Global Impact Investing Network Publishes Research on Catalytic First Loss Capital

Issue Brief includes Case Studies of Five Impact Investment Deals that Incorporate Credit Enhancement

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October 10, 2013—The Global Impact Investing Network (GIIN) released today an issue brief that details the motivations, benefits, considerations and suitable scenarios behind the use of catalytic first-loss capital in impact investing transactions. Catalytic first-loss capital refers to socially- and environmentally-driven credit enhancement provided by an investor or grant-maker who 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. Catalytic first-loss capital has gained recent prominence in impact investing dialogue as more investors look to enter the market. The issue brief will be discussed and distributed at the first-ever GIIN Investor Forum, a global gathering of nearly 400 impact investors in London today and tomorrow.

“Impact investors are experimenting with catalytic first-loss capital in innovative ways to reduce risk, advance social and environmental objectives using commercial capital at scale, and stimulate investment activity in new markets,” said Luther Ragin, Jr., Chief Executive Officer of the GIIN. “With this report, investors and grant-makers can learn about the emerging best practices in the use of catalytic first-loss capital, while looking into the specific terms and tactical considerations of five diverse deals.”

Catalytic first-loss capital in the impact investing market can be a powerful way to increase social and environmental impact. When used effectively, providers of first-loss capital leverage significantly more investment by intentionally assuming more risk. This engages a broader set of investors in a given transaction and, over time, can stimulate greater investment into particular sectors or markets.

The issue brief outlines two scenarios best suited for catalytic capital: when the provider of credit enhancement aims either to (a) drive social and/or environmental impact at a scale and speed that would be very difficult to achieve without the use of credit enhancement, and/or (b) demonstrate the financial viability of high-impact sectors to commercial investors. In the issue brief, five deals are
mapped to these two scenarios, with details provided to show the key motivations, considerations, and lessons learned by the investors involved.

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About GIIN

The Global Impact Investing Network (GIIN) is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. Impact investments are investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances. 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, please visit www.thegiin.org.

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