Lessons from the Social Impact Investment Taskforce:

International Development Working Group

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Introduction to Working Group

- Convened to inform Taskforce on the role of impact investment in international development
- Collaborative process to advance new ideas for impact investing
- *How can impact investing drive economic development and social progress in developing countries?*
Working Group Members

Sonal Shah  Georgetown University (CHAIR)
Michael Anderson  Children’s Investment Fund Foundation
Nancy Birdsall  Center for Global Development
Sasha Dichter  Acumen
Toby Eccles  Social Finance UK
Tilman Ehrbeck  Consultative Group to Assist the Poor
Roland Gross  German Federal Enterprise for International Cooperation
Rene Karsenti  International Capital Market Association
Julie Katzman  Inter-American Development Bank
Mike Kubzansky  Omidyar Network

Elizabeth Littlefield  Overseas Private Investment Corporation
Stewart Paperin  Soros Economic Development Fund
Gerhard Pries  Sarona Asset Management
Vineet Rai  Aavishkaar
Harold Rosen  Grassroots Business Fund
Jean-Michel Severino  Investisseurs et Partenaires
Geetha Tharmaratnam  The Abraaj Group
Ingo Weber  GIIN/Leapfrog
David Wilton  formerly with the International Finance Corporation
Opportunities for Impact Investing in International Development

• Key considerations:
  – Growing recognition of the role of the private sector in addressing social problems
  – Need for new capital to developing economies
  – Advancing market principles in improving the effectiveness of development interventions
  – Impact investment in conjunction with other sources of public, private and philanthropic capital
The Changing Landscape of Development Finance

- Has immense progress, but growth has been uneven and unequal
- Aid and philanthropy alone insufficient to solve complex challenges
- Landscape for financing is changing radically
- Need new finance and investment models for better collaboration and scale
Impact Investing in International Development

• Not all investments which have a development impact are “impact investments”

• Efforts to differentiate investments that fit definition: targeting social & financial returns and measuring both

• Growing number of impact investment funds and vehicles: Acumen Fund, Africa Health Fund, Global Innovation Fund, Development Impact Bonds...

• Could be fastest-growing segment of impact investment market
## Biggest Challenges

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<tr>
<th>Asymmetry of Capital Demand and Supply</th>
<th>Sharing and Managing risk</th>
<th>Inadequate metrics and transparency</th>
<th>A need for a more robust ecosystem</th>
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| • Market asymmetry between demand for investment and supply | • Governments should explore how to attract investment to higher risk projects | Market lacks:  
• Common understanding and vocabulary  
• Standardized metrics  
• Transparency of transactions and results to ensure knowledge-sharing | • More capital and training to build capabilities at local level  
• More tools for sharing lessons and experiences  
• Greater involvement at policy level |
| • Need to get more social ventures investment-ready | • Sharing of best practices amongst G8/G20 countries |                                      |                                    |
| • Need for early stage capital |                                      |                                      |                                    |
RECOMMENDATION 1:
CREATE A NEW IMPACT FINANCE FACILITY

- Multi-country effort would target barriers to the impact investing market at a larger scale
- “Fund of funds” to stimulate ongoing flow of deals with lower transactions costs
- Structure:
  - Flexible fund for full spectrum of investments
  - Grant support for technical assistance
  - Online platform for investors and investees
RECOMMENDATION 2: CREATE A DEVELOPMENT IMPACT BOND OUTCOMES FUND

- Accelerate experimentation and learning about DIBs
- Help pay for outcomes of successful DIB pilots in a range of sectors
- G7 development agencies to contribute to proposed $100 million fund
- Outcome funder commitment first step to attract investors
- Could link financing with achievement of development goals from post-2015 framework
RECOMMENDATION 3: INCREASE TRANSPARENCY AND IMPROVE METRICS

- Support WG efforts to advance impact measurement common guidelines
  - In international development, DFIs, philanthropic organizations, investors, and local governments should participate and improve their metrics

DFIs should:
- Identify impact objectives across their portfolios and clarify which are "impact investments"
- Publish information on impact investments to facilitate learning, including metrics
- Support governments and businesses in developing countries to improve data collection
RECOMMENDATION 4: SUPPORT THE BROADER ENVIRONMENT FOR IMPACT INVESTING

- Requires grant capital
- Support local governments and intermediaries to build the market
- Resources to develop improved metrics
- Research on new business models, exit strategies, evaluating new funds and approaches
- Mechanisms for sharing knowledge and best practices
- Loosen regulatory and legislative constraints on DFIs
Next Steps

• **Dissemination**
  – Engaging policy community
  – Finding partners who can help to spread report’s messages
  – Keeping Working Group members involved
Questions?

Have thoughts or feedback? Email the GIIN: Lgustafson@thegiin.org

Find the full working group report at www.socialimpactinvestment.org

Find the other webinars in this series and further information on impact investing at www.thegiin.org
Additional Slides
CASE STUDY

Impact-Based Incentive Structures: The Africa Health Fund

The **Africa Health Fund**, managed by the Abraaj Group, a private equity investor in global growth markets, was established in 2009 with backing from the African Development Bank, the Bill & Melinda Gates Foundation and the International Finance Corporation as anchors to help consumers at the base of the pyramid gain access to affordable, quality healthcare through targeted investments in the healthcare industry in Africa. The Fund specifically aims to reach the BoP, which it defines as those who earn an average annual household income of less than $3,000 in purchasing power parity (PPP) terms. Performance goals are integrated into the fund manager’s compensation structure; The Abraaj Group earns more the greater the percentage of BoP clients that its partner companies serve, creating incentives to target the hardest to reach. An example investment is the Avenue Group, a healthcare provider which has grown from a 70 to 140 bed capacity between 2011 and 2013, with 57% of its customer base estimated to come from the BoP. The Africa Health Fund is funded for 10 years and as of mid-2014, has made 10 investments totaling $50.3 million across Africa.

• Experiments with social impact bonds are currently underway in the United Kingdom, United States and other developed countries.

• Development Impact Bonds are also being explored in India, Uganda, Rwanda and Mozambique.
Impact Investing in International Development

• Blended finance approaches
  – Exploring structures to invest investments
  – Microfinance Initiative for Asia (MiFA) Debt Fund
  – Development Innovations Ventures

• Experimentation by Development agencies
  – Outcomes based approaches and result-based contracting
    Social Impact Bonds (SIBs), Pay for Success Contracts (PFS)