

Murder on the Orient Express?

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## Mysterious ways of Impact Investing

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# Outline

1. What is the media saying and Who are the suspects?  
(A View of the Impact Investor Universe)
2. What are the means, motives and opportunity?  
(Impact Investing frameworks and theory of change)
3. Can you solve this case?  
(Belgian investor)
4. Here is what happened...

# What is the media saying? (Source: FT, Devex, BBC; Oct 2017)

Social Investment

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## How the next generation is shaping a new future with old money


Justin Rockefeller and other young members of historic dynasties are taking their family offices into the next era

“Ambitious Wealth

**Panel of impact investing leaders recommend new £2bn UK fund and 'pensions with purpose' to boost businesses which benefit the country**

INSIDE DEVELOPMENT » SOCIAL CAPITAL MARKETS CONFERENCE

**Leveraging impact investing to achieve the  
SDGs**



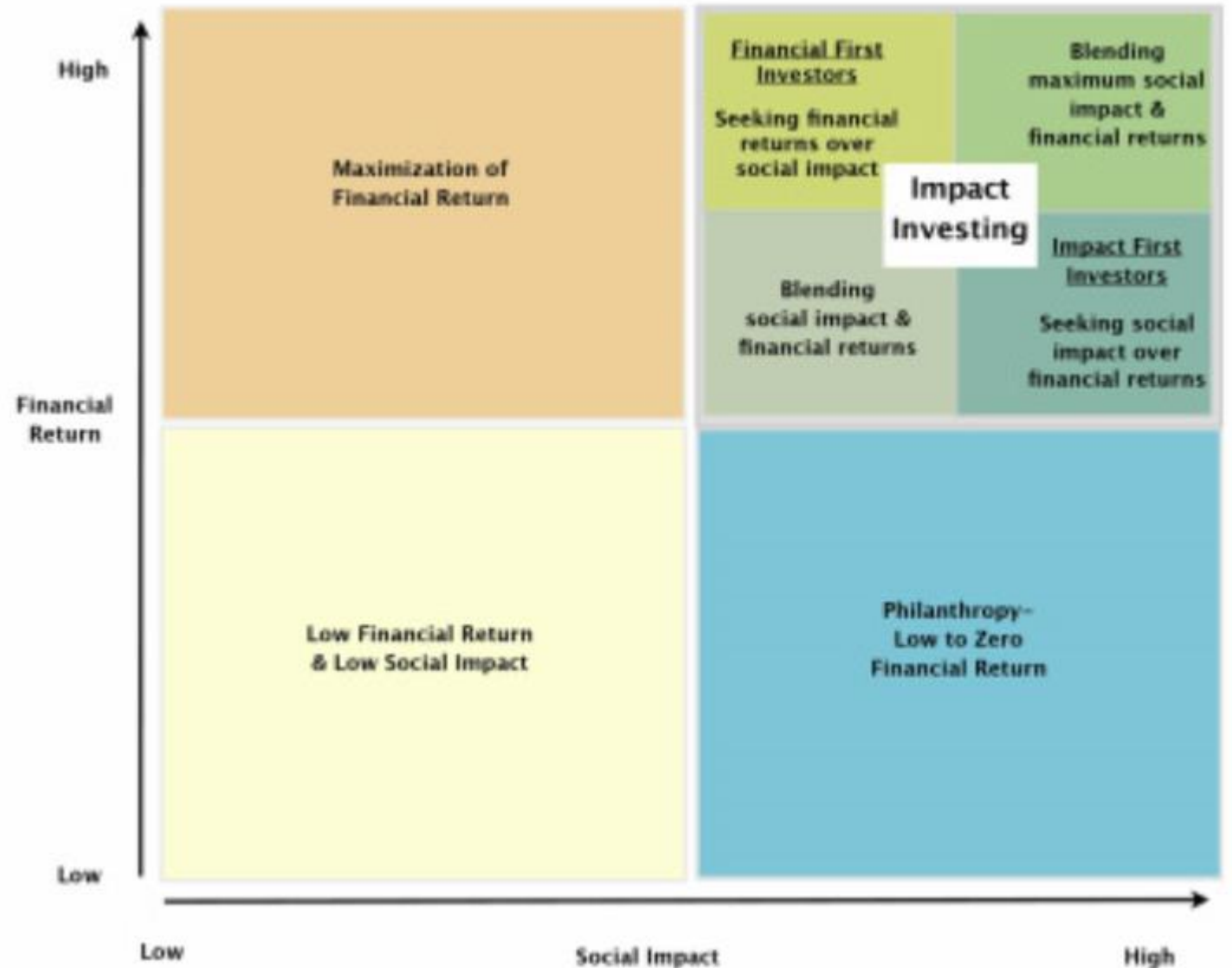
## Describing the scene and the suspects

- What is the definition?
- What is the difference between Impact investment vs. Investments with Impacts?
- Why does impact investing matter?

## “The Scene”

# Definition of Impact Investing?

- Impact investments are investments made into companies, organizations, and funds with the intention to generate 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 on investors' strategic goals.



## “The Scene”

Difference between Investments with Impacts and Impact Investments?



- Do the project sponsors have a specific intent to provide positive social and environmental impact, as evidenced in loan proposal, internal results matrix and a robust system to monitor their impacts?  
(not the MDB/IFI!)

*If YES* → Impact Investment

*If NO* → Investment with Impacts

Consider the concept of “Intentionality”

# The “boomers”

- World Bank / IFC
- African Development Bank
- Asian Development Bank
- EBRD
- EIB

# The “millennials”

- Rockefeller Foundation
- Calvert Investments
- Root Capital
- Africa Platform Capital
- Environmental Defense Fund



# Why does it matter?

- Challenges the view that financial returns can't be generated through investments in social and environmental issues.
- Offers viable and diverse opportunity for private sector to participate in development and advancement of social and environmental issues through investments that produce financial returns as well.







# How does the private sector contribute to impacts?

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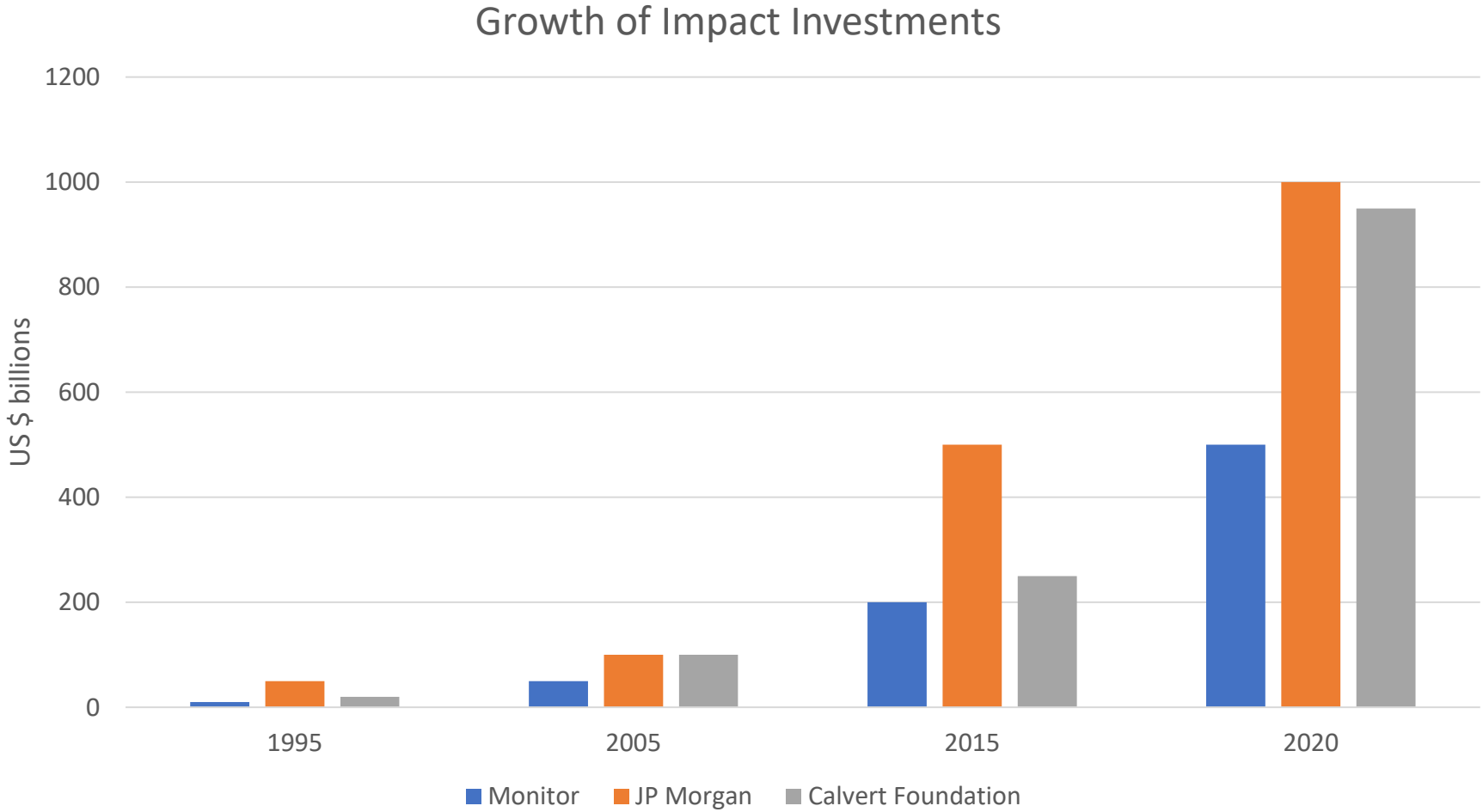
- Impact through capital investments and product delivery, i.e. goods and services produced by the enterprise

For e.g. clean water, financial services, efficient energy, healthcare

- Impact in operations

For e.g. management practices, employee insurance and health programs, environmental effects of its supply chain, social programs supported

# Growing Universe





# Impact investors belong to

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- GIIN – Global Impact Investing Network

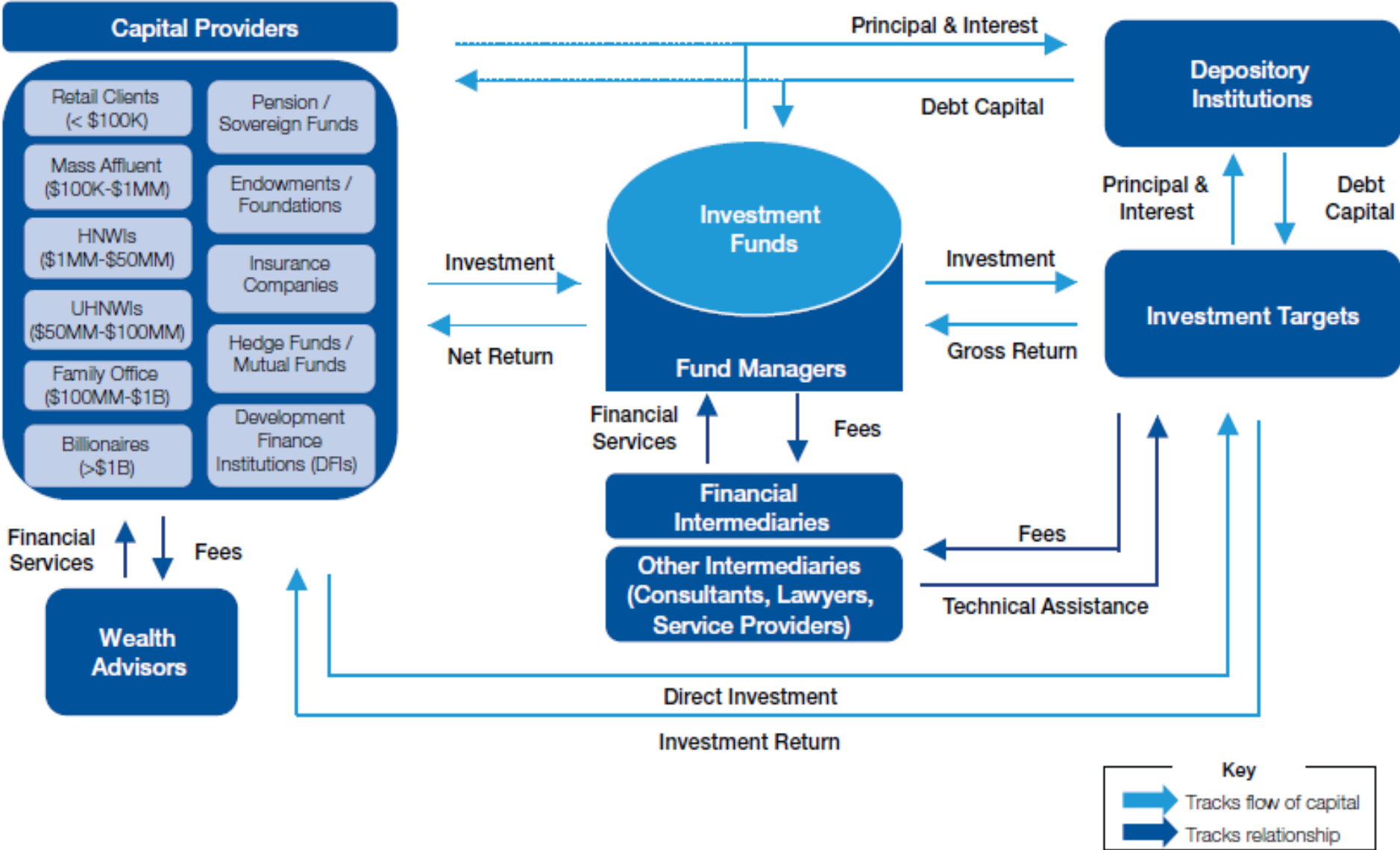
Largest network of private-sector impact investors, 300 founding members, investor's advisory council, reporting in a common standard (IRIS). ([www.thegiin.org](http://www.thegiin.org))

Supported by

- IRIS – Impact Reporting and Investing Standards

Largest repository of data from impact investors in a global database, standards-setting body leveraging existing frameworks, 5000+ organizations reporting using this standard as of 2015. (<http://iris.thegiin.org>)

# How are the “suspects” organized?



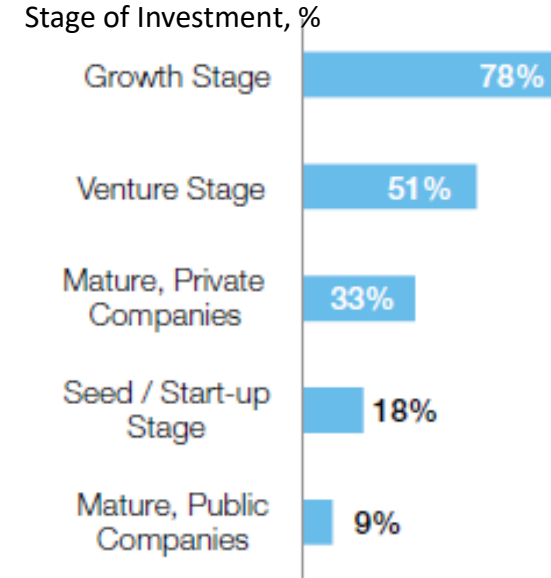
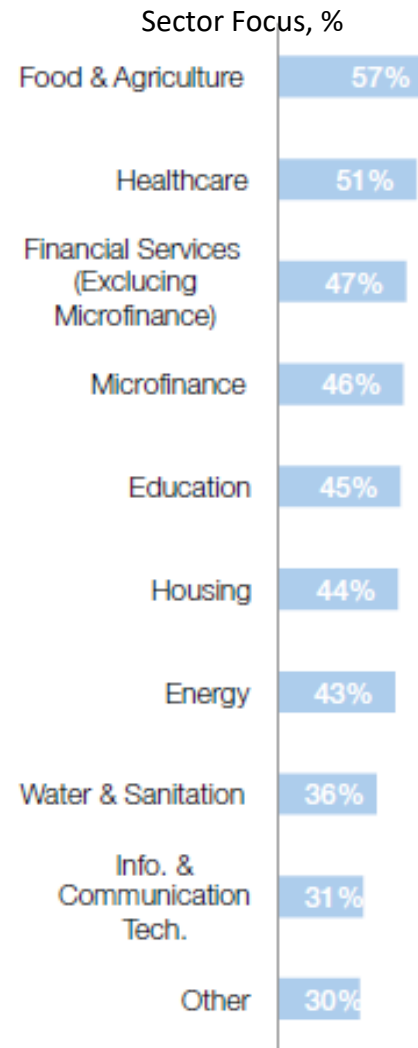
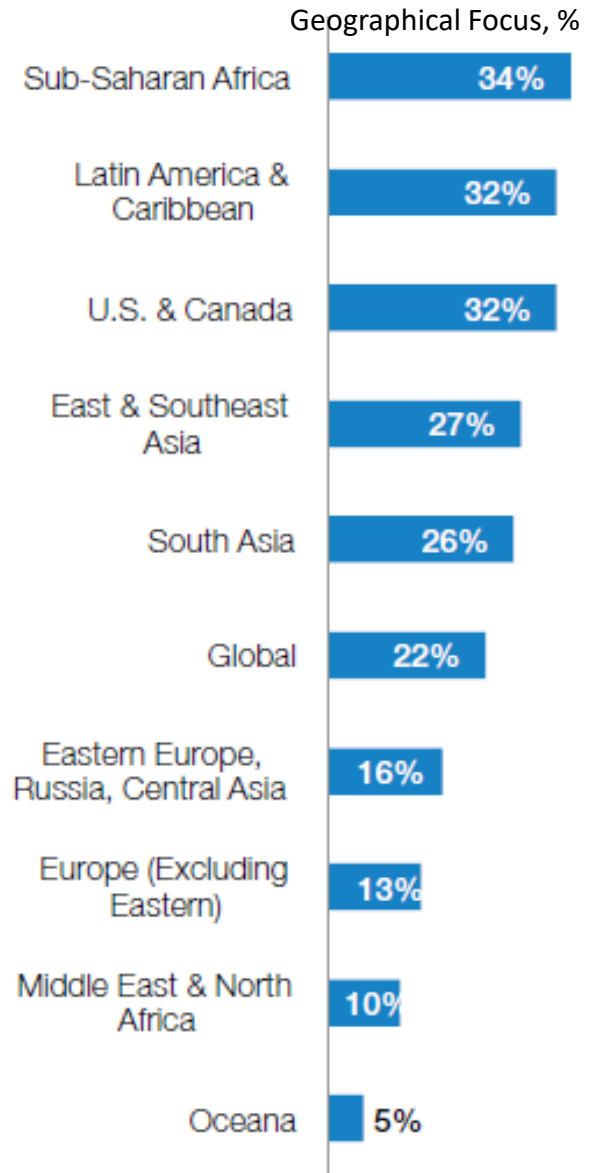
# Monitoring and Evaluation Frameworks leveraged in IRIS



## 2. What are the means, motives and opportunity?

(Impact Investing results frameworks and theory of change)

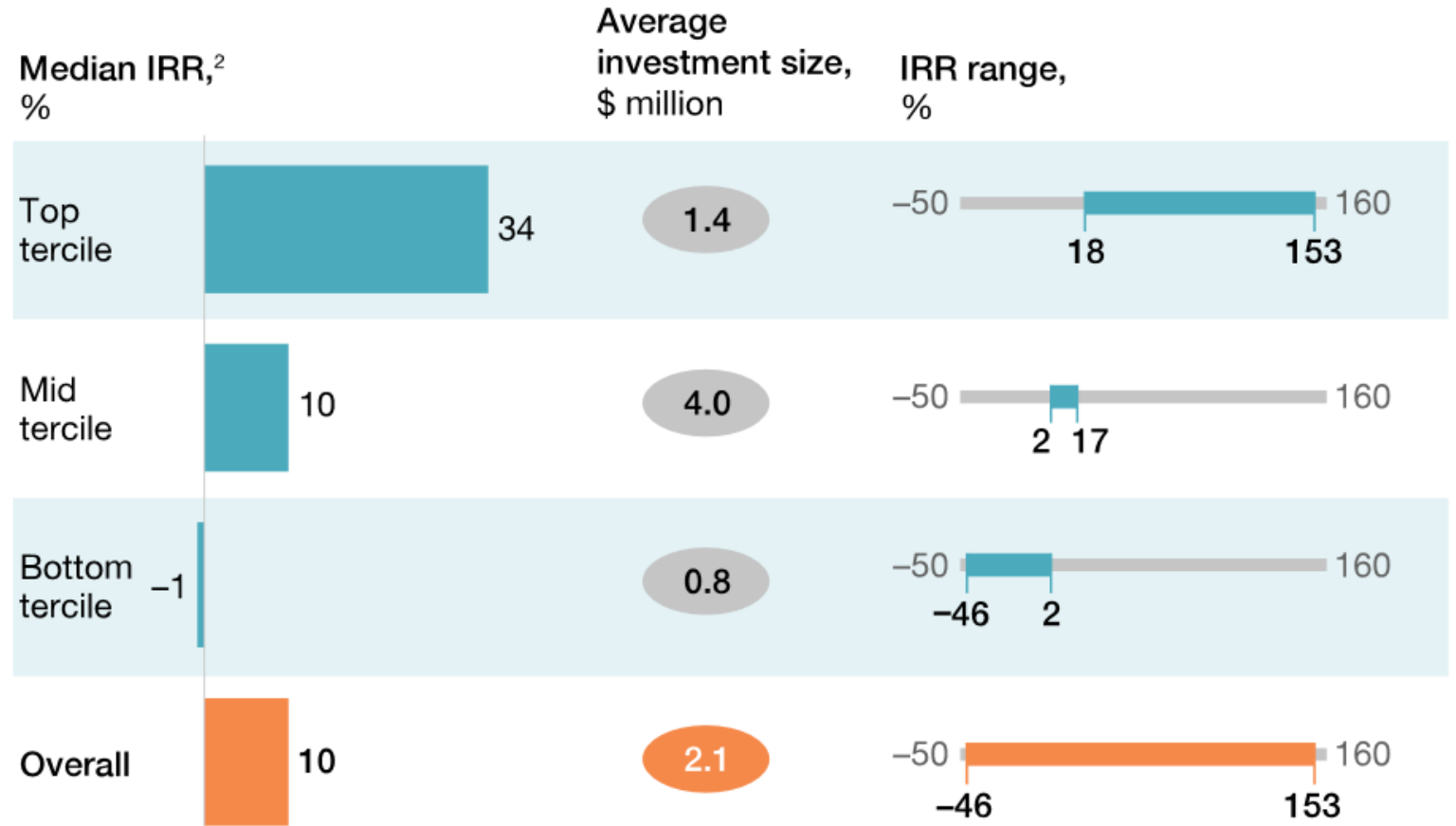
# “The Means”



Source: JP Morgan

“The priors”

How are the impact investments performing?



<sup>1</sup>Includes partial exit returns for stake sold.

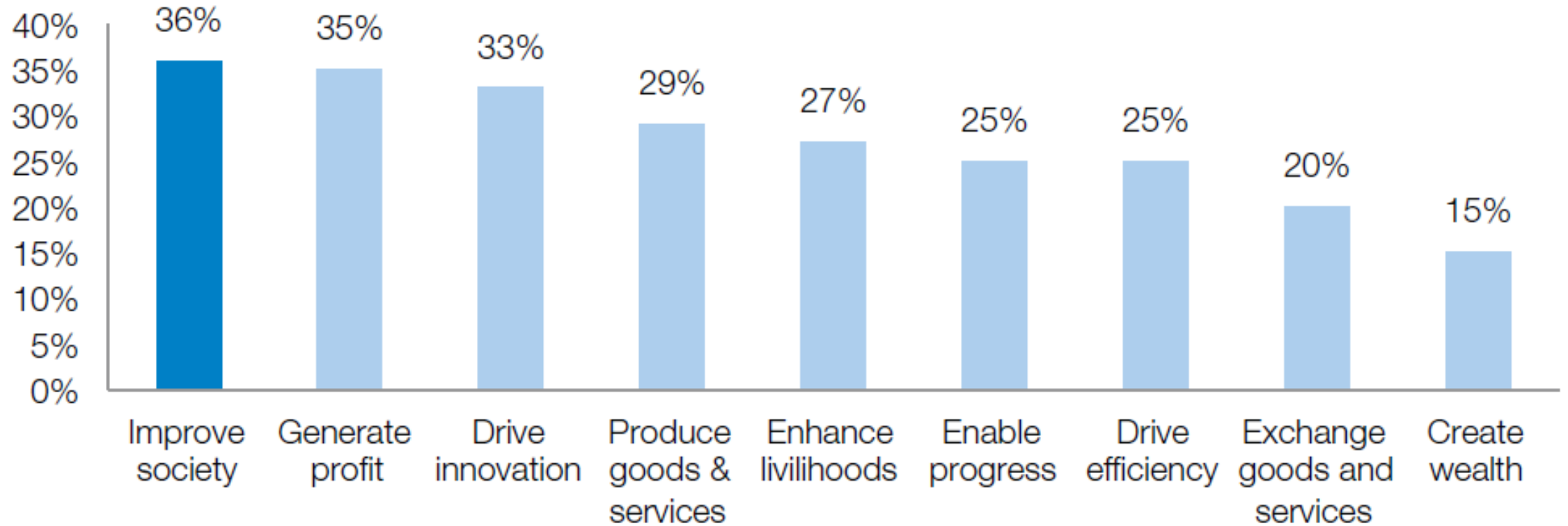
<sup>2</sup>Overall weighted average internal rate of return (IRR) is ~11%.

Source: Impact Investors Council; VCCEdge; McKinsey analysis



# “The Intentions”

What is the primary purpose of private sector business?



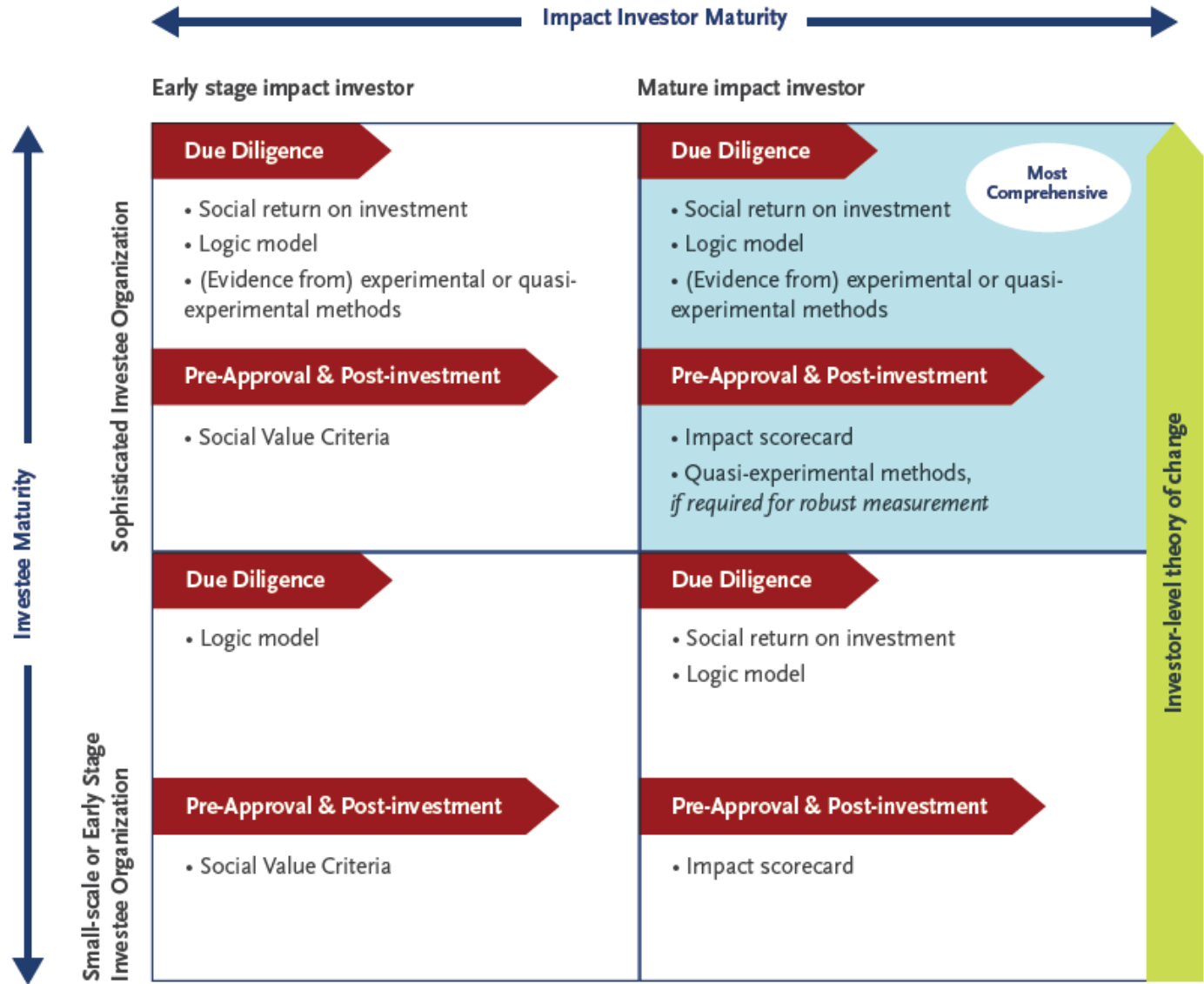
Source: Deloitte 2016 survey of 900 millennials across 18 developing countries

“The opportunity”

# Entry point in the Theory of Change



Results Frameworks determined by size and type of investor and beneficiary



*Note: Investee maturity should be determined by the impact investor based on the investee's size, reach, budget, or years in existence*

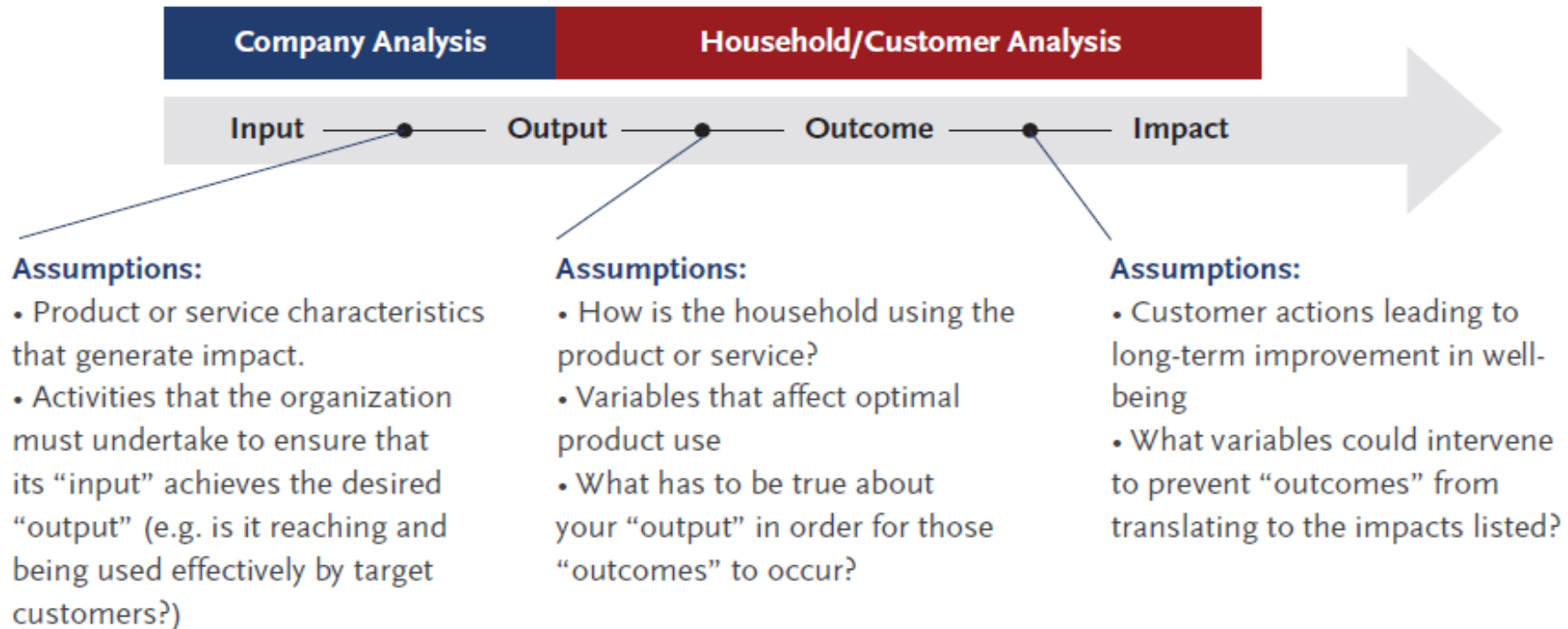
# Theory of Change

**Input:** The primary product(s)/service(s) offered by the organization/initiative

**Output:** The product(s)/service(s) being consumed at the household or customer level (Measurable metrics)

**Outcome:** The result of adopting the product/service expressed as the monetary and non-monetary well-being of the target customers (Measurable metrics)

**Impact:** The longer-term effects on the target customers' household well-being that can be attributed to the good or service. Impact will be (Measurable metrics when possible)



# Theory of Change...

Inputs	Activities	Outputs	Outcomes	Impacts
<p><b>Equipment:</b> peanuts processing factory, transportation vehicles</p> <p><b>Supplies:</b> peanuts / peanut paste, vitamins &amp; mineral mix</p> <p><b>Staff:</b> personnel with expertise on the ground in Haiti, labour force to run factory, international support team</p> <p><b>Partners:</b> institutional programs / demand for RUFs</p> <p><b>Funding:</b> philanthropic support</p>	<p><b>Production of medicines known as RUFs:</b> MFK produces 75mt of fortified peanut based foods (RUFs) per annum</p> <p><b>MFK Agricultural development:</b> MFK conducts 3-5 workshops to teach subsistence peanut growers how to increase yield and quality of harvests, MFK manages 5 demonstration plots and sources 40% of its peanuts locally</p>	<p><b>Products:</b></p> <p>Metric tons of RUFs produced per annum: 75 (2011), 800 (2015e)</p> <p># of products: 2 (2011), 5 (2015e)</p> <p>Metric tons of local peanuts purchased per annum.: 40mt (2011), 400mt (2015e)</p> <p><b>Services:</b></p> <p># of farmers trained in agricultural skills and provided with a stable market at fair prices: 100 (2011), 1000 (2015e)</p>	<p><b>Improve physical well-being: Very strong impact</b></p> <p>In 6-8 weeks, a child treated with RUF has 80% likelihood of recovery. Once severe malnutrition has been treated the child can survive on a local diet. Children cured of severe malnutrition before age 5 perform better at school and develop to be healthier and stronger.</p> <p># patients treated per annum.: 80,000</p> <p># patients treated against severe acute malnutrition: 20,000</p> <p>Children saved from becoming malnourished: 60,000</p> <p><b>Improve social well-being: Strong impact</b></p>	<p><b>Eradicate malnutrition in Haiti</b></p> <p><b>Build food security in Haiti</b></p> <p><b>Improve material well-being: Low impact</b></p>

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3. Can you solve this case?



# The Mysterious Case of the Belgian Investor

Incofin Investment Management (Incofin IM) is a Belgium based management company with 7 impact investing facilities totaling EUR 325M under management. Incofin IM mainly manages funds that invest in microfinance institutions (MFIs) in developing countries on-lending to agribusiness. MFIs provide **financial services**, such as credits, savings and insurances, to people who cannot have recourse to regular banks. As a specialist in rural microfinancing, Incofin IM's main goal is to reach out to people who live in more secluded rural areas and/or who are active in the **agricultural sector**. From its offices in Belgium, Colombia, Kenya and India Incofin finances and supports organizations in over 40 countries.

## Social Objective

- Access to financial services
- Agricultural productivity

## Sector Focus

- Agriculture
- Financial Services

## The mysterious case of the Belgian investor...

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- Please discuss in your small group and come up with monitoring and evaluation Indicators for this impact investor.



# World Bank Metrics for Agribusiness

(source: IFC)

1. Volume of Product (MT)
2. Productivity Improvement
3. Payments to Gov't (\$M)
4. Direct Employment (#)
5. Wages and Benefits (\$M)
6. Indirect Employment (#)
7. Domestic Purchases (\$M)

# and for Micro-finance

1. Access to Finance: New Loans and Outstanding Portfolio/ SME/ Agribusiness/ Access to Finance for Women: New Loans and Outstanding Portfolio/SME
2. Access to Financial Services: Branches, including Frontier or Rural Areas
3. Access to Financial Services: Deposits
4. Access to Financial Services: Lending in Frontier or Rural Areas
5. Access to Insurance and Pensions
6. Acquisition and resolution of distressed assets
7. Direct Employment (#)
8. Direct Female employment (#)
9. Investments into the economy by contractual savings companies (assets under management)
10. Number of MFIs reached

# Solve:

- How many metrics or indicators do you think Incofin monitors, measures and reports to its shareholders?



## 4. Here is what happened...

Number of indicators utilized by Incofin:

**93 in total!**

([www.Incofin.com](http://www.Incofin.com))

# Here is what happened...

Incofin Metrics or Indicators are not set based on sectors (such as Agribusiness or Microfinance) but based on higher-order Themes

- Land Administration
- Poverty levels
- Environmental Sustainability
- Geographic settings
- Type of livestock and fisheries
- Health and Safety
- Corporate policies
- Employee Welfare
- Supply Chain Linkages and Local content

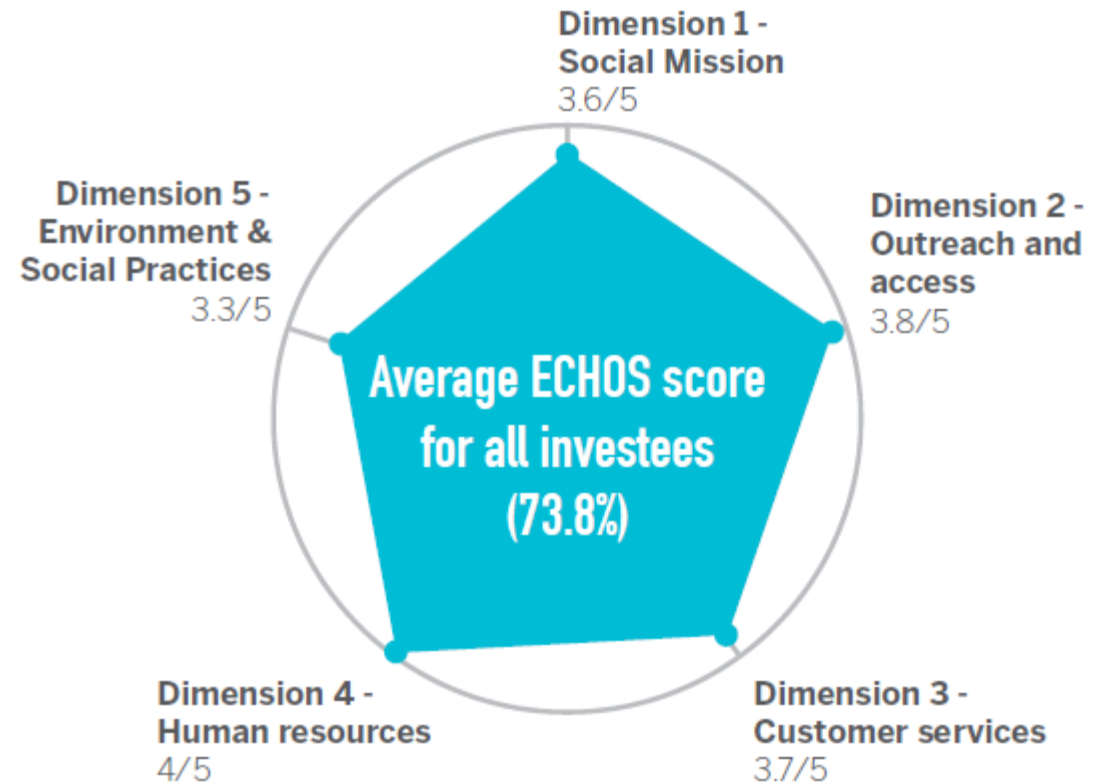
# Incofin's sample metrics

KYC/Market Research on Clients  
Product/Service Certifications  
Products Recalled  
Quality Assurance Mechanisms  
Land Administration and Control (% sustainably managed vs. others)  
Percentage Smallholders Sourcing Payments  
Producer Price Premium  
Pesticide Usage  
Average Client Agricultural Yield  
Livestock/Fisheries Impacts

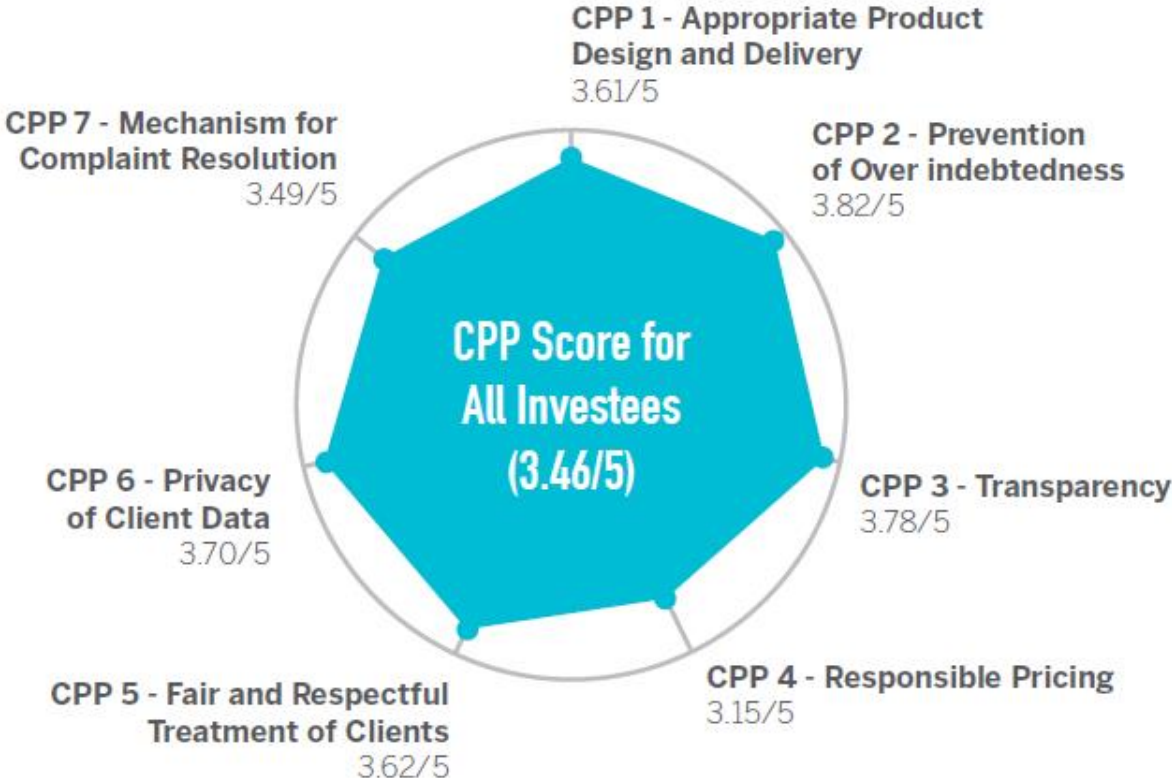
Active Borrowers per loan officer  
E&S Staff Training and Investments  
Fair Hiring / Recruiting Policy  
Permanent Wages and Growth %  
NPL (at Risk)-30 and 90 days  
Number of Voluntary Savings Accounts  
Impaired Assets  
Personnel Efficiency  
Capital Available  
Meeting frequency of Board of Directors  
E&S Committee Size and Governance  
Conflict of Interest Policy  
Fair Career Advancement Policy  
Healthcare Benefits

# Incofin's sample metrics framework continued...

Not focused on Financial Returns or IRR as the primary criteria for outcomes



# Monitoring Client (or Beneficiary) Protection Principles through Scoring system



This impact investor (fund manager with 30 employees) may be measuring and reporting more on SDG contributions than most of us at MDBs and IFIs do in this sector

Reflections on the case



The Belgian  
Investor survived...



# Reflections on the case



	Impact Investors	Traditional IFI models
Similarities	Theory of change ... ...	Theory of change ... ...
Differences	Intentionality  Social Returns is the primary indicator  <u>Frameworks by Themes, by Size of Investor and by Size of Beneficiary</u> ...	Additionality  Financial Returns is the primary indicator  <u>Frameworks by Sectors, and size of sponsor or beneficiary is not typically factored in.</u>

# Looking Ahead...

- Over 5,000 impact investors from around the world are actively monitoring, measuring and reporting their performance to the global database at GIIN/IRIS (<http://iris.thegiin.org>) that supports 600+ indicators across 20 sectors and themes.
- MDBs/IFIs don't create impacts, we usually *co-create* impacts with our clients and partners. How can we tap onto the growing base of Impact Investors from the private sector whose mission (remember "intentionality") is about creating development impact?





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