as being a driver to increased focus on ESG.

While smaller funds have been slower to act, most trustees of large pension funds are moving towards integrating ESG oversight in their mandates, as well as already having some form of policy for responsible investment, having already made some consideration for ESG. Certain dynamics could explain the difference between how smaller and larger funds have responded to the revised Act. Firstly, larger pension funds are endowed with resources enabling them to take the lead and develop a responsible investment policy. Secondly, many of the larger firms have both international presence and clients, and are therefore, more likely to be subject to pressure from their stakeholders to adopt international responsible investment policies.

For direct private equity investing, a reverse correlation to firm size seemed to exist when it comes to impact investing. Smaller private equity
funds (below R1 billion, approximately $91.4 million, in AUM) appear to more actively incorporate impact investing in their investment strategy than larger funds (8% versus 4% respectively). A possible explanation could be that by smaller impact investing focused firms raising smaller amounts of capital, they are more flexible in their strategy. Additionally, these smaller funds are more likely to attract capital from high net worth individuals than from larger pension fund allocations. It is worth mentioning that the percentage of small private equity funds engaging in impact investing is not a particularly large number, and there is still considerable room for growth in impact investing among private equity firms in South Africa. Regulation 28 also included a revised allowance in pension fund allocation to alternative assets to 15% of AUM (up from 2.5%), bringing it more in line with international norms.

**DRIVING RESPONSIBLE INVESTMENT IN SOUTH AFRICA**

Another driver that has helped to encourage a focus on responsible investment in South Africa’s pension fund market is the strong adoption and backing of the CRISA and UNPRI by the GEPF. The magnitude of the GEPF’s portfolio, predominately invested in South African equities and private equity, is heavily dependent on the overall growth of the economy, and subsequently increases the importance of adopting responsible investment in its strategy. The size and influence of the GEPF and its mandate for outsourcing to external fund managers, has been a catalyst for domestic fund managers to follow suit. A number of fund managers signed up for the UNPRI directly after GEPF’s official endorsement. This change among fund managers’ attitudes toward responsible investment was likewise evident from a 2012 survey conducted by Investment Solutions Ltd., which was informed by answers from both global and local investment managers. The survey found that respondents, post 2011, had cited peer, industry, and client pressure as being the main driver for responsible investing (38%), followed by risk/return opportunities (22%), and finally regulation (20%).

According to the 2014 results of the Investing for Impact Barometer (a snapshot of the impact investing market in South Africa published by The Bertha Centre), 36% of asset management funds in South Africa have a strategy that includes responsible investment as a criterion. This represents an increase from the 2013 results of the Impact Barometer, which found that 30% of asset management funds integrated ESG in their fund strategies.

A separate survey of South African investment managers revealed that most of the public discourse on Regulation 28 is focused more on the requirements for funds having to achieve the revised duty of prudence at a fund and member level, than on the new ESG guidance. Nonetheless, respondents were consistent in stating that the introduction of the revised regulation has “removed barriers to entry of certain products and widened the investment scope within asset classes.”

Increased awareness and discussions around responsible investing, as well as the growing number of investors implementing responsible investment and ESG factors in their practices, highlights that traction has definitely been made. It is difficult to measure if this has been a direct result of a regulatory change or simply a growing international trend.

**CHALLENGES IN EVALUATING AND GROWING RESPONSIBLE INVESTMENT VIA THE NEW REGULATION**

In practice, any impact of the change in alternative asset exposure is not immediate. Private equity investments are both illiquid and longer-term in nature, which, combined with current mandates, strategy and the costs involved in restructuring portfolios, may mean that it will take longer to see tangible outcomes from this new regulation. Nevertheless, investment managers did agree that over time this increased exposure allowance should flow into private equity, which may indirectly result in a portion of capital flowing into impact investing. With both an increased allowance in private equity investment, and a focus on integrating ESG factors by trustees, the long-term potential for a growth in impact investing remains positive. The ability to invest a greater percentage of pension fund assets into alternative assets does not automatically achieve greater flow into ESG-related investments. What this change has done is provide fund managers with the option to increase their exposure to funds, which have been shown to be more active in impact investing than the more traditional asset classes.

South Africa is not removed from global challenges that face impact investing. The industry is still largely characterized by passive and negative screening approaches to responsible investment; and the potential for greater impact is limited by the lack of clarity around key terms and definitions on responsible investment (including inconsistencies around defining responsible investing and impact investing), leaving much room for interpretation. More specific local barriers pertain to the need to educate trustees of retirement funds, who have ultimate fiduciary responsibility for how funds are invested. In South Africa, asset consultants are the intermediaries between trustees and Investment managers and hold a significant amount of influence over asset allocation. Investment managers have revealed that asset consultants tend to both not
understand new innovative products, as well as to favor more vanilla securities when dealing with trustees.\textsuperscript{11} Subsequently, trustees are less likely to be exposed to and to be able to make impact investments. With asset consultants serving as the gatekeepers between trustees and investment managers, there is a need to have them be fully integrated into any discussions and policies around responsible investment.

CONCLUSION

This research has found that, since 2011, regulation in itself has not necessarily resulted in immediate capital flows toward responsible investing. Pensions funds by their nature are long-term investment vehicles. Owing to the size and significance of pension funds in the South African economy, not enough time may have passed following the 2011 regulatory amendment to draw concrete conclusions regarding any impact it may have spurred. Research further demonstrates that the given policy needs to be more refined in order to combat the various challenges related to measurement, terminology and further education around responsible investing.

The FSB or National Treasury has yet to take action on non-compliance with ESG requirements, as per Regulation 28. With the new Regulation 28 being focused more on guidance than enforcement, the policy may have a longer hatching period before it can be called out for its role in driving greater ESG-directed investments. Further to this it remains difficult to obtain information on the actual impact of those claiming current compliance, and whether it meets the original standards set out by Regulation 28. The CRISA is a voluntary code and the ESG requirements in Regulation 28 focus on guiding rather than enforcing investments. Thus, the regulatory framework for the South African pension fund market is still subject to a gap in terms of policy enforcement for the market.

The new Regulation is relatively nascent still and assessing its effect on growing the impact investing market since its introduction in 2011 is still premature. Nevertheless, what the amendment has done is get the wheel turning. It has indicated the need for a holistic policy approach in order to accomplish market development. This research has likewise noted a more active dialogue among the investment community regarding a change in ESG-focused investments as a result of the new Regulation 28. In due course, these amendments in Regulation 28 could prove to be one of the factors that help to bring about a growth in South Africa’s responsible investment market.

The author would like to acknowledge Aunnie Patton (Lead, Innovative Finance Initiative, Bertha Centre for Social Innovation and Entrepreneurship) and Vusi Nundo (Independent Consultant, Cape Town) for their guidance and contributions to this analysis.

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5. “Prudent investing should give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a fund’s assets, including factors of an environmental, social and governance character. This concept applies across all assets and categories of assets and should promote the interests of a fund in a stable and transparent environment.” Pension Funds Act, 1956: Amendment of Regulation 28. National Treasury. Government Notice.
8. See note 6.
10. HNWIs around the world have been found to place strong emphasis on driving social impact. For example, over 60% of HNWIs surveyed or the 2014 World Wealth Report have stated that driving social impact is either extremely or very important to them, with 68.1% of HNWIs responding in this way in South Africa (RBC Wealth Management 2014). “HNWIs Seeking to Drive Social Impact: Presenting Opportunities for Firms”, 2014 World Wealth Report.
15. See note 14.
17. See note 13.
IMPACT INVESTING IN INDIA

In the past decade, India has emerged as a leading hub for impact investing, with a highly evolved ecosystem comprising diverse stakeholders, well-regarded successes in Base of the Pyramid (BoP) entrepreneurship, pioneering investors, and a wide array of enterprise enablers. The sector in India has seen over US$1.6 billion in impact investments channeled to support more than 220 enterprises in the past decade (See Figure 1 – Impact investments in India) and is expected to grow significantly in the coming years.

Impact Investing in India has been driven primarily by local investment managers, who emerged in the early 2000s to fill a void in capital available for entrepreneurs seeking to build sustainable businesses targeted at the BoP. While the Government’s role in the past was primarily to provide supportive policies targeting social sectors and regulatory guidelines for setting up Social Venture Funds, the recent decision to launch the India Inclusive Innovation fund (IIIF) and new guidelines mandating companies to spend 2% of profits as CSR could give a significant fillip to the sector in the coming years.

![FIGURE 1: IMPACT INVESTING IN INDIA](image)

India has a robust capital market; however, not all sectors attract investor interest. The focus of impact investing, in particular, has been to direct capital towards underserved sectors and geographies that have been largely ignored by mainstream investors. Impact investors in India started out with diverse philosophies and ideologies, but over the past few years there has been greater consensus in their investment approaches. Most investors are seeking to achieve both impact and financial returns by investing in business models that have the potential to be sustainable and achieve massive scale. Most impact investors in India adopt a venture approach to investing which involves deploying early-stage risk capital in scalable and sustainable business models. Impact investors have also played a catalytic role in attracting mainstream capital into impact enterprises and sectors. Of the total investment flows into the microfinance sector, mainstream investors accounted for...
more than twice the capital flows than impact investors. Mainstream investments comprised a median of three-fold and above for other sectors.

LEVERAGING THE EXISTING POLICY INFRASTRUCTURE

India’s impact investing sector leverages several existing policy frameworks. The Securities and Exchange Board of India (SEBI), India’s capital markets regulator, has provided for a category of venture capital funds – specifically those that generate muted returns – to be registered as Social Venture Funds (SVFs) as part of the Alternate Investment Funds Regulation 2012. However, the definition of muted returns is not entirely clear. Most impact investors in India, therefore, have chosen to register as mainstream venture capital funds. Nevertheless, SVFs provide a good fund structure for organizations, which are looking to combine grants with returnable capital in order to support those social businesses that would otherwise not get capital from impact investors pursuing scalable and sustainable models.

Government policy has played an important role in helping the financial inclusion sector (especially the microfinance sector) to scale up and attract 70% of all impact capital invested in India to date. Another policy supporting impact investment in the country is the Agri-business is Lending (PSL) policy, which comprises norms set by the Reserve Bank of India (RBI) – the country’s banking regulator – for the country’s commercial banks. The PSL policy mandates that banks allocate 40% of their assets toward loans made to high priority social sectors, including agriculture and microfinance. Both these sectors have benefitted from this policy and have subsequently been able to access significant capital from banks. The PSL criteria also require banks to lend to the micro, small and medium enterprises sector, which has spawned several non-bank financing entities focused on this segment. In addition, over the course of the past ten years, the RBI has been actively involved in setting guidelines for microfinance institutions (MFIs). These criteria allow MFIs to convert from non profit to for-profit institutions, facilitating increased access to wholesale credit from banks, and grant MFIs the opportunity to expand their revenue stream beyond the traditional group lending model.

The impact investing sector is also likely to benefit in terms of domestic capital availability with the launch of the IIIF by the National Innovation Council (NInC) and the Ministry of Micro, Small and Medium Enterprises (MSME), Government of India (GoI) in January 2014. The IIIF has an initial corpus of INR 5 billion (approximately $83 million), of which the Indian government plans to contribute 20%. The remaining balance is to be raised from public sector banks, financial institutions, insurance companies and development finance institutions (DFIs). IIIF’s short-term goal is to expand the fund’s purse to INR 50 billion ($830 million) within the next two years. The IIIF intends to invest in innovative ventures that are scalable, sustainable and, therefore, profitable, but which also address social needs of the less privileged citizens in sectors such as healthcare, food, nutrition, agriculture, education/skills development, energy, financial inclusion, water, sanitation, employment generation, and others.

GAPS IN THE AVAILABILITY OF IMPACT CAPITAL

Enabling policy and a scalable, sustainable model ensured that microfinance and the rest of the financial inclusion sector attracted much of the impact capital in India. However, other sectors such as water, sanitation and livelihoods, have attracted only limited amounts of money, as they require much longer gestation periods to demonstrate scalability and sustainability in their business models (See Figure 2: Impact sectors – Scale versus investments). In addition, many of these sectors have seen less policy and regulatory activity targeting investments and capacity-building initiatives – in particular, those supporting sustainable for-profit models. In part as a result of this lag in regulatory support, fewer business models in these sectors have matured and grown in scale.
Likewise, there is greater need and scope for impact capital (grant and hybrid financing) that can take on the risk of supporting models that have a deep impact, but which may not be highly scalable. There is also a real need for debt financing at concessional rates to help businesses, which do not require equity but are currently unable to access debt at a reasonable rate of interest.

CORPORATE SOCIAL RESPONSIBILITY IN INDIA
Corporate Social Responsibility (CSR) in India has traditionally been a philanthropic activity, restricted to grantmaking to non-profit organizations working across high social impact areas, such as healthcare and education, adoption of villages, contribution to government charity relief programs, or in supporting voluntary employee activities. These initiatives have been accomplished with non profit implementation partners with strong on-the-ground experience in executing grant-funded programs. While traditional grants play an important role in addressing a range of social and environmental issues, there is a need for innovative solutions that address these challenges at a scale that brings about transformative change. The new CSR policy, which unlocks a significant amount of development capital, presents an opportunity to look for new ways of creating sustainable impact. However, the CSR guidelines in the Companies Act 2013 currently do not allow for financing of for-profit social business models.

HOW CSR COULD BE LEVERAGED AS A SOURCE OF IMPACT CAPITAL
The new CSR guidelines in the Companies Act 2013 mandate that organizations must spend at least 2% of the average net profits of the past three years on CSR activities. As a result, the total annual spend on CSR is estimated to range $2.5-3.3 billion per annum.¹ One of the ways to utilize this large CSR corpus would be through financing sustainable social businesses seeking to create impact at a massive scale or through local but deep impact projects. These types of projects could be especially useful in sectors such as water, sanitation, healthcare and basic education – impact areas where access to capital in the form of traditional equity investments is extremely limited. Other community-based institutions, such as cooperatives and producer companies can potentially benefit from CSR funding, as they remain high impact while providing debt-like returns, making them less suited to equity investors pursuing high scale, high impact models.

Indian impact investors recognize the potential for CSR funds as a source of investment capital, and a few impact funds registered as SVFs are looking closely at the new guidelines. However, with CSR funding currently allowed only in non profit organizations, impact investors will need to develop fund structures with return expectations that align with the new guidelines.
For CSR to be effective as a source of impact capital, current guidelines need to allow for financing of for-profit social businesses, which are currently unable to benefit from existing sources of impact capital. CSR funding is an important source of domestic capital that can help widen the available capital base for impact investments in India and make the market for impact investing more sustainable by reducing reliance on foreign capital.

THE WAY FORWARD AND LESSONS FROM THE INDIAN EXPERIENCE

India’s impact investing sector has demonstrated success by leveraging existing resources and policies. The robustness of the impact ecosystem, with all the major constituents, along with the substantial body of outstanding issues to be addressed, puts India in a unique position globally – a hub for innovation in social enterprise as well as impact investing. While some sectors, such as the financial inclusion sector, have benefited tremendously from the investment models and available financial instruments, other sectors are in need of further progress, entailing a shift toward building a wider array of financing options and sources of capital.

To date, the impact investing and social enterprise sector in India has successfully leveraged the benefits available through existing government policies, such as the Priority Sector Lending (PSL) norms in select sectors. CSR presents a unique and important avenue for channeling domestic private capital to high impact projects, enabling them to achieve sustainability and growth. Improving on the existing CSR guidelines will go a long way in addressing the financing and growth gaps that exist in the current ecosystem. This, in turn, can set a very useful precedent for other countries, as they strive to develop their own impact investing ecosystems supported by both foreign and domestic capital.

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The last year has seen increased public and private activity on efforts to grow impact investing in several country and regional markets – from the G7 countries to the launch of a Social Finance Taskforce in Brazil, new investment funds in Portugal, a convening at the Vatican, and many others. These market-building initiatives across regions and countries have shown that exchange of learnings through interconnected networks and communities of practice will be the critical element in enabling in global innovation for impact investing. It has been a busy year for the IIPC – with the launch of this report, the launch and expansion of the work of the Global Learning Exchange on Social Impact Investing (GLE), and partnerships with leading actors driving impact investing growth worldwide. The following is a brief overview of some of the most exciting milestones from this past year.

EXPANSION OF THE NETWORK

In keeping with the IIPC’s objective to foster collaboration and partnership to further policy (and market) innovation for impact investing, the GLE was launched at the Social Impact Investment Forum in June 2013. The IIPC was invited to convene this action-oriented platform to expand dialogue, enhance collaboration, and increase knowledge, all with the aim of accelerating impact investing internationally. The initial building blocks of the GLE were put in place in collaboration with the World Economic Forum.

The GLE serves as a complement to the existing policy networks and focus of the IIPC, with engagement on market innovation through dynamic programming, a knowledge hub, and a global network of practitioners and policymakers. Its landmark program, the GLE Webinar Series is a convener of global conversations that have encouraged cross-country knowledge exchange in real-time and has presented information accessible and interesting to both new entrants to social investment markets, as well as more established practitioners. Each webinar has attracted a range of participants, including elected officials, bureaucrats, corporate CEOs, social entrepreneurs, financial service providers, among others. GLE webinar registrants have joined the webinar series from over 60 countries, while the GLE platform overall has attracted visitors from over 140 countries. Leveraging the networks of the IIPC, the GLE’s Network Partners include field leaders around the globe – organizations and individuals committed to working on issues critical to market development. They include government and multilateral agencies, global and regional social entrepreneurship networks, investors, funds, philanthropic foundations, intermediaries and service providers.

RESEARCH AND ADVISORY ACTIVITY

In addition to this milestone report, the IIPC has maintained its support of research initiatives across distinct topics and geographies; publishing six reports from its fellows in 2013-14. Taking advantage of its vast experience and knowledge, the IIPC played a significant advisory role in the work of the Social Finance Taskforce in Brazil, as well as initial conversations for an analogous initiative for the Nordic countries. Adding to its already impressive caliber, the IIPC Advisory Council welcomed new members this year, with the intention of continuing to draw on their knowledge and experiences in order to amplify impact by and outside of the IIPC network.
The IIPC Fellowships in Impact Investing & Policy Innovation, supported by the Rockefeller Foundation, provided six individuals and organizations an opportunity to landscape the current activity that points to impact investing in specific countries, and how policy is used as a tool to scale these markets. For most of these country markets, these are the first coordinated efforts at mapping policy and market activity focused on impact investing.

**Enhancing the Market Space for Impact Investing in Canada: Examining Nova Scotia’s CEDIF Program and the Potential of Equity-Tax Credits**

Douglas Pawson

**BACKGROUND:** In the face of an unorganized market for impact investing in Canada, Nova Scotia’s Community Economic Development Investment Fund (CEDIF) program has emerged as a standout model for policy-makers looking to facilitate the deployment of capital toward local economic development. Initiated through the 1993 Equity-Tax Credit Act, the CEDIF program began in 1999 as an equity-tax program; targeting economic growth, cross-provincial capital outflows, and financial burdens on local small and medium-sized enterprises interested in raising equity capital. This Nova Scotia initiative has raised more than CAD$52m since its inception in 1999 and, serves as a viable and transferable tool for policymakers looking to mitigate transaction costs for impact investors working in uncoordinated markets. Some of the transaction costs addressed via tax incentives include inconsistent social metrics for valuing impact, significantly higher legal costs incurred when structuring new financial products, and the need for performing greater due diligence.

**HIGHLIGHTS:** By working in conjunction with policy formulation and established securities regulations, the CEDIF program not only helps to mitigate transaction costs for investors, but also encourages the establishment of new intermediaries and the creation of new mechanisms to promote community-based investment among residents. Local investments are now eligible for up to 35% in provincial income tax credit, providing a great foundation for the CEDIF program to incentivize investors to direct private capital for multiple-bottom line returns from community-based growth.

**TAKEAWAYS:** Policymakers can use this example as an effective model for coordinating new community-oriented markets; facilitating the creation of a scalable market space for impact investing.

**Mapping the Social Impact Investing Market in Germany: An Overview of Opportunities in the Education Space**

Anna Katharina Hoechstädter and Barbara Scheck

**BACKGROUND:** Despite maintaining a reputation for having a relatively strong and healthy economy, Germany has, nevertheless, proven to be an important market for social impact investing. While the state is generally expected to play a central role in the provision of social services, private and institutional investors operating in Germany have been motivated to direct financing toward addressing the cycle of persistent inequality of access to education and labor market inclusion, prevailing risk for long-term unemployment among the unemployed and low-qualified and deficits in poverty prevention.

**HIGHLIGHTS:** This report hones in on the education sector as a key parameter in the poverty cycle; identifying this sector as having both tremendous demand and opportunity for effective social impact investing. Providing a thorough overview of the market within the context of the education sector, this study emphasizes how nascent social impact investing and government involvement are in Germany. Some key recommendations to augment government participation in the social impact investing space include: taking initiative on spurring conversations and research to suss out potential for impact investing in Germany; establishment of organized forums to open up discussions between experts and key stakeholders; adapting policy to enable greater flexibility and certainty for foundations; configure tax policy to incentivize investment; and the creation of investable opportunities.

**TAKEAWAYS:** While the verdict on such a diverse list of prescribed actions is still subject to heated debate, the German social impact investing market has not remained static; social impact bonds and hybrid financing structures are now in the process of being developed – their uptake with investors will be indicative of how the social impact investing market will develop in Germany in the near future.
Adopting the London Principles: Policy Considerations to Grow Impact Investing in Hong Kong

P. Ming Wong and Philo Alto, Asia, Community Ventures

BACKGROUND: In light of its recent launch of the Social Innovation and Entrepreneurship Development Fund (SIE Fund), the government of Hong Kong has made a bold move away from maintaining a pseudo-monopoly in the provision of social services and grant funding. In addition to the five social funds analyzed in this report, the HK$500 million SIE Fund has been identified as a key driver of social innovation for poverty alleviation; encouraging Hong Kong’s government to transition away from its traditional delivery of social remedies.

HIGHLIGHTS: Despite its potential to scale the impact of private capital, Hong Kong’s social funds, with the SIE Fund at their helm, are still plagued by a few inhibitions, including the following: a general lack of long-term vision for alleviating social ills; and, a restrictive applicant profile, denying organizations which are not defined as non-for-profit, fund provisions. In order to assess the current state of development of the impact investing market in Hong Kong, as well as instill concrete steps to impel market growth, this report ascribed to the London Principles as an analytical framework.

TAKEAWAYS: Using the London Principles as a frame, authors of this report have taken a detailed look at the role of government and other stakeholders in Hong Kong, identifying the following:

1. Clarity of purpose: A long-term vision for social impact investing has not come from the government, owing to a generally timorous outlook
2. Stakeholder engagement: Social Funds operate outside the context of cross-sector stakeholder collaboration and knowledge sharing
3. Market stewardship: Sector development is stalled by a lack of clarity around the definition of social enterprises, as well as an aloofness about the importance of the role played by intermediaries
4. Institutional capacity: The design of social funds hinders the spirit of innovation by shadowing existing social welfare programs too closely
5. Universal transparency: A trepidation at media scrutiny and criticism has rendered the government sluggish in making bold, long-term decisions

National Voluntary Guidelines: Creating a Conducive Policy Environment for Responsible Business and Responsible Investment in India

cKinetics

BACKGROUND: The global trend of prioritizing Environmental, Social and Governance (ESG) considerations in investment decisions has not bypassed India. Investors in India have been found to place a higher value on businesses with stronger ESG disclosure and reporting. Furthermore, businesses with a greater commitment to ESG have been found to attract greater capital flows; with the potential to bring in as much as $80bn over the next 10 years. In 2011, in order to address this potential, as well as the various challenges faced by businesses seeking to enhance their ESG reporting (such as a lack of standardization and a significant data collection costs associated with screening and due-diligence), the Indian Government established the National Voluntary Guidelines for Social, Environmental and Economic Responsibilities of Business (NVGs). These guidelines provide businesses with a metric to measure, manage and disclose their ESG impact and performance.

HIGHLIGHTS: Contextualizing the NVGs as a scion of the “Responsible Business” policy tenets in India, this report looks at the future of the NVGs as a viable policy to wield a monumental shift among businesses and investors toward impact-focused investments.

TAKEAWAYS: While the introduction of the NVGs is only a small step in transitioning the Indian market, Indian policymakers have already begun to think through how to apply these guidelines to future policies and policymakers worldwide. Keeping in mind that uptake of the NVGs will be indicative of the extent to which ESG information and principles drive business and investor behavior, Indian policymakers will need to continue to build on the adoption of the NVGs as a means of installing sustainability and impact measurement as market imperatives.

Read the full report at http://globalpolicy.iipcollaborative.org 97
Notwithstanding the incredible growth potential of the global impact investing market, the MENA region has found itself on the sidelines. With a paucity of research focusing on emerging economies, this report presents an analysis of the potential and conditions for impact investing in Morocco; positioning itself as a useful resource for policy reforms in other North African economies. Piecing together the various components of Morocco’s ecosystem, this research will result in a set of policy recommendations to support the development of the impact investing market in Morocco.

BACKGROUND:

Development Finance Institutions (DFIs) exist with the stated purpose to provide crucial financing to developing countries. These institutions, created solely for the purpose of promoting development in emerging and frontier markets, present a seemingly obvious starting point for growing the impact investing space, not only in these emerging market economies, but among institutional investors at large. One could even argue that nearly all of their current investment activity falls within a broad understanding of impact investing as investments that generate both a positive social and financial return. DFIs are increasingly talking about impact investing in this context.

HIGHLIGHTS:

This paper provides insight into how a range of DFIs self-define their work in the impact investing space; a first step in a larger project exploring the actual and potential role of these institutions in growing global private sector impact investment activity. It lays the groundwork for discussions among and between DFIs, as well as the broader impact investing community, about crucial issues. These issues include geographic and mission focus, product design and development, cross-sector partnerships, standardized terminology and measurement, and the often-frughtful relationship between impact investing and investment return expectations.

TAKEAWAYS:

There are a number of roles that stand out as particularly suited for DFIs to play in growing impact investing. DFIs are unique in their organizational makeup for many reasons: they can serve as mission-focused institutions with mandates to create economic development, large-scale investors in unique geographies and sectors, and influential actors with in-depth local and sector-specific knowledge for institution and field building. To develop a robust impact investing practice, DFIs can build on their activities across these roles, and further the reach of their work by collaborating with one another. While the issue areas are clear, so is the powerful potential for these investors to drive real growth in global impact investing.

BACKGROUND:

Similar to many other emerging markets, impact investing in Turkey has met overarching skepticism and a general lack of government support. Taking stock of key takeaways from various international experiences, this research is intended to provide the Turkish government with a framework for growing its social impact market, as well as some tangible action points to help integrate the government into current initiatives in domestic social entrepreneurship.

HIGHLIGHTS:

Based on select interviews and research findings, social innovation and impact entrepreneurship in Turkey are inhibited in part by: limited financial inclusion for social enterprises, which are currently outside of defined population sectors covered by development finance institutions; philanthropic support allocated to less risky investments, less incomputable investments; risk capital directed toward larger, more established enterprises without consideration for impact; and lack of formal prescription to include social investments in the public procurement mandate. Turkey continues to struggle with debilitated social and environmental sectors, leaving a strong case for evolving government involvement in a heretofore-unconventional capacity in the domestic social impact investing space.

TAKEAWAYS:

While most policy interventions in Turkey have insufficient history to provide any meaningful evidence of (in) effective engagement, some key recommendations to spur government into action include: taking a holistic approach to market development; initiating pilot projects; emphasizing measurement and evaluation of impact and results; and, implementing a varied approach to cater to the needs of the market based on its maturity status.

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The IPC's work focuses on how governments, private sector, social enterprises, and others can work together to drive innovation and impact investing. The IPC supports impact investing by developing tools, resources, and partnerships to enhance the industry's ability to measure and assess impact.

**Milestones**
- 2013: Publication of first annual IPC conference report
- 2014: Launch of the London Principles for Impact Investing
- 2015: Launch of the IPC online platform
- 2016: Launch of the IPC project on impact investing in Latin America

**Activities**
- **Case Studies**: 64 case studies from around the world, showcasing the impact of IPC engagement.
- **Knowledge Exchange**: IPC webinars have focused on such topics as:
  - Social enterprise and social innovation
  - Impact investing in emerging markets
  - Legislation and standards for impact investor
- **Global Activity**: 1 annual IPC conference, 1 annual IPC advisory council meeting, 1 global event, 1 annual IPC research report

**Graphs and Figures**
- 840+ countries
- 140 countries
- 67% of visits

**Map**
- Map showing countries and regions
- Map of IPC advisory council members

**Timeline**
2014:
- Annual IPC conference
- Publication of first annual IPC conference report
- Launch of IPC project on impact investing in Latin America
- IPC online platform
- London Principles for Impact Investing

2013:
- IPC project on impact investing in Latin America
- IPC online platform
- London Principles for Impact Investing
- IPC project on impact investing in Latin America

2012:
- IPC project on impact investing in Latin America
- IPC online platform
- London Principles for Impact Investing
- IPC project on impact investing in Latin America

2011:
- IPC project on impact investing in Latin America
- IPC online platform
- London Principles for Impact Investing
- IPC project on impact investing in Latin America