USING GRANTS TO SUPPORT FRONTIER FINANCE

PERSPECTIVES ON COLLABORATIONS ADVANCING SOCIAL IMPACT IN EMERGING AND FRONTIER MARKETS

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GIIN
GLOBAL IMPACT INVESTING NETWORK

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About the GIIN's Frontier Finance Working Group

From 2018 to 2020, the Frontier Finance Working Group aimed to explore ways to mobilize greater flows of capital to frontier finance investments, which seek to improve the lives of low- to lower-middle-income populations. This scope focused on a specific subset of investment strategies and objectives in emerging and frontier markets. Comprised primarily of members of the GIIN, a main objective of the working group was to spur greater collaboration between grant-makers and investors in order to sustainably advance economic, environmental, and social progress by leveraging frontier finance investments. Learn more about this initiative here.

About the Global Impact Investing Network (GIIN)

The Global Impact Investing Network (GIIN) is the global champion of impact investing, dedicated to increasing the scale and effectiveness of impact investing around the world. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry. For more information see www.thegiin.org.

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About this resource

Grant-makers—including family offices, private and corporate foundations, and organizations involved in development finance—play critical roles in addressing societal challenges in communities around the world. In order to leverage their limited resources, grant-makers often consider new tools and partnerships to increase the effectiveness of their grant-making programs. One pathway to amplifying their impact lies in collaborations with impact investors and mission-driven businesses that share their common goals of contributing to a more sustainable and inclusive world.

This resource is intended for grant-making organizations that are focused on addressing challenges affecting communities in emerging and frontier markets. Offered here are examples and information that can support internal dialogue on possible avenues to expand grant-making strategies. The uses of grants described in this resource are specifically oriented toward advancing frontier finance—investments seeking to improve the lives of low- to lower-middle-income people in emerging and frontier markets—as one strategy within an overall grant-making program.

This resource was developed through the activities of the GIIN's Frontier Finance Working Group over the course of one year and is supplemented by the GIIN's original research on frontier finance and impact investing more generally. This document captures a range of opinions and experiences shared by participants in the Frontier Finance Working Group during meetings and individual interviews held with the intention of stimulating and supporting discussion within other grant-makers and grant-making communities. Specifically, the Frontier Finance Working Group (see description below) met quarterly between June 2019 and May 2020. Between meetings, the GIIN staff held approximately two dozen interviews with participants and other grant-makers to gather additional perspectives on how and why grants have been utilized to support frontier finance. The Working Group meetings and interviews were conducted with the intention of supporting peer learning and therefore, were not curated to deliver a specific sample size or diversity. They do, however, provide a snapshot of views from a cross-section of experienced individuals and organizations operating in and with frontier finance.

GIIN'S FRONTIER FINANCE WORKING GROUP

Among its four main programs, the Global Impact Investing Network (GIIN) supports a global membership platform for like-minded investors to meet and take part in activities that help to build the impact investing industry. From 2019 to 2020, the GIIN supported its members in organizing a Frontier Finance Working Group with a primary focus on spurring new collaborations among grant-makers and investors that could further the sustainability and growth of investments in frontier finance.

The Frontier Finance Working Group comprised 49 organizations representing foundations, family offices, development finance institutions, government aid agencies, fund managers, and investment consultants, all with experience in frontier finance. A full list of Working Group participants can be found in the Appendix section of this resource.

A brief introduction to impact investing and frontier finance

Impact investing is characterized by the intention to invest to achieve positive, measurable social and/or environmental impact alongside a financial return. Impact investments are made in both emerging and developed markets and target financial returns that range from below market (sometimes called concessionary) to risk-adjusted market rate. Impact investments are made across asset classes, most often including (but not limited to) cash equivalents, fixed income, venture capital, and private equity. The growing market for impact investment provides capital across a range of sectors relevant to sustainable development and that often align with sectors of interest to the philanthropic community. Such areas include conservation, renewable energy access, sustainable agriculture, and affordable and accessible basic services including housing, healthcare, and education.

As a distinguishing feature, impact investors utilize impact measurement and management systems in their investment process, which often include measures of environmental and social impact that are similar in nature to those embedded in grant-making organizations' program strategies.

Investments into emerging and frontier markets include a segment of impact investing called "frontier finance," which specifically focuses on investing with the intention to improve the lives of low- to lower-middle-income populations. Frontier finance investors are typically building their investment strategy around financially viable companies that are oriented towards addressing a development need.

In September 2019, the GIIN published *Unlocking the Potential of Frontier Finance*,[1] a report which examined the landscape of frontier finance investments, including the impact motivations, targets, and results of investors pursuing frontier finance. Work on that report involved participants from the GIIN's Frontier Finance Working Group, and the findings contributed to subsequent working group discussions. The excerpt below from the report describes investors' motivations for pursuing frontier finance investments, illustrating impact outcomes that often overlap with those of the philanthropic community.

> *"[Frontier finance] investors are compelled to allocate capital to frontier opportunities by their significant potential to create deep, lasting impact on low- and lower-middle-income populations, whether through the products and services investees produce, through the creation of quality jobs, or through fostering of sustainable supply chains. Additionally, investors cited compelling opportunities to positively impact the markets in which investees operate and develop local and regional financial systems, thus contributing to long-term economic development and catalyzing future, additional investment. Lastly, investors also cited large, often untapped markets with high growth potential and growing middle classes of consumers, suggesting potential for significant financial returns."* [2]

Additional information and resources on impact investing can be found at the GIIN's website, www.thegiin.org.

The case for collaboration among grant-makers and frontier finance investors

As mission-driven organizations, grant-makers typically take on big challenges and strive to address unserved needs. Many grant-making organizations have ambitious social and environmental goals that outstrip the ability of their own financial resources to resolve. Meeting today's greatest social and environmental issues will therefore depend on bringing together many different partners to pool their skills and resources.

The United Nations Conference on Trade and Development (UNCTAD) estimated in 2014 that USD 2.5 trillion in investment will be required annually for developing countries to meet the objectives of the Sustainable Development Goals by 2030.[3] This funding gap far surpasses the capability of the public or philanthropic sectors alone. Therefore, solutions will require directing private capital at scale specifically towards projects and businesses that address the imperatives of building sustainable and inclusive economies. Some sectors have grown to the point that capital is flowing at an increasing pace due to underlying economics. For example, following an extended period of policy support and technological innovation, renewable energy has moved from the margins of built energy grids to the center: global investment in renewable energy is on track to exceed investment in fossil fuels in 2021.[4] For many other development goals, however, a tipping point has not been reached, and private capital will not yet flow on its own. Collaboration is needed.

1 Rachel Bass, *Unlocking the Potential of Frontier Finance* (New York: The Global Impact Investing Network, 2019).

2 Bass, *Unlocking the Potential of Frontier Finance*.

3 UNCTAD, *World Investment Report 2014: Investing in the SDGs—An Action Plan* (New York and Geneva: United Nations, June 2014).

4 Dan Murtaugh. "Goldman Sees $16 Trillion Opening as Renewables Pass Oil and Gas," Bloomberg, June 17, 2020, https://www.bloomberg.com/news/articles/2020-06-17/goldman-sees-16-trillion-opening-as-renewables-pass-oil-and-gas. (accessed November 11, 2020)

Grant-makers and impact investors involved in the Frontier Finance Working Group have found value in collaboration to use their respective skills and capital to unlock funding for sustainable development at a greater scale than either group can achieve alone. Through Working Group activities, members explored their experiences in either providing or receiving grant capital to advance frontier finance investments. The sections below outline the shared motivations that underpin collaboration, the barriers that grant capital can help to overcome, and some of the advantages that grant-makers derived from utilizing grants in this way.

Shared impact goals

While they differ from grant-makers in their choice of partners (e.g., businesses rather than non-profit organizations), frontier finance investors orient their deployment of capital in response to some of the same needs as grant-makers. More specifically, frontier finance investors most typically seek to improve access to basic services—such as affordable housing, education, and healthcare—by investing into companies providing such services.

Frontier finance investors provide an important source of capital and skills in helping companies grow, both in terms of delivering impact and doing so in a financially sustainable manner. Figure 1 offers quotes from companies receiving capital from frontier finance investors and describes the diverse impact these companies aim to create.

Figure 1: Example impact targets[5]

"We seek to create an opportunity away from cervical cancer for more than a million Mexican women."

- Onko Solutions, a Promotora Social México investee

"We seek to double the provision of quality fingerlings to small fish farmers, thus contributing to alternative protein sources for the Ugandan population."

- AA Fisheries and Aquaculture, a iungo capital investee

"Partnering with Acumen has enabled us to increase the access to markets and provide stable and transparent pricing to indigenous communities and farmers for their agroforestry products."

- Bioguaviare, an Acumen investee

"We seek to create improved, productive energy access for 5 million households in Africa and South Asia."

- Amped Innovation, a FINCA Ventures investee

Source: GIIN, Unlocking the Potential of Frontier Finance

Barriers addressed by grants in frontier finance

Frontier finance has great potential to unlock solutions—like those described above—to deliver meaningful social and environmental impact to vulnerable communities. However, frontier finance investors encounter limits to their ability to invest, which can arise from high operating costs, underdeveloped market infrastructure, or unpredictable macroeconomic, political, and regulatory environments.[6] These constraints are elaborated below.

High operating costs and financial viability: In comparison with developed markets, Frontier Finance Working Group participants shared that frontier finance investment strategies often involve substantial costs related to identifying enterprises and supporting their development. Such costs may include greater time spent sourcing enterprises in nascent markets and greater support required to develop the capacity of investees. Especially for early-stage investees, such higher costs are not always offset by greater opportunity for financial returns. Grant-makers can underwrite one-time expenses (e.g., grants to support product development research, technical assistance on financial planning, or hiring for key positions) that bolster promising enterprises to help prove their business models, build their capacity, or cover operational costs to put them in a position to scale their impact.

Market barriers: Fronter finance occurs in markets that often lack a strong ecosystem to support social enterprises across their lifecycle or to help investors enter and operate in the market. Barriers can include an unsupportive regulatory environment, limited data available on target sectors or on the performance of business models, or insufficient connectivity among capital providers. Grant-makers can fund projects that help mature the overall investment environment—for example by supporting enabling policy, funding critical research, or building investor–investee networks—as a strategy to increase the viability of frontier finance investments and improve the ability of entrepreneurs to attract capital.

Market risks: Enterprises and investors in frontier markets also face comparatively higher risk than their counterparts in developed markets due to often unpredictable macroeconomic, political, or regulatory environments, as well as a combination of these. Given legal and regulatory constraints on acceptable risks in investment portfolios, some of the largest investors may not even be able to consider frontier finance investments. Grant-makers can deploy their grants in a catalytic manner, partnering in investments by absorbing some of these risks through financial instruments, such as first-loss funding.[7] Leveraging grants in this way can expand the universe of investments that more conventional investors with large pools of capital can consider.

5 Bass, *Unlocking the Potential of Frontier Finance*.

6 Bass, *Unlocking the Potential of Frontier Finance*.

7 Catalytic first-loss capital refers to socially and environmentally driven credit enhancement provided by an investor or grant-maker that agrees to bear first losses in an investment in order to catalyze the participation of co-investors that otherwise would not have entered the deal. For more, see the GIIN brief on this topic. *Catalytic First-Loss Capital*, issue brief, October 10, 2013.

Advantages to grant-makers

In tackling challenges related to proving financial viability and overcoming market barriers and risks, Working Group participants emphasized that grants used in this way can facilitate investments that otherwise would not have happened and ultimately enable greater impact in priority impact sectors and stakeholder groups of grant-making organizations.

Working Group members noted two additional advantages for grant-makers. First, some grants utilized in frontier finance can be structured to recover funding and therefore allow grant-makers to "recycle" their capital for use with new partners.[8] Private sector investments generate cash flows, creating the option of structuring a grant such that the recipient returns the grant capital if they achieve an agreed-upon level of financial success. Such a recovery process allows the grant-maker to then re-deploy the capital to a new grantee, ultimately allowing the grant-maker to work with a greater number of partners over time.

Second, partnerships among grant providers and frontier finance investors go beyond the transaction of capital to often include the exchange of knowledge among partners while designing and executing the collaboration. Grant providers can use these partnerships as an opportunity to embed their theory of change and knowledge of stakeholders' needs with respect to specific sustainable development challenges into future flows of frontier finance investment. Proving success through a grant partnership can demonstrate the feasibility of solutions and extend grant providers' influence even beyond the grant period to a wider community of investors and their investee companies.

Uses of grants in frontier finance

In discussing how grant providers can further their impact through frontier finance, participants in the Frontier Finance Working Group also surfaced six specific ways grants can be deployed to advance frontier finance investments and ultimately unlock greater impact: (1) proving a business model, (2) providing capacity-building services, (3) covering operational costs, (4) connecting investment opportunity to available capital, (5) strengthening markets, and (6) providing capital to enable additional investment. Working Group participants also highlighted possible types of grant recipients for each of these uses: enterprises, fund managers, accelerators and incubators, technical assistance providers, and research institutions.

Table 1 below provides additional details, as outlined by Working Group participants, on each grant use and how its application strengthens frontier finance investments.

Table 1: Uses and Recipients for Grant Capital

Purpose	Deployment	Recipient	Anticipated Result(s)
Proving a business model	Grant deployed during due diligence or pre-investment phases to prove viability of a product or service.	Investee or incubator	Customer demand is demonstrated for product or service, and investee is seen as investible.
Providing capacity-building services[9]	Grant deployed to provide capacity-building services in areas such as governance, hiring, budgeting, or impact measurement and management.	Investee, fund manager, sidecar facility, service provider, or accelerator	Operating capabilities of target groups are deepened.
Covering operational costs	Grant deployed to cover operational costs, such as start-up costs, management team expenses, currency risk, or bridge finance during unexpected negative events (as when businesses or fund managers fail and need to restructure, liquidate, or wind-down).	Enterprise or fund manager	An enterprise or fund becomes financially viable, thereby allowing additional investment capital to enter the market.
Connecting investment opportunity to available capital	Grant deployed to match investees and/or funds with investors, as through pitch sessions, online platforms, etc.	Investee, fund manager, or incubator	Entrepreneurs and/or local fund managers are able to secure capital and execute on their plans.
Strengthening markets	Grant deployed to address gaps in the market, for example to support enabling policy, build capital market infrastructure, grow the provision of local capital, or increase availability of industry-wide data.	Incubator, accelerator, service provider, or research institution	Market infrastructure and/or efficiency is improved, allowing increased flow of capital into social enterprises.
Providing capital to enable new investments	Grants deployed to decrease the risks of investment and incentivize other investors to enter an investment opportunity.	Enterprise or fund manager	The pool of capital available for impact investment expands materially.

8 Rules regarding grant-makers' use of capital, including the permissible structures and conditions, vary by legal jurisdiction, so this option may not be available to all grant-makers.

9 For more information on how capacity-building support can contribute to the impact that investors seek to achieve, see the GIIN's issue brief on this topic. Aliana Pineiro and Rachel Bass, *Beyond Investment: The Power of Capacity-Building Support*, issue brief, October 12, 2017.

Insights into how grant-makers assess the effectiveness of grants supporting frontier finance

Ultimately, grant-makers collaborate with impact investors (or other partners) for the purpose of advancing their missions and addressing a distinct set of needs. Discussions within the Frontier Finance Working Group demonstrated that grant-makers currently evaluate their frontier finance–related grants through a variety of approaches, with choice of approach very much shaped by specific organizational culture, existing grant monitoring systems, and priorities of the individual grant-maker. However, a few points of commonality emerged through the course of discussions among Working Group members.

First, it is possible to structure fronter finance–related grants in ways that directly reflect the impact objectives of the grant-makers' existing missions and priorities. For some grant-makers, this means considering how their grants, along with frontier finance investors (and others), contributed to a wider strategy of systems change (e.g., universal access to quality education). Others focus on outcomes for priority groups of stakeholders on particular issues (e.g., increased employment for youth in sub-Saharan Africa). However, grant-makers consistently found ways to track a partnership in relation to their impact missions.

Second, working with frontier finance investors typically requires grant-makers to learn how to work with a new kind of partner and with outputs and intermediate outcomes related to business operations. Many grant-makers shared examples of how they incorporated new performance indicators related to business development and growth into their grant oversight as a proxy for the effectiveness of their intervention in relation to their mission. Some grant-makers worked only with these types of measures on the assumption that economic growth would also address their other social or environmental concerns. Finally, still other grant-makers used a combination of indicators of business progress and impact indicators drawn from their theories of change.

Third, frontier finance grant-making strategies can be (but do not have to be) integrated into a broader program alongside other streams of grant-making in order to pursue a common goal. Frontier finance and market-based solutions are not always ideal routes for achieving a specific social or environmental outcome. However, to achieve sustainable development objectives at scale, there is typically a role for the private sector within the overall theory of change for any objective requiring large-scale investment. Grant-makers provided examples of how they developed broad change strategies that integrated private sector partners alongside non-governmental and public sector partners.

Regardless of the specific indicators or criteria used to evaluate grants' effectiveness, a consistent message throughout discussions among Working Group members concerned the importance of aligning interests among partners and leveraging complementary skills. Grant-makers and investors both spoke of substantial time invested into agreeing on the goals of a collaboration and how these should be evaluated, which often involved learning and mutually shaping each other's views regarding theories of change and the best focus of collaboration.

The next section of this resource provides real-life examples of frontier finance investments that grant-makers have supported, highlighting the motivations for these partnerships, objectives of the collaborations, and results that ensued.

Case studies: Examples of grants supporting frontier finance

The purpose of these case studies is to provide philanthropic organizations with examples of how peers use their funding to support frontier finance investments as an approach to further their impact. Though these case studies offer illustrative examples of how collaboration has worked in practice for some philanthropic organizations and investors, they are not intended as roadmaps for execution. Any given organization's specific strategies will necessarily greatly depend on internal factors, such as mission, regulatory jurisdiction, and staffing capabilities, as well as external factors, such as the specific nature of the challenges they hope to solve. Moreover, organizations utilize different structures to manage their relationships — not only through grants, but in some cases also through funding agreements and service contracts (as detailed in the third case study below).

The following case studies offer three examples of how a specific set of partners have chosen to approach working together, offering a starting point for internal discussions at grant-making organizations about the possibilities of working with frontier finance investors.

Villgro

Provider of grant	
Organization name	The Lemelson Foundation
Organization type	Private foundation
Mission of organization	Improving lives through invention
Ways of deploying foundation resources	Grants, equity, quasi-equity, debt
Headquarters location	United States

Grant details	
Use of grant capital	Providing capacity-building services, through ecosystem-building organizations, to invention-based enterprises—those that are engaged in research and development (R&D) or that have developed a physical technology that is unique to the market
Amount and structure	USD 2.2 million non-repayable grant
Time period	3 years, April 2013 – March 2016

Recipient of grant	
Organization name	Villgro
Organizational profile	Villgro is an incubator and ecosystem-building organization aiming to create impactful, innovative, and successful social enterprises
Geographic focus	India

Mission of the grant-maker

The Lemelson Foundation is a U.S.-based private foundation established by Jerome and Dorothy Lemelson in 1992 with the vision of cultivating future generations of inventors to create a better world. To date, The Lemelson Foundation has provided more than USD 290 million in support of its mission.[10] The foundation believes that the private sector has a significant role to play in addressing the Sustainable Development Goals and specifically focuses on supporting invention-based small and growing businesses (SGBs) that advance locally developed solutions to health, agricultural, and environmental challenges. To advance its mission, The Lemelson Foundation utilizes a range of financial tools, from grants to investments, most often deployed to local fund managers, incubators, or other organizations that make up the supportive ecosystem for these types of invention-based SGBs.

Grant context

The Lemelson Foundation believes that market-based models represent a largely untapped source of solutions that can address today's global challenges. For example, efforts to achieve universal access to healthcare have mostly been channeled through global philanthropy, nonprofits, NGOs, and government initiatives, yet these entities alone cannot achieve healthcare access for all.

10 For more, see https://www.lemelson.org/our-story/.

For The Lemelson Foundation, invention-based SGBs are a critical part of the healthcare solution, delivering the exponential cost reductions, increased accuracy, and other aspects that are transformational to systems like healthcare delivery. Such transformations enable broader access while improving the sustainability of healthcare delivery by easing burdens on philanthropy and the public sector. However, invention-based SGBs in emerging and frontier markets often lack a robust supporting ecosystem that can provide capital, technical assistance, and other support to help unlock the these enterprises' full potential to deliver impactful solutions at scale.

In order to tackle these market-level challenges and amplify the impact of its foundation's capital, The Lemelson Foundation often builds long-term grant partnerships with ecosystem-building organizations based in emerging markets. Such organizations offer a suite of direct services to small and growing businesses and develop additional support mechanisms, such as mentorship and strategic introductions to potential partners across the supply chain. Ecosystem-building organizations supported by The Lemelson Foundation have the local context, technical expertise, and network connections required to provide tailored, in-market services to boost the sustainability of invention-based SGBs. The foundation also views supporting locally based ecosystem-building organizations as a cost-effective solution for both the foundation and for the SGBs the ecosystem-building organizations support. The foundation team can tap into the expertise of ecosystem-building organizations rather than developing their own in-house skills and capacity to deliver these critical services to SGBs. Similarly, for SGBs, receiving customized support from ecosystem-building organizations costs less time and money than developing these essential competencies and networks on their own. Finally, by enabling a stronger ecosystem by supporting enduring local organizations, the foundation fosters an enabling environment to assist SGBs beyond the period of the foundation's grant. The resulting capital sources, technical support, and networks can help to grow SGBs and their impact even further.

In 2013, The Lemelson Foundation awarded a three-year, USD 2.2 million grant to the India-based ecosystem-building organization, Villgro, an incubator that aims to create impactful, innovative, and successful social enterprises.

Grant objectives

The main goal of the grant was to support Villgro's incubation of small, agile enterprises creating disruptive innovations that had the potential to scale and to improve millions of lives in India. To achieve this goal, the grant supported a series of activities aimed at providing direct services to the enterprises, bolstering Villgro's governance and strengthening an enabling ecosystem for invention-based enterprises that would elevate quality of life for poor communities in India. Specifically, Villgro leveraged The Lemelson Foundation's 2013-2016 grant toward the following outputs:

- Offer an intensive six-month program to around 40 social enterprise teams to sharpen business models and help them raise first rounds of funding.
- Support and grow seven post-revenue, pre-profit companies, providing tailored technical assistance and offering strategic connections with sourcing organizations.
- To address talent challenges, establish a fellowship program to train and place mid-career professionals in an enterprise for a year.
- Host an "Unconvention" event series aimed at maturing the Indian social innovation ecosystem by increasing the visibility of invention-based enterprises, raising awareness among private and public stakeholders about how to support these enterprises, and convening stakeholders located outside of major cities.
- Strengthen Villgro's own organizational governance, leadership, and capacity.

Design of grant structure & selection of partners

The USD 2.2 million grant from The Lemelson Foundation was structured as a non-repayable grant running from April 2013 to March 2016. Villgro was already an established partner of The Lemelson Foundation, having previously been awarded USD 3.8 million since 2004 over a series of grants. The foundation's long-term partnership with Villgro is not unusual, as the foundation team supports organizations to match the tenure needed for invention-based start-ups to reach their full potential as scaled, sustainable businesses maximizing their impact on societal issues. The Lemelson Foundation also recognizes that emerging markets, including India, are still building certain types of support that are readily available to inventors in more mature markets. Namely, capital, mentors, and technical assistance providers are needed to quickly nurture promising ideas into real-life applications. For The Lemelson Foundation, Villgro has designed its services to fill these gaps in India's invention-based SGB market. At Villgro, a diagnostic panel—comprising the SGB's primary mentor, a relevant sector expert, a Villgro portfolio manager, a Villgro sector lead, and an investor—assesses the needs of each SGB, including risks and challenges in all areas of the business model (e.g., value proposition, customer segments, unit economics, theory of change) in order to design highly customized interventions that increase SGBs' success and growth. Armed with this detailed knowledge about each SGB, Villgro leveraged The Lemelson Foundation's 2013–2016 grant to meet the objectives outlined in the previous section.

Alongside this funding to Villgro, The Lemelson Foundation also awarded additional grants and investments to India-based organizations to advance its objective of growing a strong ecosystem for invention-based SGBs. *For more on The Lemelson Foundation's strategy supporting invention-based startups in India and the opportunities for grant-makers and investors, see its report here.*

Results

Through its grant, The Lemelson Foundation aimed to enable Villgro to incubate high-impact, highly scalable, invention-based enterprises in India by building and offering support customized to those enterprises' needs. Over the course of the grant, The Lemelson Foundation and Villgro achieved the following key results:

- Supported 58 enterprises through customized services.
- Built and strengthened partnerships with key stakeholders to provide mentorship and tailored, industry-specific technical expertise to invention-based enterprises (e.g., advice on solution validation and clinical trials, product development and prototyping, and go-to-market strategy).
- Facilitated 18 mid-career fellows to support and mentor enterprises.
- Organized 38 events gathering more than 3,150 participants in 20 cities across India, resulting in more than 100 partnerships built and nurtured.
- Diversified and expanded Villgro's funding base by bringing in new donors and grew its leadership by adding two new directors to its board.
- Made strategic decision to shift all program design from offerings by stage of company development towards sector-based programming, enabling Villgro to offer better tailored support for each company by providing staff, external mentors, and networks with deeper industry expertise.

Another way of illustrating the effects of Villgro's ecosystem-building efforts and customized support to enterprises is by describing the individual journeys of those enterprises. One such example is Biosense, a healthcare diagnostics company.

Biosense began in 2008 as a college-dorm startup in India founded by medical students who wanted to solve a problem facing patients in rural areas. Initially, they wanted to address anemia in women, which puts them at a higher risk of death during pregnancy or premature labor. Anemia also perpetuates systemic poverty; the condition leaves people exhausted and less productive and can be passed onto children. To address the negative effects caused by anemia in rural areas, the students built a low-cost, portable, needle-free diagnostic test, integrated into a smartphone. The test takes a photo of a patient's eye to detect conjunctival pallor, a key indication of anemia. This approach had the potential to scale anemia diagnostics among previously underserved populations; however, in trying to bring this idea to market, the Biosense team lacked the experience or professional networks needed to develop and commercialize a manufactured product, including how to access supply chains and distribution channels.

In 2011, Villgro selected Biosense for incubation. Villgro provided the startup with a mix of local mentorship, coaching, technical assistance, and non-financial support to tackle issues related to marketing, supply chains, regulatory constraints, and human resources. Such services also helped bolster Biosense to attract three rounds of funding from a mix of impact investors and traditional financing.[11] In working nine years with Villgro, the company has grown from four co-founders to 400 employees. Their products, which are now a suite of diagnostics covering those non-communicable diseases most prevalent in low-income communities, reach 4,000 sub-centers in India. (Sub-centers are the first contact point between primary health care and the community, each typically serving populations of 3,000–5,000.) Given Biosense's successful growth, the company was acquired in November 2019 by Tulip Diagnostics, the Indian subsidiary of PerkinElmer, a S&P 500 company. The acquisition affords Biosense even more resources to continue to scale its services and reach to address the needs of rural India's most vulnerable populations.

Insights for peers

For peers seeking to further their organization's impact by supporting private sector interventions, particularly in the space of invention-based SGBs, The Lemelson Foundation offers the following insights.

- **Prepare for longer timelines.** Funders can play a critical role by directing grants to cultivate a pipeline of viable technologies and companies and to develop organizations that have the capacity to support these enterprises to deliver impact. However, as early funders of invention-based SGBs, organizations must be willing to take risks supporting unproven innovation and invention at the earliest stages. While the risks are high, the rewards can be great.
- **Be iterative; accept risk and, especially, failure.** Failure is an excellent way to learn. Experience with failure is why ecosystem-building organizations can spot risks in SGBs' models and help them to prioritize. By tracking patterns and failures across a portfolio, they can adjust their own services to provide even stronger support to SGBs. Funders have this very same ability. They should be confident and committed to their long-term goals and unafraid to change their approach or organizational structure in order to serve those goals. Demonstrating to a grantee that a funder is in the trenches to learn alongside them over a longer timeframe helps both sides create transparency and a trusting relationship, enabling alignment between the core capacities that each partner has to offer.
- **Commit to a region and understand where grant support can best be utilized.** The largest challenges facing society today are complex and will require time and collaborative power to tackle. To unlock the impact potential of invention-based SGBs, funders must commit to a region, understand its unique challenges and opportunities, and engage with the entire ecosystem of partners needed to originate, support, and scale the impact of solutions that start as ideas. Understanding the dynamics that influence the success of that journey and the time and place of grant support can help in aligning that support to outcomes shared among partners, ultimately achieving greater impact beyond that which could have been attained by acting alone.

11 For additional details on the financing Biosense received, see the case study in the Collaborative for Frontier Finance report, written by Dalberg. *Closing the Gaps: Finance Pathways for Serving the Missing Middle* (Washington, DC: Collaborative for Frontier Finance, January 2020).

The Education Impact Fund

Provider of grant	
Organization name	Jacobs Foundation
Organization type	Private foundation
Mission of organization	To invest in the future of young people so that they become socially responsible and productive members of society
Ways of deploying foundation resources	Grants, equity, convertible loans, quasi-equity
Headquarters location	Switzerland

Grant details	
Use of grant capital	Seeding an investment fund intended to support the growth of high-quality education in the Republic of Côte d'Ivoire
Amount and structure	EUR 1 million as a shareholder loan to launch and seed a new impact fund; EUR 540,000 in grants for operational support of the fund and technical assistance to portfolio companies
Time period	5 years, 2017–2022

Recipient of grant	
Organizations	Investisseurs & Partenaires (I&P) was the primary recipient, but the investment portfolio was implemented in collaboration with Comoé Capital
Organizational profile	I&P is an impact investing group entirely dedicated to financing and supporting small and medium-sized enterprises (SMEs) in sub-Saharan Africa; Comoé Capital targets SMEs and start-ups with strong growth potential from all sectors and regions of Côte d'Ivoire
Geographic focus	Côte d'Ivoire

Mission of the grant-maker

The Jacobs Foundation, based in Switzerland, focuses on investing into the future of young people primarily by ensuring that children and youth have access to better opportunities for positive development and equitable access to education. The foundation believes that whatever their background, place of residence, or family income, all children should have the chance to reach their full potential.[12] The foundation has promoted child and youth development for more than 25 years in different geographies, rooted in the belief that "with the complex social changes taking place in the world today, education is becoming increasingly important for success in life."[13]

Grant context

The Jacobs Foundation launched the Transforming Education in Cocoa Communities (TRECC) program to improve the living conditions of Côte d'Ivoire's cocoa farmers and their children by ensuring access to quality education. With a grant budget of EUR 45 million over five years, the program aims to support the educational needs of children and youth at different stages of their lives through a range of strategies involving public and private sector partners.

The collaboration described in this case study among the Jacobs Foundation, Investisseurs & Partenaires (I&P), and Comoé Partners represented a new approach for the foundation as part of its novel impact finance strategy. Although the Jacobs Foundation had extensive experience working with research organizations, nonprofits, and policymakers in supporting access to quality education, it had not previously collaborated directly with impact investors, nor had it undertaken grant-making strategies that focused specifically on leveraging private sector investment. However, the Jacobs Foundation's leadership believed that the private sector brought a unique set of competencies to addressing the educational needs of Côte d'Ivoire. This case study focuses on the new impact fund, the "Education Impact Fund," managed by Comoé Partners with strategic advice from I&P.

12 For more, see https://jacobsfoundation.org/en/.

13 For more, see https://jacobsfoundation.org/en/our-activities/.

Grant objectives

The Jacobs Foundation decided to add impact investment as part of its toolkit for impact. In order to deepen its reach and provide close support to smaller local investees, it co-created with I&P the first locally based education fund in Côte d'Ivoire. The impact finance portfolio of the Jacobs Foundation includes both direct and indirect investments that are larger than the target amounts to be provided by this new impact fund. The foundation's impact finance activities were part of a wider strategy that included collaboration with universities, policymakers, and the cocoa industry association, implemented through other streams of grant-making.

The grant awarded to I&P supported the establishment of the Education Impact Fund, which subsequently makes investments into companies in the education sector in Côte d'Ivoire. The involvement of the Jacobs Foundation catalyzed the fund's creation, and the foundation also influenced which impact objectives would guide the choices of investment. The collaboration aimed to seed the growth of private sector entities to provide services that can fill some of the existing gaps in the educational system in a financially sustainable manner. The Jacobs Foundation also hoped that other research it had funded on various aspects of designing and delivering education would be complementary to and relevant for efforts related to these investments.

The collaboration was classified as a repayable grant (for details of the grant structure, see the next section) into the Education Fund, and the partners were expected to support a minimum of five early-stage solutions for improving education outcomes. All investments were to be deployed within one year.

While the fund itself was directly invested into a limited number of companies, the partners hoped to inspire other investors to explore the market. Growing the number of investors active in Côte d'Ivoire, the partners expected, could lead to additional and new investments into companies in the portfolio, as well as investments in other companies whose activities were aligned to the program's wider objectives.

The partners invested considerable effort in determining the metrics of success. The grant established baseline measures relating to immediate objectives: whether the investee companies were able to continue expanding their businesses and generate jobs, both proxies for growing access to education and general contributions to the economic and social development of Côte d'Ivoire. In addition, I&P and Comoé Partners worked directly with the individual investees to select impact measures specific to their businesses and their contributions to education. These indicators were chosen in light of the strategic framework that the Jacobs Foundation had created for assessing progress towards overall outcomes.

In designing the Education Impact Fund, the partners had to align on objectives and vision of success, particularly in terms of a mandate that contributed to the foundation's overall theory of change while still leaving a scope that was sufficiently broad to allow the fund managers to find companies that met the fund's investment criteria.

Design of grant structure & selection of partners

The approach was co-designed in detail by I&P and the Jacobs Foundation in 2016. The two organizations were introduced to each other by the Argidius Foundation, which was already familiar with I&P and recommended them to the Jacobs Foundation. I&P and the Jacobs Foundation worked together to assess the universe of investment opportunities in Côte d'Ivoire that were aligned to or supportive of the foundation's overall education objectives. The Jacobs Foundation initially suggested focusing on technology-based solutions for delivering early childhood education to rural communities. However, following initial explorations, the partners agreed to a wider mandate for the fund that included both rural and urban populations, as well as serving a range of needs beyond early childhood education. This updated strategy increased the pool of viable businesses (that is, investment opportunities) to consider.

On this basis, the partners agreed to use philanthropic funds from the Jacobs Foundation to establish the Education Impact Fund, which would be advised by I&P and managed by Comoé Partners. The Jacobs Foundation provided a repayable grant of EUR 900,000 in initial investment capital for the fund, alongside grants to support operating expenses over six years, including the hiring of a dedicated team. An additional EUR 80,000 in repayable grants were designated for technical assistance for the fund's portfolio companies. The Jacobs Foundation participates only on the Education Impact Fund's Selection Committee, while I&P participates on both the Selection Committee and the Investment Committee. Comoé Partners manages the investment process, managing the technical assistance pool and ongoing advisory relationships with the investee companies.

The Education Impact Fund seeks to recover the fund's management costs through its investment returns. The Jacobs Foundation is providing the risk-tolerant capital necessary to seed the fund and is therefore taking on exposure to any losses. The fund's investment returns will be prioritized to first return the EUR 1 million in repayable grants to the Jacobs Foundation. Any remaining profits will be shared among the partners in the collaboration: I&P, Comoé Partners, and the Jacobs Foundation.

Results

The Education Impact Fund was fully deployed into six small and growing businesses (SGBs) seeded in 2017–2018, including the following:

- Etudesk, the first online learning startup in Francophone Africa focusing on young graduates and corporate learners
- La Coccinelle, a network of daycares, creating the first private training institute for early childhood educators in Côte d'Ivoire
- Studio KA, an animation studio designing entertaining content for childhood education
- IMGH and EIFP, vocational institutes in the fashion and hospitality sectors training young and vulnerable populations
- Vallesse Editions, a publisher of children's literature, local authors, and high-quality exercise books for schools

Of these investees, Vallesse has successfully secured follow-on capital of EUR 450,000 in equity and EUR 1 million in bank loans to fund its growth (9x leverage on the fund's original investment). Vallesse paid back its loan from the fund early and exercised call options on the shares held by the fund. The early exit resulted in an internal rate of return doubled from the fund's initial expectations, all while supporting a highly impactful education business.

The partners worked together with investees to identify performance metrics that were feasible to gather and that would also showcase their contributions to improving the quality of education in the country. The Education Impact Fund also tracked a number of other indicators related to broader social impact, including measures related to the creation of quality jobs and gender equality.

Insights for peers

Though the collaboration among these partners around the Education Impact Fund remains ongoing, since the project runs until 2022, some early lessons have emerged. The Jacobs Foundation offers the following insights to its peers.

- **Dedicate sufficient time to align expectations and practices with partners.** In the course of designing and launching the Education Impact Fund, I&P and the Jacobs Foundation had to adapt to differing needs and expectations in terms of both operations and impact. Investment funds typically operate on seven- to ten-year cycles to allow time to identify businesses, hold investments over several years, and eventually exit. Though the Jacobs Foundation operates multi-year grant programs, these typically operate over a shorter time cycle than investment funds. Ultimately, the partners agreed to a five-year cycle, which required a substantially accelerated investment sourcing process. I&P and Comoé Partners also had to adopt a quasi-equity strategy, as opposed to direct equity investments. I&P had an existing impact framework that it used to track its progress; it took time for the partners to adapt this framework to the collaboration's specific context and priorities.
- **Leverage different skill sets and competencies.** The Jacobs Foundation chose to collaborate with investors based on two assumptions. First, the foundation believed that market solutions would be required to achieve its broader objectives in Côte d'Ivoire. Therefore, it needed to catalyze appropriate investments. Second, market solutions lay outside the foundation's core competencies. Increasing its reach, therefore, required the foundation to go beyond its own resources to partner with like-minded institutions bringing relevant and complementary skills. The addition of fund investment not only increased the reach of the Jacobs Foundation's impact finance portfolio, enhancing its ability to strengthen Côte d'Ivoire's educational system, but also brought it closer to achieving its objective: to gain greater focus on how the foundation can add value to investees, namely by offering scientific support to improve educational methods and learning outcomes.

AgDevCo Smallholder Development Unit (SDU)

Provider of funding	
Organization name	The Mastercard Foundation (also referred to in these materials as the "Foundation")
Mission of organization	To advance education and promote financial inclusion to catalyze prosperity in developing countries as a means of relieving poverty
Ways of deploying foundation resources	Grants, funding agreements, and service contracts*
Headquarters location	Toronto, Canada

Program details	
Use of funding	Providing capacity-building services to agribusinesses through financial support focused on the development of sustainable, equitable, and inclusive outgrower schemes in order to promote financial inclusion as a means of relieving poverty
Amount and structure	Approximately USD 13.2 million Services Agreement
Time period	about 5.5 years, October 2015 – May 2021

Service provider	
Organization name	AgDevCo
Organizational profile	AgDevCo is a social impact investor and project developer operating exclusively in the agricultural sector in Africa. Their mission is to reduce poverty and improve food security by investing in farming, food processing, and marketing enterprises that have the potential to make a major positive social impact
Geographic focus	Sub-Saharan Africa, specifically Ghana, Malawi, Mozambique, Senegal, Tanzania, Uganda, and Zambia

* The Mastercard Foundation generally uses service contracts with entities they are funding outside of Canada. The service contract established between the Mastercard Foundation and AgDevCo, an organization based in the United Kingdom, is described in this case study.

Mission of funder

The Mastercard Foundation works with visionary organizations to enable young people in Africa and in Indigenous communities in Canada to access dignified and fulfilling work. It is one of the largest private foundations in the world with a mission to advance learning and promote financial inclusion as a means to relieve poverty and create an inclusive and equitable world. In 2015, one of the Mastercard Foundation's priority was to create pathways to help lift smallholder farmers and agricultural communities out of poverty.[14] Specifically, the Foundation developed a strategy that sought to (1) promote financial inclusion and opportunities for youth by catalyzing prosperity among smallholder farmers in Africa; and (2) stimulate the wider development of the agricultural sector, which can generate a large number of jobs, especially in rural areas.

Context

Smallholder farmers in Africa often face a myriad of challenges related to growing and selling their crops. These challenges contribute to persistent food insecurity and poverty. In terms of production, smallholder farmers frequently lack access to capital, quality inputs, or basic mechanization services, leading to low levels of productivity. Regarding selling their products, smallholder farmers can face information asymmetries, as well as limited access to buyers; they may be unable to receive fair prices for their product or even unable to sell their product at all.

While the Mastercard Foundation had worked with non-governmental organizations (NGOs) in order to facilitate the development of programs to increase smallholder farmers' productivity, the Foundation saw a need for additional interventions to create better linkages between farmers and fair buyers in agricultural markets. In 2015, the Mastercard Foundation decided to expand its programming to test whether rural agricultural enterprises ("agribusinesses") could effectively and sustainably support smallholder farmers, not only by providing services to boost their productivity but also by serving as buyers offering fair prices for farmers' products.

14 According to AgDevCo, smallholder farmers are typically individuals earning less than a dollar a day. Often, smallholder farmers are families whose household cash incomes do not exceed USD 100–200 annually. Such families generally have access to four to five hectares of land, of which they only farm one to two hectares because that is all they can manage with basic equipment.

The Mastercard Foundation therefore engaged AgDevCo to provide rural agribusinesses with technical assistance to more effectively serve smallholder farmers' needs from production to sale through the Smallholder Development Unit (SDU) and as a means of relieving poverty.

The Foundation's program with AgDevCo was developed in order to improve the livelihoods of smallholder farmers. The Foundation believed that collaboration with the private sector, managed appropriately, could deepen and broaden the scope of charitable impact.

Objectives

The objective of the project is to boost productivity and incomes for smallholder farmers. Over the approximately five-year period of the program, from October 2015 to May 2021, the SDU specifically aims to support rural agribusinesses to develop sustainable, equitable outgrower schemes,[15] boosting productivity and incomes for 381,000 smallholder farmers.

The SDU-supported outgrower schemes are designed to allow farmers to gain access, often for the first time, to agricultural supply chains, modern inputs, training, mechanical services, and new technologies (such as high-yielding seed varieties, box ridges for water conservation, and new methods of harvesting and storing production). This support model is intended to boost farmer productivity and enable farmers to sell their produce to, and create long-term relationships with, reliable agribusinesses paying fair prices,[16] thereby significantly increasing farmers' incomes. The agribusinesses supported by the SDU, in turn, would access such benefits as improved quantity and quality of production, more engaged and more loyal farmers as customers, and security of supply. An added outcome of increased farmer productivity is improved access to financial services. Support from the SDU and agribusinesses enable farmers to build verifiable track records through their participation in organized outgrower schemes. Such track records, in turn, allow farmers to build creditworthiness in the eyes of financial institutions (which are then likelier to provide access to such services as loans for inputs, bank accounts to manage crop proceeds, mobile money, and insurance services), all of which contributes to the financial inclusion of smallholder farmers.

Another important feature of the SDU-supported outgrower schemes is the integration of innovative technologies that make it easier for agribusinesses to serve large numbers of farmers in remote areas. Examples include Bluetooth scales, digital printers to provide receipts to farmers, digital farmer management systems (e.g., Farmforce, SourceTrace, CropIn), and point-of-sale systems.

To measure the effectiveness of the program, the Mastercard Foundation and AgDevCo monitor and measure outcomes at three different levels—client, institution, and ecosystem. At the client level, the agribusinesses supported by the SDU report their progress against a variety of indicators specifically related to smallholder farmers and the effect of a given outgrower scheme on their livelihoods, including but not limited to the following:

- The number of demonstration plots or model farms established
- The number of smallholder farmers who have received training to date
- The number of farmers registered with the company
- Total volumes of production sold by smallholder farmers to the company
- Average yield among smallholder farmers
- Gross income from agricultural production for the average smallholder farmer
- The proportion of outgrowers accessing financial services from formal financial institutions

At the institutional level, the Mastercard Foundation and AgDevCo established metrics related to the agribusinesses' receipt of technical assistance from the SDU in order to measure the value of their services to smallholder farmers, including, but not limited to the following:

- Introduction of new technologies into agronomic and business practices to improve smallholder farmer productivity (e.g., mobile phone and biometric solutions)
- Connections between smallholder farmers and buyers selling at fair prices
- Cost of providing services to smallholder farmers

At the ecosystem level, learnings from this project are gathered and shared in order to inform the wider African agricultural sector on how to effectively leverage rural agribusinesses to support smallholder farmers' financial inclusion and relieve poverty. The SDU shares what it has learned by convening webinars and conferences and by publishing various case studies, blog posts, and other thought research.

15 "Outgrower schemes are systems that link networks of unorganized smallholder farmers with domestic and international buyers. Also known as contract farming, these schemes provide benefits to players along the supply chain." Jane Abramovich and Samantha Krause, "Outgrower Schemes: A Pathway to Sustainable Agriculture," TechnoServe (blog), September 26, 2014.

16 According to AgDevCo, fair prices are determined by whether smallholder farmers have a voice at the table. This typically means that pricing is transparent and that the businesses are employing strong feedback mechanisms by which management can and will change whatever is not working.

Results

The performance of the SDU over the lifetime of the Mastercard Foundation's service contract is undergoing external impact evaluation as of the publication of this resource. More time is required to fully understand its impact in terms of the financial inclusion of smallholder farmers and in terms of the technical assistance model's transformative effects on local agricultural markets. That said, several preliminary results indicate the program is on track to meet or exceed its targets.

To date, 367,000 smallholder farmers have established viable commercial relationships with SDU partner businesses. Additionally, 255,000 smallholder farmers have benefited from demonstration plots and training services, and over 90,000 hectares now use improved agricultural practices. More broadly, external evaluators have found that the SDU's technical assistance projects have performed well in terms of additionality, though the early stage of many partnerships means that most are currently yielding mixed results in terms of depth, sustainability, and transformational change. Regarding the net effect above a counterfactual scenario, analysis suggests that most agribusinesses supported by the SDU would not have been able to carry out the activities at the same scale or pace without such support.

Insights for peers

The project undertaken by the Mastercard Foundation and AgDevCo provides learnings for other organizations who would like to support initiatives aimed at relieving poverty through financial inclusion using a model like AgDevCo's SDU, which has focused on bolstering the livelihoods of smallholder farmers. Learnings from the SDU's model are as follows:

- **Target stakeholders should remain at the center of program design.** Foundations and private sector partners can work together to ensure that key stakeholders remain at the center of the design and execution of programs delivered by the private sector on behalf of charitable organizations. In the case of the SDU, the Mastercard Foundation worked with AgDevCo to shape the technical assistance it provided to agribusinesses in a way that supported agribusiness partners and also directly created value for hundreds of thousands of smallholder farmers, which facilitated the financial inclusion of said smallholder farmers.
- **Activities can take longer than anticipated.** Buffers should be built into schedules to allow for unforeseen delays, particularly when rolling out a new program or beginning operations in a new country. Equally, foundations should try, to the extent possible, pursuant to the terms of any relevant contracts, to be flexible as the delivery of services progresses. For example, the SDU has had to pivot its support and adjust budgets in several cases as companies' plans have evolved over time and in light of unexpected events (most notably the COVID-19 pandemic).
- **Collaborate to achieve long-term outcomes.** It can be beneficial to think beyond short-term outcomes and work with private sector partners and external evaluators to best deliver interventions that will have long-term impacts on the target stakeholders and their communities at large. In this example, AgDevCo conducts detailed financial and operational due diligence on its partner businesses before providing approval to ensure they (1) have the appropriate absorptive capacity (financially and in terms of dedicated human resources) to take on the contemplated partnership; and (2) will be able succeed after financial and technical support ends, leading to sustainable business models that can continue to support smallholder farmers and deliver meaningful impact.

APPENDIX

Participants of the GIIN's Frontier Finance Working Group by Organization

Acumen

African Development Bank

AgDevCo

AlphaMundi

Ashburton Investments

Barak Fund Management

Big Society Capital

CDC Group plc

Ceniarth

Consillium Capital

Cordaid Investment Management

Credit Suisse Foundation

Dalberg Advisors

Developing World Markets

Développement International Desjardins

The DOEN Foundation

Eighteen East Capital

European Venture Philanthropy Association (EVPA)

FINCA Ventures

FMO

Global Innovation Fund

Investisseurs & Partenaires

Impact Investing Exchange (IIX)

Incofin Investment Management

Jacobs Foundation

Japan Social Innovation & Investment Foundation (SIIF)

Kaizen PE

Kiva Capital Management

The Lemelson Foundation

Lendable

The Mastercard Foundation

Mennonite Economic Development Associates (MEDA)

Mercy Corps

Millennium Challenge Corporation

Norther Arc Investments

Omidyar Network

Omnivore Partners

Patamar Capital

Shell Foundation

Small Foundation

Terracon Ecotech

TripleJump

U.K. Foreign, Commonwealth and Development Office (FCDO)

U.S. Agency for International Development (USAID)

Village Capital

Villgro

Vitol Foundation

Volta Capital

Wangara Green Ventures

Contact the GIIN

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