The INGO Impact Investing Network was formed in 2015 to facilitate shared learning, effective collaboration, and mutual advocacy on behalf of international non-governmental organizations (INGOs) involved in impact investing. With opportunities to accelerate mission benefits through impact investing, more than 40 international NGOs have joined and participated in activities, information sharing, and regular network forums.

One immediate need the network recognized was the lack of a shared understanding across INGOs, as well as the overall impact investing ecosystem, of the growing activity, varied experiences, and different roles that INGOs are playing. In order to fill this gap, the network surveyed its members in early 2016. This report seeks to highlight the exciting landscape for INGOs that is emerging by presenting both the overall survey findings and specific case studies. These initial findings reveal the unique value that INGOs offer as well as the actions required to accelerate the ongoing development of impact investing to deliver and sustain mission benefits. Equally, INGOs are discovering rich collaborations, keen market insight, and shared impact alongside a full spectrum of impact-oriented entrepreneurs and enterprises.

We look forward to future initiatives which will provide additional perspectives on the opportunities and issues for international NGOs in this dynamic environment.

Sincerely,

The Steering Committee of the INGO Impact Investing Network
acknowledgments.

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Impact investing—the investment of capital to drive measureable social, economic, and environmental as well as financial returns—presents a compelling opportunity to achieve increased scale, innovation, sustainability, and partnerships in international development. The INGO Impact Investing Network is collaborating to understand how INGOs [International NGOs] are currently engaged in impact investing, to identify different approaches to investing for development outcomes, and to share best practices and lessons learned with one another. This within-sector collaboration represents the collective approach that is required across the broader ecosystem of impact investing actors.

Impact investing research, discussion, and literature has been noticeably void of insights about the potential assets, capabilities, and networks that INGOs bring to impact investing. A key first step toward increasing impact investing dialogue and engagement among investors, banks, corporations, universities, and social enterprises with INGOs is for the sector to develop a deeper understanding of the current landscape of INGO impact investing activity.

Together, we recognize the INGO Impact Investing Network for its efforts to produce Amplify: The INGO Value Proposition for Impact Investing, a report which outlines the INGO sector’s self-assessment of its current impact investing activity and provides a basis for further analysis and discussion about where INGOs could have the greatest contribution in the impact investing ecosystem. INGOs have deep and trusted relationships with communities in developing countries; maintain broad geographic footprints; have world-class technical expertise in social, economic, and environmental development and humanitarian response; and understand the needs of local communities. The future trajectory of impact investing and associated societal prosperity will benefit from the insights and data contained herein.
executive summary.

This is a period of unprecedented change for international NGOs and their partners. The scale of economic and social problems, the complexity of the global environment, and the myriad forces that pressure traditional models are resulting in new creativity, innovation, and types of collaboration. Nowhere perhaps is this trend more pronounced than in the impact investing arena. Over the last several years, the INGO sector has seen a number of developments in impact investing and social enterprise creation that are exciting in their range and potential to scale and sustain long-term mission results.

Our recent review of activity across the newly formed INGO Impact Investing Network reveals several developments that present a compelling view of a sector positioned to deliver mission benefit in new ways.

Though early in its development, international NGO activity in impact investing is larger than traditionally reported, and growing.

In our review of survey data from the INGO Impact Investing Network, almost 60% of INGOs are actively engaged or piloting approaches with the remainder exploring how to incorporate impact investing into their programs and strategies. As just one example of the ways INGOs are engaging, INGO-managed or founded impact investing funds encompass $545.1 million in assets. With different degrees of experience in impact investing, this is a period of intense development, learning, and creativity across the INGO sector.

Focused on better delivering their missions, international NGOs are exploring and implementing impact investing solutions across a wide range of geographies, program areas, and return expectations.

Though activity to-date is focused on agriculture, livelihoods, and financial inclusion in the regions of greatest need, most program areas and geographies are exploring, piloting, or implementing impact investing approaches. Overall, INGOs tend to be impact-first investors, ready to accept below market-rate returns with less than 20% expecting market-rate returns, and nearly 45% expecting no additional returns beyond capital preservation.

With their unique global capabilities and program expertise, international NGOs are playing multiple roles in the overall impact investing ecosystem.

INGO capabilities are multi-faceted: their deep knowledge of local environments, programs, and technical solutions; their long-standing networks and sophistication in partnering with multiple actors; and their experience in complex, multi-year measurement of impact. As a result, international NGOs are playing multiple roles including making impact investments through direct and indirect means and across several different asset types, receiving impact investments, offering various forms of technical assistance to support different players, and building the impact investing ecosystem.

International NGOs are approaching impact investing with a long-term view, focused on developing new capabilities and engaging with existing and new partners to deliver mission results and establish their essential presence in the impact investing ecosystem.

As they begin to play larger roles, INGOs are taking a longer-term view of success. They are focused on enhancing internal capabilities including the systems and skills to engage key actors, conduct due diligence, structure deals, and measure impact while ensuring their organizational culture supports the long-term engagement required for success.

INGOs are actively addressing stakeholder communications, exploring legal options and requirements, identifying options for deal and resource flows, and creating new partnerships across the impact investing ecosystem.

Making the commitment to address these internal and external requirements—and effectively managing known and new risks—with a multi-year horizon, will be essential for success.

Looking ahead, several issues will need to be more fully explored and addressed as INGO activities expand and the impact investing ecosystem continues to evolve. These issues cover a wide area of further development and assessment including:

- Designing new INGO agency and program strategies that incorporate the full range of impact investing and social enterprise options;
- Understanding the role impact investing plays in supporting the ongoing evolution of INGO operating model(s); and
- Developing more robust services and measurement infrastructures to support the ongoing growth of social enterprises and of new impact investing structures.

With their increasing range and depth of participation, unique expertise and capabilities, and ability to collaborate with multiple actors at different levels around the world, international NGOs are poised to play essential roles ahead. In doing so, INGOs will not only deliver needed and necessary results, they also accelerate their own organizational evolution. New roles in impact investing, dependent upon knowledge, services, and networks, bring new value from core capabilities that complement INGOs’ traditional roles in development and humanitarian work.

It is an exciting time as actors across the impact investing ecosystem, including international NGOs, collaborate more closely to sustain and accelerate the promise that impact investing holds. The promise of shaping the impact investing ecosystem to bring more resources to address critical global needs offers INGOs a collective role beyond their missions: to create a growing resource environment that brings new possibilities to deliver, adapt, and sustain results into the future.
This report presents a “state of play” for INGO engagement in impact investing, based upon data emerging from the recently fielded INGO Impact Investing Network Survey [31 respondents]. It includes an overview of current activities, case studies from members, and findings from group discussions around the key areas of strength and challenge.

The report outlines the data around INGOs’ current approaches to making investments, receiving investments, providing technical assistance, and building the impact investing ecosystem. It then delves into some of the most important issues for INGOs, including internal capacity, organizational culture, measurement, and partnerships. Each section is complemented by short sidebars that bring these topics into greater clarity through specific examples of how INGOs are engaging. These examples are then expanded into short profiles (called “INGOs in Action”) and full case studies in the appendix.

**key**

**INGOs in action**

Examples with short profiles in the appendix

**case study**

Examples with full case studies in the appendix

The global development sector is experiencing a period of disruptive change. Globally, poverty rates have fallen, yet extreme poverty continues to become even more entrenched, particularly in fragile and conflict-affected states. Inequality is on the rise, creating traditional “development” challenges in even the most mature economies. Global population growth and the rising impact of climate change on water, food, and energy are exacerbating existing problems and creating new ones, including large-scale migration of people in response to conflicts and natural disasters.2 Even as the Sustainable Development Goals (SDGs) outline an ambitious development agenda, it is estimated that there is a $2.5 trillion gap in annual funding needed to achieve them.3

Concurrently, the growth of impact investing is introducing a new source of capital and a new set of actors trying to address these challenges. According to the Global Impact Investing Network (GIIN), impact investments are “investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.” The term impact investing was first coined in 2007, and now refers to a movement encompassing more than $77.4 billion in assets under management.4

This report is chiefly concerned with one type of organization that is committed to solving these challenges and increasingly involved in the impact investing movement: international non-governmental organizations, or INGOs. For the purposes of this report, we are defining INGOs as international organizations committed to achieving development outcomes, whether they are incorporated with a for-profit or non-profit status. They typically work in multiple countries and are funded through government or foundation grants and contracts, as well as by donations from private individuals. Common areas in which INGOs work to create greater and more positive impact include: poverty alleviation, health, and environmental conservation.

As INGOs are facing shifts in the nature of the global challenges they are trying to solve, they are also facing disrupters in their resource flows. Advances in technology mean donors and investors have higher expectations for transparency, engagement, and demonstrated impact. Driven by consumer interest in social responsibility and a desire to move into emerging markets, private corporations have also become more active in development, both through grant funding for more traditional development programs, and through strategies that build development goals into their business models.5

In some cases, enabled by new technologies and a generation of socially-conscious millennials, individual donors are now connecting directly with recipients through peer-to-peer platforms, circumnavigating charitable organizations and traditional donor governments entirely. At the same time, new models of giving, including crowdfunding and payment for impact, are complementing traditional grant funding, unveiling tremendous new opportunities.

These shifts have the potential to transform the INGO sector.

The role for traditional investors, financial advisors, banks, and foundations in the impact investing sector is well-documented. However, the role for traditional development actors like INGOs has been less discussed. Worthy of note is that many INGOs are in the midst of profound shifts in the way they approach their work and design their resourcing models. Approximately, a third of leading US-based INGOs already have internal social enterprise ventures6 and another 20% intend to develop them.7

The INGO of today looks quite different than it did 30 years ago – launching joint ventures with multi-national companies to employ women in rural Bangladesh, investing in early-stage social enterprises that provide solar technology in Kenya, or raising billions of dollars of investment for land conservation. This report provides data and examples to demonstrate the critical role that INGOs play in the impact investing space, offering key considerations for how INGOs can deepen their engagement and impact.
Impact investing: a compelling opportunity for INGOs to amplify impact

Though some might assume that INGOs are interested in impact investing to alleviate their perennial resource constraints, respondents in the INGO Impact Investing Network Survey data indicate that their primary motivation to engage with impact investing is to amplify impact. Respondents stated that their top reason for engagement is to scale current programs, followed by an interest in supporting businesses in their target geographies with access to finance.

Main reasons INGOs want to engage in Impact Investing (n = 31)

- To expand and scale current programs (84%)
- To support businesses, in target geographies, with access to finance (74%)
- To diversify funding sources (68%)
- To reduce dependence on donors (45%)
- To offset decreases or expected decreases in other funding sources (23%)

Many INGOs see a compelling and mission-aligned opportunity to scale their impact by enabling market-based development in their target geographies. INGOs have high visibility into the interrelated economic and social challenges in the developing world and see that support of enterprises is often inadequate. Often blended financing is needed to galvanize financial and social impact in inclusive businesses.

A secondary, but still important interest is the diversification of funding sources, providing return-seeking capital that gives non-profits freedom to invest in things donors typically do not fund, such as innovation or internal organizational health.

Finally, several respondents cited an interest in bridging the gap between traditional philanthropy and impact investing to leverage the social aims of the movement, access capital that can generate returns and be reused, and demonstrate the potential for financial sustainability in their work.

Geographic focus of INGOs (n = 31)

- North America: 52%
- Central America: 58%
- South America: 71%
- North Africa: 35%
- West Africa: 97%
- East Africa: 94%
- South Asia & South East Asia: 94%
- Central Asia: 42%
- Eastern Europe: 42%
- Middle East: 45%
- South Asia: 94%
- East Asia: 58%
- Pacific: 23%

Given their global position and perspective, INGOs are uniquely positioned to navigate the impact investing landscape. With more than 40 members in the INGO Impact Investing Network, survey respondents collectively represent more than $8.5 billion in annual revenue and more than 100,000 employees.

Some key areas of value that INGOs bring to impact investing:

- **On-the-ground presence & networks:** While the majority of impact investors are based in New York, London, San Francisco, and Washington DC, INGOs’ geographic diversity provides on-the-ground knowledge of where investments can be best deployed. When leveraged, the INGO network provides unmatched demand-side and supply-side connections, bringing to the table quantifiable added value to impact investors’ needs, while also providing non-financial leverage to their projects. An example of this is INGOs’ ability to offer deal flow, matching investors with social enterprises in target geographies or impact areas, or directly making investments in those enterprises themselves.
LOCAL KNOWLEDGE: Through experience, INGOs know “all politics are local.” They understand local culture and politics and have the ability to work at the local level, easing roadblocks and expediting timing—significant cost savers and value creators that can add to investors’ ROI (return on investment). INGOs’ ground floor connections facilitate conversations up and down communications channels ranging from high levels of government to customers and beneficiaries. They are experienced in working in challenging frontier markets and conflict regions, possessing the capacity to manage and mitigate the associated risk.

SECTOR EXPERTISE: Many INGOs work to alleviate poverty through strengthening specific sectors or value chains, from dairy to tin. These organizations have deep subject-matter-specific knowledge as well as an understanding of gaps and obstacles in these value chains. This gives them an advantage in evaluating businesses in the sector, as well as the ability to add value to investments through technical assistance and network introductions.

IMPACT FOCUSED: Social and environmental impact is central to the mission of INGOs. They are implementing programs and making investments in enterprises that address the needs of base of the pyramid consumers. Often impact-first investors, INGOs can help bridge the gap in finance for seed and early-stage enterprises.

BLENDED CAPITAL: As experienced fundraisers, INGOs can work with bilateral and multilateral donors, private foundations, and high net worth individuals to complement investments with philanthropic capital, providing support to activities difficult to cover through traditional investment structures, like technical assistance to investees.

IMPACT MEASUREMENT: INGOs have well-developed and tested methodologies and systems for measuring and reporting on the multi-year impact of their work. As impact measurement is frequently mentioned as a challenge for impact investors, partnerships with INGOs could help close this gap and improve the sector’s overall impact reporting.

The impact investing ecosystem is rapidly evolving as more and more new actors join the movement. A glimpse of the diversity of actors and how INGOs are contributing is shown in the ecosystem map graphic on the next page.

Many of the INGOs represented in the INGO Impact Investing Network are also new to the sector. Of our respondents, 42% are studying opportunities in impact investing and developing their strategy for engagement. Among the remaining respondents, 29% are piloting a new approach or have recently launched their effort. The remaining 29% are “actively engaged,” meaning that they have an established fund or approach with documented impact and performance.

The respondents’ approaches are diverse, demonstrating examples of how INGOs can contribute to all parts of the ecosystem map. For the purposes of this report, we have grouped INGO activity into four categories:

- Making Impact Investments: Investing in impact enterprises, either directly, through a fund, through other intermediaries, or through a microfinance institution
- Receiving Impact Investments: Developing social enterprises or monetizing assets developed through donor-funded projects to receive investments and generate income
- Delivering Technical Assistance: Providing capacity development services for social entrepreneurs, impact investors, or other NGOs
- Ecosystem Building: Using advocacy and convening power to support the development of infrastructure for mission-aligned investing

It is worth noting that, among the four approach areas, all survey respondents reported interest or existing work in providing technical assistance. Of those still in the strategy development phase, more respondents were interested in receiving investments than making them, while the inverse is true for those already implementing work.

The subsequent sections of the report outline each of these approaches, offering survey data results and relevant examples from the INGOs that are ‘actively engaged’ and ‘piloting approaches.’
INGOs are just one stakeholder group among a wide variety of individuals and organizations active in the development of the impact investing ecosystem.

**Making investments**
- Providing capital to impact enterprises

**Institutional**
- Community development finance institutions
- Development finance institutions
- Foundations
- Funds and banks
- Microfinance institutions
- Multilateral institutions
- Public sector
- Venture capital firms

**Individual**
- Angel investors
- Competitions
- Crowdfunders

**Ecosystem building**
- Using advocacy and convening power to support the development of infrastructure for mission-aligned investing

**Awareness**
- Foundations
- Media
- Membership associations

**Capacity development**
- Business schools
- Competitions
- Conferences
-Think tanks

**Receiving investments**
- Receiving impact capital to generate social and financial returns
  - Social enterprises

**Technical assistance**
- Providing capacity development for social entrepreneurs or impact investors
  - General
    - Business consultants
    - Business schools
    - Certifying bodies
    - Fellowships
    - Incubators and accelerators
    - Membership organizations
  - Topic-specific
    - Financial advisors
    - Social measurement firms
    - Specialty law firms

For profiles and case studies on how INGOs are engaging in every part of the ecosystem map, see appendix 1 and 2, beginning on page 38.
The INGOs represented in the network conduct their impact investing work in diverse geographies and sectors. The regions with the highest presence of this work: South and South East Asia (SSEA), East Africa, and West Africa.

### Impact Investment Geographic Focus

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>South &amp; South East Asia</td>
<td>72%</td>
</tr>
<tr>
<td>East Africa</td>
<td>67%</td>
</tr>
<tr>
<td>West Africa</td>
<td>56%</td>
</tr>
<tr>
<td>Southern Africa</td>
<td>50%</td>
</tr>
<tr>
<td>North America</td>
<td>17%</td>
</tr>
<tr>
<td>Central America</td>
<td>28%</td>
</tr>
<tr>
<td>South America</td>
<td>44%</td>
</tr>
<tr>
<td>North Africa</td>
<td>6%</td>
</tr>
<tr>
<td>Middle East</td>
<td>17%</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>17%</td>
</tr>
<tr>
<td>Central Asia</td>
<td>22%</td>
</tr>
<tr>
<td>East Asia</td>
<td>33%</td>
</tr>
<tr>
<td>Pacific</td>
<td>6%</td>
</tr>
</tbody>
</table>

### Impact Investment Sector Focus

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Livelihoods</td>
<td>72%</td>
</tr>
<tr>
<td>Sustainable Agriculture and Development</td>
<td>67%</td>
</tr>
<tr>
<td>Microfinance/Financial Inclusion</td>
<td>67%</td>
</tr>
<tr>
<td>Sustainable Consumer Products and Fair Trade</td>
<td>39%</td>
</tr>
<tr>
<td>Renewable Energy and Climate Change</td>
<td>39%</td>
</tr>
<tr>
<td>Health and Wellness</td>
<td>28%</td>
</tr>
<tr>
<td>Education</td>
<td>17%</td>
</tr>
<tr>
<td>Water, Sanitation, and Hygiene</td>
<td>11%</td>
</tr>
<tr>
<td>Housing Products and Services</td>
<td>6%</td>
</tr>
</tbody>
</table>

The most common domains where INGOs are focusing their impact investing work are livelihoods, agriculture, and financial inclusion.

### FHI 360 and the FHI Foundation Model for Sustainable Investing: Unconventional Vision, Multiplied Returns

FHI 360’s highly entrepreneurial model for sustainable investing from the non-profit side has produced millions of dollars of financial returns alongside incalculable social returns in the forms of lives saved and improved, both directly and indirectly. By investing in, setting-up, and selling for-profit affiliates, FHI 360 established an independent, endowed foundation that provides cutting-edge investments to FHI 360 to further growth initiatives that both anticipate and shape the future direction of global development. The catalytic result, in vital collaboration with innumerable partners, has been tens of millions of lives saved and offered the opportunity to achieve their full potential. Read more about FHI 360’s time-tested model in Appendix 2.1, page 43.

### MEDA: Impact Investing in Frontier Markets

Mennonite Economic Development Associates (MEDA) began in 1953 as a small investment club that wanted to take positive steps to invest in and support small businesses to encourage economic growth and vibrancy for poor communities. Now, more than 60 years later, MEDA has grown and diversified its work, however the investment mandate has continued throughout. A recent example of MEDA’s innovations in impact investing and blended finance is Impact Investing in Frontier Markets (INFRONT). More about INFRONT’s unique approach can be found in Appendix 1.1, page 38.

Some of the reasons why INGOs are focusing on these sectors and geographic regions are:

1. **Alignment with Current Programs and Geographic Presence:** There are opportunities for organizations to integrate impact investing strategies into existing programs. Additionally, local partners are enthusiastic about this approach and can provide support in the form of due diligence, technical expertise, etc.

2. **Organizational Expertise and Core Competencies:** Organizations have a history of involvement in market-based approaches in addition to technical expertise in specific sectors.

3. **Opportunity for Scale and Profit:** They are interested in using a business and investment-based strategy to scale an existing project. Additionally, there are existing projects in sectors with mature markets that have track record for impact investments.
Perhaps the clearest way to engage in the impact investing sector is to play the role of investor. INGOs are already active investors; INGO-managed or founded impact investing funds encompass $545.1 million in assets. Microfinance, a predecessor of the impact investing movement and an entry point into investing for many INGOs, represents a large asset base for INGOs. The gross loan portfolio of INGO-owned or supported microfinance institutions is $11.6 billion.

A primary reason INGOs cite for selecting the role of investor as the place in the impact investing ecosystem where they can add the most value is that many INGOs have a large number of impact enterprises already within their network and they see, first-hand, the financing constraints those enterprises face. Whether working within a specific value chain for a market-based development project, supporting livelihood development for marginalized people, or seeking private partnerships in the countries where they work, INGOs often have deep networks of small and growing businesses in communities around the world. They also have staff and expertise in specific sectors and impact areas that give them a unique lens into which of those businesses are the best bets for investment.

Of the 16 respondents currently making investments, 81% source deals through their organization’s in-country networks; and 38% work with external advisors or brokers to find investment-ready enterprises. Given their unique networks and lens on the industries in which they invest, the majority of survey respondents making impact investments place their own investments directly into impact enterprises. Others launch their own investment funds, invest through intermediaries, or invest in or through a microfinance institution. Still others do not make their own investments, but help facilitate investments from external parties into companies within their networks.

Of the 16 respondents currently making investments, three quarters are investing through debt products. INGOs tend to be impact-first investors, ready to accept below market-rate returns. Less than 20% expect market-rate returns, while nearly 44% expect no returns at all beyond capital preservation.

Some INGO-managed funds are able to accommodate smaller investment sizes than mainstream impact investment funds. The average size of investment reported by survey respondents is just under $450,000. Minimum investment sizes are as low as $5,000. INGOs raise capital for their investments from a variety of sources.

World Vision and VisionFund: Investing in the Early-Stage “Missing Middle” through Expanded Microfinance and Technical Assistance

Accessing finance is a significant challenge for small and growing businesses (SGBs) in Sri Lanka. Research conducted by VisionFund Lanka (World Vision’s microfinance subsidiary) identified that Sri Lankan SGBs require credit amounts beyond the limits of microfinance loans to achieve growth; however, they struggle to access loans from commercial banks given their lack of credit history and geographical remoteness. World Vision is developing a model to address the “missing middle” finance gap for SGBs. To learn more about this innovation, see Appendix 12, page 39.

Mercy Corps: Bridging the “Pioneer Gap”

In 2014, Mercy Corps decided to further its engagement with social entrepreneurs by launching the Social Venture Fund (SVF), a seed and early stage impact investment fund formed using philanthropic capital. The focus of the SVF is to address the early-stage financing gap (referred to as the “Pioneer Gap”) by making investments of up to USD 300,000 in seed and early-stage social venture startups. The fund is targeting up to 10 investments every year utilizing equity and quasi-equity, and potentially debt in the future. To learn more about SVF, see Appendix 21, page 44.

Oxfam: Fostering Self-Sufficiency through Impact Investing

Oxfam’s impact investing work focuses on small and medium-sized enterprises (SMEs) that are vehicles for job creation and/or the development of affordable products and services for people living in poverty. Conventional financing institutions tend to dismiss such enterprises as “un-investible.” As Oxfam’s work in 90 countries is supported by different affiliates, a number of approaches have developed—making investments, grant-based support, integrated investment and grant opportunities —influencing system change. To learn about these approaches, see Appendix 2.3, page 45.
**case study**

Habitat for Humanity International: Using Housing Microfinance to Address the Needs of Base of Pyramid Customers

In 2012, HFHI launched the MicroBuild Fund (MBF), a $100 million fund, and one of the first microfinance investment vehicles with a focus on the housing sector that demonstrates the viability and scale opportunity of housing microfinance by offering longer-term capital to MFIs. Technical assistance is also provided to ensure the sustainability of the housing loan product. The ultimate goal is to catalyze and achieve a vibrant marketplace along the housing value chain: on the demand side by unlocking access to affordable housing finance and on the supply side by sparking and nurturing enterprises. To read more about the MBF and its impact, see Appendix 2.4, page 47.

**INGOs are actively seeking investments for entrepreneurial activities, whether in the form of internal assets and programs that have been developed into earned income ventures or the establishment of new social enterprises. In some cases, INGOs are also seeking private capital to fund immediate project needs via working capital loans as part of result-based financing schemes, like development impact bonds (also known as social impact bonds).**

While some INGOs are building such ventures to ensure long-term sustainability of development programs (once aid-based funding for a particular program runs out), others are focused on scaling the impact of existing programs, or diversification of revenue sources.

Of the 10 respondents receiving investments, the majority of them are raising funds to expand and scale existing social enterprises or to establish new social enterprises. Two are raising investment for working capital to fund immediate project needs (20%; as loan or part of results-based financing scheme). Most of these activities were reported to be at a pilot stage where the respondents are currently piloting their business model and improving and adapting their approach.

**Purpose of receiving investments**

- 90% to expand existing social enterprises
- 50% to develop new social enterprises
- 20% working capital to fund immediate project needs

**Identifying investors**

- 100% directly approached potential investors
- 60% was approached by potential investors through personal networks
- 40% through international/regional networks and conferences

**INGOs raise funds from various internal and external sources. HNWIs (high net worth individuals) and institutional investors (such as foundations) are the most often utilized sources. Some organizations are also utilizing their own unrestricted funds or are raising philanthropic capital to fund these enterprises.**

In terms of the process of identifying and engaging investors, all the respondents reported having directly approached HNWIs, foundations, and corporations to seek funding. In many cases, potential investors reached out to the INGOs themselves showing interest in investing.

**INGOs in action**

Population Services International: Making Safer Sex a Profitable Enterprise

In 2012, PSI established a not-for-profit subsidiary enterprise based in South Africa with the goal of centralizing its condom social marketing operations in the region and transitioning to a profitable, commercially viable business dedicated to two bottom lines—profit and social impact. Today, PSI’s regional condom social enterprise operates at scale in South Africa, Swaziland, Lesotho, and Botswana. How did PSI achieve this notable success? See Appendix 1.3, page 40.

**CARE SOCIAL ENTERPRISE**

JITA, a social business developed by CARE in partnership with Danone Communities, started as a program of CARE focused on developing a distribution network for products in rural Bangladesh. In order to scale the program to more areas in the country, and to ensure its sustainability, CARE decided to make it a separate business entity.

Live Well is a social enterprise currently being set up by CARE in Zambia. It is a network of community health entrepreneurs providing low-income communities with access to essential health and hygiene products. CARE is building upon a USAID program and has partnered with Barclays & GlaxoSmithKline and another social enterprise [Living Goods]. Live Well has already secured an investment that is a mix of philanthropic and investment capital.
The amount of time it takes to identify an investor, structure a deal, and finalize it can vary based on many factors – maturity of the enterprise, legal landscape for investing in a country, return expectations of investors, presence of investors in different geographies, alignment of the missions of the investors and the enterprise, availability of information for adequate due diligence, etc. Hence, all the respondents reported that the amount of time to accomplish this resource-intensive process can vary widely. When asked to estimate the time required, responses ranged from ‘a few weeks’ to ‘more than a year,’ but a timeframe of six months to a year to structure and finalize a deal emerged as a trend.

Results-based financing schemes in which impact investors provide working capital to INGOs (see sidebar: “The Power of Development Impact Bonds”) are of interest to survey respondents as a way to access impact investments within their current program areas. Among network members, 55% are interested in participating in a development impact bond, but only 13% are currently working on developing one.

A third role that INGOs play in the impact investing ecosystem is that of capacity developers, both for social entrepreneurs and impact investors. More than 90% of respondents report providing technical assistance to social entrepreneurs on topics such as: how to write a business plan; build and run an enterprise; attract investment; and take businesses to scale. Some provide this training and coaching directly to companies in which they have placed investments, while others support the business ecosystem as part of their livelihoods or market development work. Still another group provides capacity development to social enterprises or entrepreneurs on a fee-for-service or donor-supported basis.

A smaller number of respondents (28%) report providing technical assistance to impact investors on topics like identifying and sourcing deals or measurement. In both cases, the majority of INGOs report providing these services on a case-by-case or opportunistic basis, while nearly 40% have structured capacity development programs.

According to the World Bank, formal SMEs account for nearly 45% of the employment in emerging economies. At the same time, half of these enterprises do not have access to formal credit and there is a credit gap of $1.2 trillion. The goal of ACRE is to help SMEs that need investments ranging from $150,000 to $1.5 million – the “missing middle” – access finance by helping them become investment ready. The ACRE (Access to Capital for Rural Enterprises) platform is a result of a partnership between five INGOs – Christian Aid, Traidcraft, Practical Action, Twin, and Challenges Worldwide.

Focus on technical assistance and capacity development work  

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>social entrepreneurs</td>
<td>94%</td>
</tr>
<tr>
<td>impact investors</td>
<td>28%</td>
</tr>
<tr>
<td>other</td>
<td>11%</td>
</tr>
</tbody>
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Several INGOs are taking the approach of supporting the development of an enabling infrastructure for impact investing. Natural conveners, INGOs have a strong ability to conduct advocacy campaigns, raise awareness about important issues, and bring together diverse stakeholders around a common mission. They are also accustomed to doing systems-level thinking to identify and help fill gaps in existing movements or change processes.

Survey respondents are putting these skills and their knowledge of working with communities and enterprises to good use in support of impact investing by advocating for business environments and policies that are supportive of social enterprises.

Some network members also hope that their active engagement in the emerging impact investing sector will influence how the sector evolves. By piloting new and innovative approaches and demonstrating their success, INGOs are influencing the wider ecosystem in several ways. A few examples:

- Catholic Relief Services is creating a unique platform to communicate the value of impact investing to Catholics worldwide. In June 2016, together with the Pontifical Council for Justice and Peace, CRS convened impact investing experts and Catholic leaders from around the world to explore how the Catholic Church and other faith-based institutions can harness the power of impact capital to attain and sustain their social mission.

- MEDA co-founded CAFIID (Canadian Forum for Impact Investment and Development) in 2014, which brings together a variety of Canadian actors (senior representatives of investment funds, NGOs, foundations, family offices, consulting firms, research institutions and businesses) who are working at the forefront of international impact investment and development. CAFIID members collaborate to share and deepen knowledge, expand networks and partnerships, and advocate for greater Canadian leadership and innovation in financing for development.

- An important aspect of Oxfam’s impact investing work is to generate evidence and insights to advocate for changes that could benefit far more enterprises than the interventions could ever touch directly, such as pushing for policy changes to support women’s economic inclusion.

Whether raising awareness about this approach to investment or helping address a constraint to the market’s growth, INGOs are a key part of building the impact investing ecosystem.

Land O’Lakes: Farm Records Management Information System

Land O’Lakes currently facilitates investment readiness at an accelerated pace for more than 50 enterprises across Africa and Asia. One example of an enterprise that Land O’Lakes—through the USAID-funded Feed the Future Kenya Innovation Engine (KIE) program—is working with is The Arid Lands Information Network (ALIN). ALIN was competitively selected to receive catalytic grant funding and technical assistance to facilitate proof of concept testing of its Farm Records Management Information System (FARMIS) Mobile Application. Learn more about how the support from KIE is helping ALIN scale and amplify its impact in Appendix 1.5, Page 40.

ACDI/VOCA: A “Win-Win” Scenario for Private Equity and Development

ACDI/VOCA is bringing about new ways to pursue its mission in more market-driven and commercially-oriented ways. Its impact investment strategy is to place patient capital in growing agribusinesses in developing countries to promote markets where business owners, smallholder farmers, and poorer communities are empowered to succeed. ACDI/VOCA is facilitating private equity investments in Ethiopia by partnering with RENEW Strategies, a US-based private investment firm. Interested to read more about this partnership, its impact and the learning opportunities? See Appendix 2.5, page 49.
In the network survey, 42% of the respondents indicated that they are currently ‘exploring options’ on different ways to effectively pursue impact investing approaches to advance their missions. Based upon the role an international NGO may choose to play, different aspects of strategic and operational readiness need to be assessed. In INGO Impact Investing Network meetings and conversations with a broad range of INGO colleagues, members identified seven areas of strategic readiness that need to be addressed to engage and sustain impact investing efforts:

1. Internal Capacity
2. Organizational Culture
3. Stakeholder Communications
4. Legal Structure
5. Deal Flow
6. Impact Measurement
7. Partnerships

Survey responses and the case studies reveal many insights into how various organizations are effectively addressing each of these areas based upon their objectives and operating environments.

With a few notable exceptions, investing skillsets are typically outside INGOs’ core areas of expertise. To be effective in engaging in impact investing, these organizations have and will continue to recruit staff with experience and knowledge in finance, investment, and entrepreneurship. To ensure that these new hires are equipped for success, it is important to make sure they are a good cultural fit for the organization, able to push staff to think differently while also respecting the core values and central practices that unite the global teams. Short-term support for strategy development and piloting can also come from consultants or advisory firms with expertise in impact investing. On a more long-term basis, engaging experts on investment committees to support decision-making related to potential opportunities and strategy is a way to bring expertise onto the team without adding staff.

Survey respondents also highlighted that INGOs should be sure to take advantage of existing human resources and not assume that these skillsets are not resident in their current teams. For example, employees with backgrounds in microfinance or other market-based programs bring valuable insights into using investment for impact. Others may have previous work experience or education in finance and investing that could be leveraged.

Identifying and collaborating with individuals within the organization who are enthusiastic and knowledgeable about impact investing and social entrepreneurship provides the added benefit of advancing the organization’s impact investing work through people who deeply understand the history, core values, and traditional foci of the organization.

While many INGOs building impact investing practices are investing in small core teams with investing expertise, the rest of the organization must also be brought along if these core teams are to realize the full competitive advantage they have in the connection to large, global workforces. To build the knowledge and skills of employees, some INGOs are working with intermediaries to provide courses and trainings to their team. Others are creating their own content or establishing coaching relationships between staff or board members with prior investing, finance and entrepreneurship experience.
2. organizational culture

Some INGOs find that new explorations into impact investing are not always congruent with their organization’s culture or all team members’ expectations about what organizational priorities should be. It is critical in these cases to make very clear to internal stakeholders how impact investing strategies will contribute to the organization’s mission. A few ideas network members mentioned to help mitigate this challenge include:

- Senior-level support is critical to change management. Frequent communications from senior-level leaders to staff can help increase comfort with new approaches and investments.
- Create a system or tool to assess the mission-alignment of potential impact investing opportunities.
- Develop an entrepreneurship-oriented culture within the organization by growing market-based development practices, hiring staff with private sector experience, or conducting internal innovation competitions.
- Cultivate greater openness by gradually building up the impact investing work, assigning employees across the organization to commit portions of their time to slowly developing the strategy as well as the organization’s capacity and expertise in the field.

3. stakeholder communications

Relatedly, external stakeholders like board members and donors may not always understand why an organization would choose to engage in this emerging ecosystem. Effectively communicating the vision related to impact investing and engagement in the fourth sector, and how it relates to the organization’s mission, is critical to ensuring that innovative approaches do not appear to represent mission drift to critical external stakeholders.

Advocacy with these audiences should include messaging from senior staff, narrative development about how the organization’s evolution has led them to include impact investing as an approach area, and a clear connection between investors, entrepreneurs, social enterprises, and the INGO’s mission.

4. legal structure

Some INGOs avoid activities that could generate revenue or profit for fear of the legal complications involved in their non-profit status. However, as hybrid organizations become increasingly common, non-profit leadership and legal teams are equipped with more and more examples of how to pursue mission-aligned activities with diverse revenue and return models. The recently updated regulations on program-related investments, which give many more examples of the types of innovative investments foundations can use to advance their charitable purposes, are an example of this increasingly supportive regulatory environment.

Some INGOs are establishing separate entities or subsidiaries to house their impact investing work, while others keep it integrated within the same organizational form. Both models are viable.

Respondents highlighted that it is important to also consider the legal framework in the countries where the investments are being made. Some developing countries have more traditional delineations between for-profit and non-profit activities which need to be understood to conduct impact investing work there through an INGO structure.

5. deal flow

A key consideration for INGOs developing their impact investing practice is to consider how they will source deals. Does the organization currently have the ability to find or build investment-ready social enterprises in its target geographies and impact areas?

Some INGOs are leveraging local networks and country office staff to identify promising entrepreneurs. Others are assessing and identifying which programs in the organization’s portfolio can benefit from impact investments. A third approach is to explore joint ventures (funds, platforms, and partnerships with peer organizations or impact investors) to help source and share investments. A fully formed concept for where investments will be made and how the organization will find them is a key consideration shaping initial strategy development.

INGOs in action

GOAL: Making Local Links Count – How INGOs Can Transform Grassroots Work into Investment Opportunities

GOAL has been working with the Ugandan software business FitUganda for several years, focused on the creation and rollout of a mobile-based system that allows farmers to build a financial profile based on transactions in the market system. With social impact as the primary objective, the partnership with FitUganda has also allowed GOAL to work very closely with the enterprise and with other businesses in the market. Read more about how GOAL is supporting FitUganda in Appendix 1.6, page 41.
6. Measurement

Even though measuring impact resulting from investments or investment support is different than measuring impact from traditional donor-funded programs, this is an area where many INGOs can add value based on their long experience of measuring the social and environmental impact of programs and interventions. Virtually all INGOs have specialized teams and departments focused on measurement, evaluation, and learning. It is important for organizations to work with these teams to ensure proper understanding of impact investing and the current landscape of measurement in this area. In order to develop an appropriate measurement approach, INGOs that are actively engaged in impact investing are adding their unique insights to the many existing efforts within the sector.²⁶

7. Partnerships

As in all areas of an INGO’s work, partnerships are critical. Developing partnerships with a range of actors in the impact investing ecosystem adds strength to strength and can be a strategic way for INGOs to contribute their value add to existing efforts or shore-up areas of shortcoming. Key stakeholders that survey respondents mentioned as important partners include incubators/accelerators, innovative foundations, academic institutions, intermediaries, and, of course, impact investors themselves. Leveraging partnering capabilities within the organization aligned to the needs of different stakeholders is key. Exploring where and how best to manage these important relationships (e.g., more centrally within key program area(s), more decentralized within guidelines, etc.) are important considerations based upon the nature of the INGO’s impact investing role(s) and capabilities.

INGOs in action

Palladium: Developing a strategy for Impact Investing

The impact investment team at Palladium is focused on a direct investment approach via a seed portfolio: investing directly off of Palladium’s balance sheet with 100% ‘skin in the game’ in order to establish an initial investment track record. The intended seed portfolio of direct investing is the most advanced in a range of impact investment-type products, including Impact Bonds, all at different stages of progress. Palladium’s intention is to facilitate the flow of capital into impact investment opportunities by capitalizing on its visibility across numerous development projects in emerging markets. Learn more about Palladium’s strategy, in Appendix 1.7, page 42.
The promise of impact investing to help address critical development needs is powerful. Yet, additional efforts will be needed to deliver upon these significant, but still early steps. A few areas of opportunity for ecosystem actors include:

**Learn, Collaborate and Focus**

**International NGOs**

In this period of increased activity and engagement, international NGOs should continue to explore means to address common opportunities for learning, collaboration, and advocacy. Practical ways of collaborating cross-organizationally to build expertise and capabilities, from shared training to co-investment opportunities, deserve special attention. As opportunities mature, assessing core areas of involvement and skills will be essential to deliver upon mission and financial promises.

**Engage for the Long-Run**

**Investors**

INGOs offer attractive opportunities for long-term impact-focused return creation and value given the roles they can play (including that of investor) and the expertise they have. To create productive partnerships, it is essential for investors and INGOs to find shared understanding of one another's mission requirements, unique capabilities, and organizational structures. Offering complementary expertise, targeted assistance and patient engagement, investors can partner to 'un-lock' the long-term potential represented by this sector.

**Partner for Greater Impact**

**Donors**

The ability of INGOs to draw upon additional funding to support their impact objectives creates new possibilities for donors. The ability of donors to assume a different and perhaps higher 'risk tolerance' in their funding creates possibilities to accelerate benefits and leverage collective funding for greater impact. Participation in new shared opportunities and structures with INGOs and investors may not only advance overall 'value for money' but also provide opportunities for new types of partnerships and approaches.

**Build Support with a Full-Picture Narrative**

**Movement Builders**

With a growing range of impact investing activity by INGOs and their partners, opportunities to both highlight successes and learn from failures will be key. Along with INGOs and investors, thought leaders, governments, media, and other movement builders should take the opportunity to embrace the opportunity of the "full-picture" narrative to educate, engage, and sustain support. This full-picture view places emphasis on the delivery of both social benefits and financial returns, of multiple actors playing complementary roles from investors to INGOs to local partners to social enterprises, and to evaluating perceived successes and failures balanced within the long-term development of impact investing solutions.

Impact investing for international NGOs is at a stage of great creativity and innovation to harness new resources and partners to meet ever more complex needs. Through their activities, collaboration and advocacy, INGOs’ ability to shape the impact investing ecosystem offers great potential.

By creating new and diverse opportunities to support essential development needs, INGOs and their impact investing partners can deliver more sustainable benefits for those most in need, creating an environment of increasing resources flowing to solve the world’s most challenging social problems.
Mercy Corps:
A Heya! sales representative pitches to a Chama women’s group on becoming Heya! agents (circle).

Photo Credit: New Light Africa

Pact:
Ukrainian social entrepreneurs gather for a workshop focused on validating their business models (top left).

Photo Credit: Lyunya Kurazhyna

ACDI-VOCA:
Ethiopian women sort coffee beans at METAD’s processing facilities (top right).

Photo Credit: RENEW Strategies

PSI:
Consumer purchasing Lovers Plus, PSI’s commercial condom brand in Southern Africa (bottom right).

Photo Credit: Stephanie O’Conner

Mercy Corps:
A Heya! sales representative pitches to a Chama women’s group on becoming Heya! agents (circle).

Photo Credit: New Light Africa

Oxfam:
Gloria Chavez oversees production at Calzados Schel, a shoe manufacturing company in Sololá, Guatemala with 6 employees. The combination of WISE-sponsored training and a loan guaranty program has enabled Gloria to more than double her profits over the past year (bottom left).

Photo Credit: Ilene Perlman/Oxfam America

PSI:
Consumer purchasing Lovers Plus, PSI’s commercial condom brand in Southern Africa (bottom right).

Photo Credit: Stephanie O’Conner
Mennonite Economic Development Associates (MEDA) began in 1953 as a small investment club that wanted to take positive steps to to invest in and support small businesses to encourage economic growth and vibrancy for poor communities. Now, over sixty years later, MEDA has grown and diversified its work, however the investment mandate has continued throughout. MEDA manages a $US 20 million investment fund as part of its own development programming. MEDA has also launched - and continue as part owners of - two large independent impact investment funds that now stand as industry leaders in their respective fields: MicroVest, a fund that specializes in providing debt and equity to the Inclusive Financial Services industry in low income countries and has managed funds worth over $US 400 million, and Sarona Asset Management, a "Fund of Funds", that has mobilized over $225 million in capital for investment in purposeful investments in frontier and emerging markets.

Impact Investing in Frontier Markets (INFRONT) is a recent example of MEDA’s innovations in impact investing and blended finance. Running from 2013 – 2017, INFRONT is an innovative public-private partnership between MEDA, Sarona and the MaRS Centre for Impact Investing, designed to leverage investment capital for businesses in Africa, Asia, Latin America and Eastern Europe. The investment fund on which the project is based, the Sarona Frontier Markets Fund 2 LP, will invest up to $150 million in frontier and emerging markets, and is comprised of $15 million catalytic first loss capital (CFLC) from the Government of Canada and patient capital raised from other public and private investors. To ensure enhanced impact for the poor, the investment fund is paired with a technical assistance facility incorporating the Sustainability Innovation Matching Grant program, the Global Fund Manager Mentorship Program, and an advisory group focused on furthering impact measurement. To date, over 15 investments have been placed in local investment funds, with onward investment to over 55 SMEs in frontier and emerging markets. More than twenty businesses receiving Sustainability Innovation Grants are demonstrating improved environment, social and governance (ESG) integration and impact, and over 50 investment professionals are participating in the mentorship program. Over the project’s five years, 5.05 million women and men in emerging markets will have access to improved products and services delivered more effectively and by more socially responsive firms.

Accessing finance is a significant challenge for small and growing businesses (SGBs) in Sri Lanka. Research conducted by VisionFund Lanka (World Vision’s microfinance subsidiary) in April 2015 determined that Sri Lankan SGBs require credit amounts beyond the limits of microfinance loans to achieve growth. However, these businesses struggle to access loans from commercial banks given their lack of credit history and geographical remoteness.

World Vision is piloting an approach to develop a model to address the “missing middle” finance gap for small and growing businesses whose needs fall between microfinance and commercial lending by demonstrating the potential of microfinance institutions to meet this market failure. It also builds on World Vision’s market facilitation and business development assistance to smallholder farmers by supporting the growth of small and growing business suppliers and customers working in their value chain.

The pilot will provide increased VisionFund Lanka loans (up to US $20,000) and business training, coaching and mentoring tailored to meet the needs of suitable SGBs. Participating SGBs will be selected from existing VisionFund Lanka clients and those working alongside producer groups that World Vision is already supporting through other programs. A comprehensive due diligence framework will be used to select suitable SGBs and identify benefits to smallholder farmers (including increased employment opportunities, higher prices, and improved access to agricultural inputs). VisionFund Lanka and World Vision Lanka are working closely together (with support from World Vision in Australia and Canada) to develop a pipeline of agricultural SGBs suitable for impact investment capital. The project will target SGBs that are led by, employing, or working alongside women, youth, and other marginalized people living in poverty.

This pilot has also intentionally developed frameworks necessary for future local, regional, and national expansion including a pipeline of agricultural small and growing businesses suitable for impact investment capital. Of the critical frameworks developed for expansion, the impact measurement framework and the monitoring and evaluation plan are set to be field tested in the coming weeks. The impact measurement framework was developed in partnership with internal and external stakeholders across the globe. It will focus on monitoring the social impact of investee businesses on women, youth, and children and the overall environmental impact of investee businesses on their surroundings through a standardized scoring system. To the extent possible, World Vision is aligning their impact measurement with standard IRIS and GIIRS indicators.

1.2 World Vision and VisionFund: Investing in the Early-Stage “Missing Middle” through Expanded Microfinance and Technical Assistance

1.1 MEDA: Impact Investing in Frontier Markets
1.3 PSI: Making Safer Sex a Profitable Enterprise

In 2012, PSI established a not-for-profit subsidiary enterprise based in South Africa with the goal of centralizing its condom social marketing operations in the region and transitioning to a profitable, commercially viable business dedicated to two bottom lines—profit and social impact.

Today, PSI’s regional condom social enterprise operates at scale in South Africa, Swaziland, Lesotho, and Botswana. The enterprise primarily sells two condom brands—Trust [targeted at entry-level consumers] and Lovers+ [targeted at middle-income level consumers]—and lubricant. PSI is the number one provider of condoms in the region and has 72% of the market share. The enterprise has driven significant health impact—in 2015 sales volumes were 94 million, up from 78.1 million in 2012, and the enterprise delivered 597,660 couple years of protection (CYPs) throughout the region. The enterprise has also steadily grown the commercial market for condoms—streamlined regional branding and marketing have resulted in increased market investment from serious competitors in the condom market. The enterprise has driven significant health impact.

In 2012, PSI established a not-for-profit subsidiary enterprise based in South Africa with the goal of centralizing its condom social marketing operations in the region and transitioning to a profitable, commercially viable business dedicated to two bottom lines—profit and social impact. It enables farmers to generate reports on the status of their crops, link with peer farmers to aggregate produce for bulk sales, and access real-time market information, farming tips, inputs and other services; develop a farm activity calendar; and link with peer farmers to aggregate produce for bulk sales.

1.4 Pact: Supporting the Development of Social Enterprise in Ukraine

Pact is known for its capacity development approach for local civil society and is now adapting its tools and methodologies for a new type of actor: social enterprises. In Ukraine, Pact is piloting its social enterprise strengthening approach through a year-long initiative for a small cohort of social entrepreneurs building social enterprises to sustain services for communities affected by HIV/AIDS.

In summer 2015, USAID and Pact, concerned about the potential drop off in funding for Ukrainian HIV/AIDS service providers, created the pilot to support entrepreneurial NGOs to create new revenue-generating businesses or grow their already established businesses. Pact is working with these organizations to develop and strengthen their social enterprises through trainings, mentoring relationships with Ukrainian social entrepreneurs and business leaders, an international exchange to Washington D.C., and independent research on the Ukrainian social enterprise ecosystem. Through a mutually beneficial partnership with the Western NIS Enterprise Fund, a new impact investing fund focused on Ukraine, Pact is connecting participating enterprises with investment opportunities.

1.5 Land O’Lakes: Farm Records Management Information System

Land O’Lakes currently facilitates investment readiness at an accelerated pace for over 50 enterprises across Africa and Asia. The And Lands Information Network (ALIN) is one example of an enterprise that Land O’Lakes, through the USAID-funded Feed the Future Kenya Innovation Engine (KIE) program, is working with. In September 2014, ALIN was competitively selected to receive catalytic grant funding and technical assistance to facilitate proof of concept testing of its Farm Records Management Information System (FARMIS) Mobile Application. FARMIS aims to empower smallholder farmers by cultivating a culture of recordkeeping for informed decision-making. It enables farmers to, all via their mobile phone, generate reports on the status of their enterprises; produce financial statements that can be assessed by auditors; project the income potential; and manage marketing, training and distribution of the FARMIS innovation.

1.6 GOAL: Making Local Links Count: How INGOs Can Transform Grassroots Work into Investment Opportunities

INGOs often have a unique relationship with businesses in frontier markets, which may serve as an entry point to investment and/or pipeline generation for future engagement. With a mission focused on improving lives of marginalized communities, organizations such as GOAL have a requirement to work at the grassroots level. At the same time, in order to create sustainable income opportunities at scale there is an increasing need to work through, and strengthen local private sector. INGOs therefore become facilitators of business ecosystems, establishing the needs for investment, market linkages, and business development services.

For example, GOAL has been working with the Ugandan software business FitUganda for several years. GOAL’s main interest has been the creation and roll-out of a mobile-based system that allows farmers to build a financial profile based on transactions in the market system, such as buying inputs, selling produce, paying for services, and others. While the primary objective has been social impact, the partnership with FitUganda has also allowed GOAL to work very closely with the enterprise and with other businesses in the market. GOAL is facilitating access to potential customers—with more than 100,000 farmers in Uganda—as well as opening an opportunity for FitUganda to engage with GOAL partner Microsoft 4Africa to strengthen the technology side of the business. At the same time, GOAL has benefitted from access to a tech solution that supports its social mission. As the GOAL/FitUganda partnership expands, opportunities for further engagement arise, from the facilitation of business development services to support in accessing funding sources.

The trust relationships that have emerged over time, and the deep involvement in business ecosystems through local enterprise partners, present a unique opportunity to create a pipeline for investment. A recent study that GOAL undertook with Cambridge University in Uganda confirmed that while only a minority of GOAL partner businesses were investable, several had bright prospects and a few could eventually become star performers. Having this kind of insight based on strong, longstanding partnerships and grassroots connections may allow NGOs such as GOAL to identify tomorrow’s success stories before anybody else.
The impact investment team at Palladium consists of a dedicated four-member team of investment professionals focused on a direct investment approach via a seed portfolio: investing directly off of Palladium’s balance sheet with 100% ‘skin in the game’ in order to establish an initial investment track record. The intended seed portfolio of direct investing is the most advanced in a range of impact investment-type products, including impact bonds, all at different stages of progress. The seed portfolio has shaped Palladium’s active investment proposition in various ways. There is currently a struggle to match credible investment opportunities with much needed sources of capital in the impact investment space. Leading external market sources describe an “insufficient number of intermediaries in developing markets,” which is viewed as a critical factor for facilitating institutional investor participation. Palladium’s intention is to facilitate the flow of capital into impact investment opportunities by capitalizing on its visibility across numerous development projects in emerging markets and sectors, with an initial focus on agriculture and agribusinesses. This will also address the challenge of building a pipeline in a time and cost efficient manner.

The first phase for Palladium was to define its strategy and build the investment team. Recruiting a team with the required skillset and experience was challenging, since Palladium is an unknown player in the impact investing space, competing with multiple established brands. The team was fully assembled in December 2015 and started to build a pipeline of investment opportunities by working with project teams across the wider Palladium group. Thus far, consistent with Palladium’s established footprint, West Africa has provided most traction because of the projects’ focus on linkages with the private sector and facilitating access to finance for local SMEs.

In addition, a significant amount of time has been dedicated to developing a market network to identify potential co-investors and local investment advisors, including multiple INGOs. Recently, the team completed a trip to Nigeria and Ghana for site visits and meetings (beyond the capital cities) with management and operational staff and potential co-investors to explore investment opportunities. Palladium plans to target a first investment in Q4 2016. In order to achieve this target, it is working to implement governance procedures and policies which include the formation of an independent (from the Palladium board) Investment Committee. Meanwhile, evaluation of other Palladium projects, with an emphasis on the private sector in geographies such as Indonesia, is taking place to help broaden the pipeline. In partnership with the Oxford Said Business School, Palladium facilitated conversation around bridging aid and impact investing by hosting the conference, “Impact Investing in Emerging Markets: Bridging the Gap between Aid & Investment” in June 2016.

Family Health International (now FHI 360), with funding from United States Agency for International Development (USAID) started in 1971 as the International Fertility Research Program at the University of North Carolina at Chapel Hill. It primarily concentrated on the family planning needs of underserved populations globally through clinical studies, product development and education. Beginning in 1986, supported in part by a unique social impact investment model, the organization expanded beyond its early family planning focus to become a global force in human development, working in more than 70 countries and all U.S. states and territories, with more than $600 million in revenue and over 4,000 staff. Moreover, this unique investment model drove the formation of a separate, philanthropic entity, the FHI Foundation, valued in excess of US $150 million.

**The Resulting Social Impact**

While the financial returns were impressive, social returns are the most important outcomes of impact investing of any kind. Notably, the FHI and FHI Foundation investments far exceeded all expectations of social impact. To summarize:

By building expertise and capacities in HIV/AIDS with the support of dividends from the investment in CRI in 1986, FHI expanded its initial focus from prevention of unintended pregnancies to include HIV/AIDS prevention, care and support, ultimately impacting the lives of millions around the world.

In 2001, the FHI Foundation invested US$1 million to demonstrate the viability of antiretroviral therapy (ART) programs in resource-constrained settings in Ghana, Kenya and Rwanda, thereby providing critical evidence that USAID needed to expand ART delivery to countries devastated by the epidemic. By 2006, primarily funded by USAID, FHI was implementing comprehensive HIV/AIDS prevention, care and treatment programs in 40 countries. As of September 30, 2015, US government funding through multiple partners and organizations was supporting life-saving ART for 9.5 million people.

In 2011, the FHI Foundation provided growth capital to FHI to enhance its human development capabilities around the globe by acquiring the assets of the Academy for Educational Development (AED). With expertise and capacities in gender, education, health, nutrition, economic empowerment, civil society engagement, governance and sustainable development, and access to specialized in-house skills in technology, research and communications, the combined organization became FHI360, reflecting its...
ability to address diverse and interrelated challenges in global human development from a holistic perspective. One of the largest FHI Foundation grants to date has been a recent grant to FHI 360 to support its expansion into integrated development, which further reflects this expanded capacity and reach.

Leveraging Internal Capacity and Embracing Change

The key elements of FHI 360’s entrepreneurial model for social impact investing are replicable, even for a non-profit entity, as FHI 360 has shown and could readily be adopted by many others in pursuit of collective financial and social impact. These elements include: an unconventional vision for what is possible; active private-public partnerships; the ability to respond to market opportunity early and take informed risks in investment and business execution; deploying creative structures to manage and reinvest financial returns; and bold champions to drive the model forward.

This model — launched decades before the term social impact investing came into vogue — has not only yielded millions of dollars in direct financial returns, it has helped attract many hundreds of millions of dollars in additional, essential funding from multiple government agencies and foundations. Moreover, it has enhanced FHI 360’s stability, resiliency and relevance by placing it on the cutting edge of development trends and critical issues faced by underserved populations in the developing as well as the developed world — from inequality in education to chronic health challenges to youth unemployment.

The catalytic result, in vital collaboration with innumerable partners, has been tens of millions of lives saved and offered the opportunity to achieve their full potential.

Opportunities ahead

The FHI 360 and the FHI Foundation experience provides a time-tested model for both private sector and non-profit organizations and individual investors to consider as they pursue this growing and worthy trend of investment. The FHI 360’s stability, resiliency and relevance have been a critical factor in attracting additional, essential funding from multiple government agencies and foundations.

The Social Venture Fund

The FHI 360 and the FHI Foundation experience provides a time-tested model for both private sector and non-profit organizations and individual investors to consider as they pursue this growing and worthy trend of collectively achieving social and financial impact. Additionally, it demonstrates that small amounts of strategically deployed capital can multiply, catalytic social benefits over time and that the non-profit sector can play a critically important role in achieving the intended social gains from social impact investing.

2.2 Mercy Corps – Bridging the "Pioneer Gap"

Social entrepreneurial and innovative programming have been an intentional focus for Mercy Corps for many years under the leadership of its CEO, Neal Keny-Guyer. The organization is implementing programs in these areas by leveraging its staff and their presence across the globe — almost 5,000 employees in over 40 countries. For instance, Mercy Corps helped create multiple microfinance institutions that have provided over US $1.5 billion in loans to low-income customers to build small businesses.

The Social Venture Fund

In 2014, Mercy Corps decided to further its engagement with social entrepreneurs by launching the Social Venture Fund (SVF), a seed and early stage impact investment fund formed using philanthropic capital. Initially, the fund was focused on leveraging the entrepreneurial spirit of the Mercy Corps staff by providing early stage financing and hands-on support to test their ideas in the marketplace and help turn the more promising concepts into commercial businesses. While this approach generated a number of innovative and potentially viable business ideas, it was challenging to implement and ultimately not scalable. At the same time, Mercy Corps had identified many early-stage enterprises that improved people’s lives and aligned with Mercy Corps’ mission but that faced difficulty accessing capital to strengthen their business model and expand their operations. The focus of the SVF shifted to address this early-stage financing gap (referred to as the "Pioneer Gap") by making investments of up to US $300,000 in seed and early-stage social venture startups. Generally, investors and private funds do not make investments of this size because transaction costs for each deal can be quite high and the risks of investing at such an early stage are significant. Mercy Corps is able to overcome these barriers by deploying philanthropic funds as patient investment capital and by leveraging the expertise and network of its staff and local partners to improve the chances of success of the businesses in which it invests.

The fund is targeting up to 10 investments every year utilizing equity and quasi-equity, and potentially debt in the future. It is operated by Mercy Corps’ Social Ventures team, which is comprised of seasoned professionals with prior experience in social entrepreneurship, investing, and consulting. The SVF also has an advisory board with representation from investors, philanthropists, and entrepreneurs.

Identifying Entrepreneurs and Making Investments

The Social Ventures team utilizes different criteria to identify countries and regions to invest in, including whether there is a supportive investment environment, a strong pipeline of opportunities in target sectors, the ability to attract follow-on investors, and Mercy Corps program teams that can provide support to ventures in targeted sectors. The team works with Mercy Corps country offices to identify entrepreneurs that are doing work that aligns with Mercy Corps’ mission and the programmatic work being implemented by the specific country office. The due diligence process is particularly crucial in relation to early-stage enterprises because of the lack of adequate data regarding their track record. The overall process used by the ventures team is modeled after other impact investors—assessing the soundness of the business model, the venture’s impact potential, and its potential for scaling, among other factors. Special emphasis is put on assessing the quality of the entrepreneurs and their management teams, how the business is using innovative approaches to reach low-income consumers, and the intersection of the business’s work with the Mercy Corps platform including expertise, networks, and local relationships, with the objective of leveraging these assets to improve the chances of success for each venture. Mercy Corps is also intentional about learning from each venture in which it invests. Where possible, Mercy Corps prefers to co-invest with other seed-stage investors to utilize their skills and to share due diligence costs. All financial returns are put back into the SVF for future re-investment.

Leveraging Internal Programs and Assets

The success of the Social Venture Fund depends in part on the interest and ability of Mercy Corps’ country offices to support the activities of the fund in addition to their existing programs. For example, in Kenya, Mercy Corps connected New Light Africa (SVF is an equity investor), a direct marketing and distribution company, to its network of youth groups and savings and credit cooperatives to help drive its expansion into new regions in the country. In order to provide further management support, Mercy Corps placed a Harvard Business School Fellow (working with Mercy Corps) with New Light Africa. Because of this kind of support, entrepreneurs also see a lot of non-monetary value in a partnership with Mercy Corps. The Social Ventures team works closely with country offices to figure out how high quality partnerships with entrepreneurs can be developed, and is exploring various ways in which it can best engage its programmatic platform to support the ventures in its portfolio.

2.3 Oxfam: Fostering Self-Sufficiency through Impact Investing

Oxfam’s impact investing work focuses on small and medium-sized enterprises (SMEs) that are vehicles for job creation and/or the development of affordable products and services for people living in poverty. Conventional financing institutions tend to dismiss such enterprises as “un-investible.” Social entrepreneurs pursuing innovative approaches that expand opportunities for people living in poverty are seen as high risk with low financial reward. It is in this vacuum—the “missing middle” in SME finance—where Oxfam sees unexplored opportunities, specifically in enterprises run by women or focusing on smallholder agriculture and youth. As Oxfam’s work in 90 countries is supported by different affiliates, a number of different approaches have developed—making investments, providing grant support and in various cases, augmenting investments with grants-funded activities. Throughout its work, Oxfam is also identifying opportunities to advocate for policy level change in order promote SMEs and specifically, women-run enterprises.
Oxfam’s Multi-Pronged Approaches to Impact Investing

Making Investments: Oxfam invests in financial intermediaries to grow their capacity and resources to serve the missing middle, mostly focused on agriculture. The Small Enterprise Impact Investment Fund invests in specialized small enterprise financing intermediaries through an investment fund that targets a 5% return for investors. The Oxfam Novib Micro Finance Fund and its managing partner Triple Jump offer support in product development to microfinance institutions to enable them to reach out to SMEs at the lowest end of the missing middle. The fund is increasingly investing in MFI that target SMEs.

Grant-based Support: Oxfam supports early-stage agricultural enterprises in 10 countries around the world through a social impact-only vehicle that provides a portion of the money in the form of a loan (typically in partnership with local banks) and the remainder through grants that support targeted capacity building. The Enterprise Development Programme (EDP), set up in 2009, focuses on Rwanda, Honduras, Bangladesh, Nepal, and Ethiopia and has made investments in other countries including Colombia and Armenia; while Empresas Que Cambian Vidas (Companies that Change Lives) leads in Bolivia, Paraguay, Burkina Faso, and Mauritania. In Sri Lanka, Oxfam has launched Lanka Social Ventures, a social enterprise incubator also focused on the agricultural sector.

Integrated Investment and Grant Opportunities: Inclusive Impact Investments invests with debt and equity directly in early-stage growth SMEs, both in the agricultural-processing sector and beyond. It combines these services with grant-funded business development services. Women in Small Enterprise (WISE) takes a gender lens approach by supporting financial institutions in Guatemala to improve services to women-run small enterprises through a loan guarantee fund and specialized training. It also offers coaching and peer-to-peer support for women entrepreneurs themselves and training to the financial institutions to better serve women clients.

Influencing Systems Change through Advocacy

An important aspect of Oxfam’s impact investing work is to use the evidence and insights gained to work with partners on influencing efforts. These efforts are focused on addressing structural problems and unbalanced power relations affecting people living in poverty, and advocate for changes that could benefit far more enterprises than the interventions could ever touch directly. For example, in every country where EDP works, it is undertaking research to build evidence from its investments and eventually build networks to influence relevant national policy. Similarly through GRAISEA (Gender Transformative & Responsible Agribusiness Investments in South East Asia), Oxfam partners with a series of leading organizations in the region such as CSR Asia, Impact Investment Exchange, and others to promote a more enabling environment for both rural and social enterprises. The ultimate aim of WISE is to gather evidence that informs the policy dialogue about women’s economic exclusion and pushes for policy changes at national and global levels.

Oxfam’s work in impact investing has grown out of its rich history and experience in enterprise development, financial services, and rural economic development. In the area of SME specifically, over US $15 million has been deployed to date in support of over 1,000 enterprises. In addition, Oxfam has supported 15 financial institutions to increase their lending to the SME segment. The organization aims to commit an additional US $12 million by 2020.

WOMEN IN SMALL ENTERPRISE

Through a new program—Women in Small Enterprise, or WISE—Oxfam and its partners aim to help women in Latin America and the Caribbean realize their full economic potential. Core components of the initiative include the WISE Fund and a training program for women designed to increase their economic leadership. The WISE Fund reaches deep into communities where growth-oriented enterprises led by women will benefit enormously from having access to capital. It works through local financial institutions to provide loans (ranging from US $1,000 – $50,000) to women-owned businesses.

In addition to the loans, the entrepreneurs are provided gender-sensitive business training. The approach combines business tools with a sophisticated look at the roles and responsibilities men and women bear in their households. Built around a series of workshops, the training is highly participatory, includes follow-up coaching, and is designed to allow women to develop their own solutions to their particular business needs.

WISE works through local financial institutions looking to expand services to women running enterprises that are migrating from the micro-to-small business space. The WISE Fund provides a 50% guarantee on all loans underwritten by the bank under the auspices of the WISE Initiative. The intent is to support a transition to business practices that expand financial access not only to the WISE entrepreneurs but for many more female clients.

2.4 Habitat for Humanity International: Using Housing Microfinance to Address the Needs of Base of Pyramid Customers

For close to 40 years, Habitat for Humanity International (HFHI) has been building homes and communities by mobilizing tremendous financial and human capital, revitalizing communities through 1,400 local affiliates in the United States and 70 national organizations across the world. This work has been funded primarily by donor dollars. However, about 1.6 billion people around the world live in inadequate housing, a need far beyond the reach of government and philanthropy alone, making the role of local markets critical. With this in mind, the organization’s 2020 strategic plan expects to create three-fold impact: at the community level, market level, and societal level. This builds on the organization’s mission, vision, and principles to make it a more effective catalyst for systemic change that will help exponentially more families than any one organization could serve alone. By adding more market-based strategies to its programs, HFHI is pursuing new ideas to solve problems in the affordable housing sector.

The Need for Housing Microfinance

Most low-income people already use available market options to improve their homes, but often they are expensive, of poor quality, or do not respond well to their needs. Only 20 percent of households in developing countries have access to the formal financial sector as well as affordable housing products and services. Most microfinance institutions remain focused on small business loans even though 20 percent of total microfinance loans are diverted to housing. As a result, housing microfinance shows promise as a nimble tool to address substandard housing as well as a feasible financial product for institutions serving the “base of the pyramid.” Such products support low-income clients with loans for incremental construction, progressive building, and the addition of services such as water, sanitation, and energy. When paired with technical assistance that helps families to build well, these products can be a transformative means for poor families to develop their homes.

The MicroBuild Fund

In 2012, HFHI launched the MicroBuild Fund (“MBF”), a $100 million fund, and one of the first microfinance investment vehicles with a focus on the housing sector that demonstrates the viability and scale opportunity of housing microfinance by offering longer-term capital to microfinance institutions along with technical assistance to ensure the sustainability of the housing loan product. HFHI has committed $10 million through its Center for Innovation in Shelter and Finance (CISF) for technical assistance and advisory services for housing microfinance product development.

The MicroBuild Fund closed with a first phase of $50 million on August 3, 2012. At the full capitalization of $100 million, MBF will be funded with $10 million of equity and $90 million of debt from the Overseas Private Investment Corporation (“OPIC”). HFHI is the fund’s sponsor and owns a majority equity stake of 51 percent. Other equity investors include Omidyar Network, MetLife Foundation (a participant in the second round) and Triple Jump, who is also MBF’s fund manager. Additionally, HFHI through the support of its U.S.
amplify

Leveraging MicroBuild's LLC status and HFHI's local presence

Habitat's national offices worldwide have engaged in wholesale lending in several countries for many years. However, some national offices are unable to lend in the country where they operate due to financial or regulatory restrictions tied to their legal status as a non-government organization. Moreover, with relatively small wholesale lending amounts, they are not able to create the outreach and scale opportunity that a global fund such as MicroBuild can. As a limited liability company (LLC), MicroBuild is able to avoid the legal and funding size constraints.

With its network of regional offices worldwide, HFHI’s local teams work together with the regional team of MBF’s fund manager, Triple Jump, to build an investment pipeline as well as conduct due diligence of prospective MFIs. The investment team from Triple Jump vets the institutions based on financial criteria and performance, while HFHI’s regional teams assess the housing microfinance product to propose a technical assistance plan to refine and expand it. HFHI’s area offices and national organizations support the MBF by providing technical assistance to eligible MFIs that receive capital from the fund. The CISF has also provided critical training to consultants who complement HFHI’s technical assistance implementation, monitoring, and evaluation of investee MFIs.

The Impact of the MicroBuild Fund

Since its launch, the MBF portfolio has grown quickly. The catalytic effect of MBF is evident—$40 million invested by MBF as of December 2015 has helped unlock $51 million in additional investments in the housing microfinance portfolio of investee MFIs. MicroBuild funding has helped about 50,000 households to improve or build their home incrementally, impacting an estimated 247,820 individuals. Borrowers use HMF loans for a variety of purposes—about 45.3 percent of the funds borrowed are used towards home improvement, about 20.2 percent towards land acquisition or securing land tenure, and the remainder towards small construction, such as adding an extra floor or room to an existing structure. Housing loans are also used to install energy-efficient appliances. Through technical assistance, microfinance institutions are able to expand their help far beyond the loan. This can mean hiring a construction engineer, linking borrowers with material providers, or distributing construction guidelines and brochures.

Opportunities Ahead

Habitat for Humanity International aims to catalyze both the demand and supply side of the housing market, to create lasting impact. During 2016, HFHI will launch the Shelter Venture Lab to:

- Spark innovation by identifying and rewarding promising ideas and innovation that could lead to high impact housing impact products and services, beyond the financial services sector.
- Nurture pioneering housing impact businesses with mentorship, business services, and appropriate financing from the Shelter Venture Fund.
- Scale those businesses by connecting successful entrepreneurs to market opportunities and external investment critical to their growth.

The ultimate goal is to catalyze and achieve a vibrant marketplace along the housing value chain: on the demand side by unlocking access to affordable housing finance and on the supply side by sparking and nurturing enterprises which can offer affordable, accessible, environmentally friendly, durable and appropriately designed products and services to low-income households. Thus, expanding the housing market as a whole and generating employment and economic growth.

MICROBUILD FUND’S IMPACT IN NICARAGUA

Nicaragua is one of the twenty countries in which MBF is creating a significant impact. The MicroBuild Fund has invested a total of US $5 million in three institutions across Nicaragua, each having a unique market position and geographic range in the country. Through capital and technical assistance from MBF, the institutions have helped 6,642 households and 33,201 individuals to build or improve their homes. One of the institutions in particular, Fundenuse, has been one of the most innovative and fast growing places for housing products to thrive. In the three months since receiving MBF funding, the MFI has been able to grow its HMF portfolio at an annual compounded rate of 248% while maintaining excellent quality.

2.5 ACDI/VOCA - A “Win-Win” Scenario for Private Equity and Development

ACDI/VOCA is an INGO based in Washington, DC with over 50 years of experience helping to foster a robust private sector in emerging markets, particularly in agricultural value chains for commodities, specialty crops, and the food and beverage industry. Through on-farm trainings, grants, commercial investments, financial services, and managerial support to small-scale farmers, larger agribusinesses, policymakers, and small, growing businesses (SGBs), ACDI/VOCA promotes its mission to foster economic development and build a world in which people are empowered to succeed in the global economy.

Approach to catalyzing investment

ACDI/VOCA is bringing about new ways to pursue its mission in more market-driven and commercially-oriented ways. Through two pilot funds in West Africa and Central Asia, ACDI/VOCA’s impact investment strategy is to place patient capital in growing agribusinesses in developing countries to promote markets where business owners, smallholder farmers, and poorer communities are empowered to succeed. Social and economic outcomes post-investment are monitored and reported alongside financial metrics, and are a substantial indicator of the investment’s overall performance, in line with expectations of the co-investors (ACDI/VOCA’s own affiliated financial institutions and US Government, among others).

Leveraging Experience

In addition to being investors, ACDI/VOCA has also helped facilitate private equity investments in emerging markets through technical assistance funding and projects. In Ethiopia, ACDI/VOCA has worked for over 20 years helping smallholder farmers commercially organize to increase supply chain efficiency and agricultural productivity. More recently (2011-2016), ACDI/VOCA led the flagship project of the Government of Ethiopia’s Agricultural Growth Program (AGP) and the US Government’s Feed the Future initiative—the AGP-Agribusiness and Market Development (AGP-AMDe) Project. Funded by USAID, ACDI/VOCA under AGP-AMDe reached over 1.2 million people in Ethiopia to help alleviate poverty, increase food security, and rapidly facilitate investment into high-growth, high-impact value chains: coffee, wheat, chickpea, sesame, and honey.
Partnership Opportunities

ACDI/VOCA’s work through AGP-AMDe presented a timely opportunity for RENEW Strategies, a US-based private investment firm that facilitates the Impact Angel Network (IAR) of international angel equity and quasi-equity investors to invest in high-growth, high-impact mid-sized companies in emerging markets, beginning in Ethiopia. At the time, ACDI/VOCA worked across four districts and over 80 woredas, or local district governments, and was seeking to disburse millions of dollars in USAID grant funding for local firms and institutions to catalyze economic opportunities in agriculture. As is the same across all of USAID projects implemented by ACDI/VOCA, the organization was also eager to partner with the private sector and investment firms to foster sustainable development models that would continue after USAID funding ended.

For RENEW, a partnership with ACDI/VOCA under AGP-AMDe meant monetary and technical support in growing operations in Ethiopia, support in developing a pipeline of investable opportunities through their contacts, and raising knowledge and awareness of private equity in the country through commercial and policy channels. For ACDI/VOCA partnering with RENEW meant substantial support in achieving target impact outcomes and leveraging additional capital toward Ethiopian SGBs through more sustainable, private sources.

Thus, a partnership was born: RENEW was contracted by ACDI/VOCA under the USAID AGP-AMDe project to help secure growth capital for Ethiopian agribusinesses relevant to the value chains and target impact outcomes of AGP-AMDe. Together, they structured investment facilitation and technical assistance packages customized for each portfolio company to create a full package of support—ACDI/VOCA provided technical training on input usage and post-harvest handling to improve quality, while RENEW and the IAN provided investment capital, governance oversight, and business development advisory services. Specifically, in close collaboration with ACDI/VOCA, RENEW actively sourced, vetted and prepared an investment pipeline of agricultural SGBs, leveraging ACDI/VOCA’s country-wide contacts; provided post-investment business consulting to portfolio companies and monitored investments on behalf of its impact angel network; and provided extensive investment training to the Government of Ethiopia, SGBs, and Ethiopian service providers to educate the market on foreign equity and quasi-equity investment business consulting to portfolio companies and monitored investments on behalf of its impact angel network; and provided extensive investment training to the Government of Ethiopia, SGBs, and Ethiopian service providers to educate the market on foreign equity and quasi-equity investment best practices to further develop the foreign equity investment market in Ethiopia.

Challenges and Learning Opportunities

The partnership was not without its challenges. With the venture capital and private equity market in Ethiopia growing but in a nascent stage, RENEW and ACDI/VOCA found the need for more up-front trainings and workshops on the private equity market and investment structures than originally anticipated. Furthermore, as the AGP-AMDe project was already firmly underway once it began its partnership with RENEW, less headway could be made in generating investments and impact than if it had begun from the start. Key to the partnership, however, was ACDI/VOCA and RENEW’s strong leadership in Ethiopia that helped to drive the relationship forward and adapt aspects of the work as challenges came along. “ACDI/VOCA really helped us get our program started there,” said Matt Davis, CEO of RENEW.

Impact

Overall, ACDI/VOCA and RENEW’s partnership was a success. In less than five years, the IAN invested into seven high-potential, high-impact businesses in Ethiopia through RENEW, three of which were a direct result of work under the USAID AGP-AMDe partnership with ACDI/VOCA. METAD, a specialty coffee company; Mama Fresh, an injera, spices, and sauces company; and a sesame processing company, have already created over 200 jobs and are anticipated to support at least 10,000 smallholder farmers and generate $30+ million in export sales through growth attributed to the investments. In addition to ACDI/VOCA’s partnership with RENEW, the project also catalyzed millions of dollars of private investment from financial institutions based in Ethiopia. In total, ACDI/VOCA through the USAID AGP-AMDe project facilitated $181 million in farm-gate sales and over $189 million in investment to the high-growth, high-impact agricultural sector in Ethiopia—thanks in great part to its partnership with RENEW.

2.6 ACRE Platform: Unique Partnership Approach Bringing Together INGOs, Enterprises, and Investors

The ACRE (Access to Capital for Rural Enterprises) platform is a result of a partnership between five INGOs—Christian Aid, Traidcraft, Practical Action, Twin, and Challenges Worldwide. The purpose of the platform is to provide technical assistance to small and medium enterprises (SMEs) in developing countries and connect them with investors that can make patient capital investments. According to the World Bank, formal SMEs account for nearly 45 percent of the employment in emerging economies.4 The amount of these enterprises do not have access to formal credit and they represent a $1.2 trillion. The goal of ACRE is to help SMEs that need investments ranging from $150,000 to $1.5 million—the “missing middle”—access finance by helping them become investment ready.

Establishing the Enterprise Pipeline

Any enterprise being supported by ACRE has to have a clear social and economic impact among its clients or the communities and the market it is operating within. Enterprises currently in the ACRE pipeline, are operating in 9 different sectors and are spread across 3 continents. Nearly half of these enterprises are working in the agriculture sector. ACRE applies a set of filters to identify which enterprises can become a part of its pipeline:

- [The enterprise] is commercially viable or has the potential to be so with tailored pre-investment support.
- Demonstrates clear social impact in the context of rural livelihoods and/or benefits women in particular.
- Has the potential to solve constraints in a market system or has emerged through ACRE consortium NGOs’ programs.
NICHARAGUA:
CLIMATE RESILIENCE

Smallholder farmers in Nicaragua struggle to make enough income to cover their families’ basic needs, such as food, healthcare, and housing. Low yields due to erratic weather patterns make the situation even harder. A cooperative ACRE is working with in the country supports farmers to cultivate hibiscus (a resilient crop that can withstand climate changes and is in great demand), trains small producers on better farming and harvesting techniques, and secures higher prices for their produce through value-added processing, creating both permanent and seasonal jobs.

- Has limited access to affordable finance.
- Requires between $150,000 and $1.5 million in loan or equity finance to grow.
- Is not on the country’s Foreign Direct Investment (FDI) negative list.
- Has leadership in place with the skill and incentive to grow the business.
- Shows continuous improvement in environmental sustainability.

The process to identify, provide diagnostics and prepare eligible enterprises for investment takes anywhere between three to six months.

ACRE Structure and Process

The enterprises in the pipeline receive consultation and support from business experts in the areas of financial management, management structures, sales and markets, governance, growth strategy, operational plans, and developing a business plan to present to investors. The NGOs in the consortium provide this technical assistance. The enterprises can consult with the ACRE syndicate administrator on the business plan that provides advice from an investor perspective and after further development they present these plans to the group of investors that are part of the syndicate. Pro-bono legal advisers provide deal-related legal support. So far the syndicate group of investors has committed $6.5 million of capital for ACRE pipeline enterprises.

ACRE is focused on creating positive change on three levels—individual (increased jobs, income, access to goods), enterprise (access to finance, increased sales, and impact), and market (strong value chains, improved economy). It uses IRIS metrics to measure the social, environmental, and financial performance of every investment. The enterprises report against a set metrics every six months for up to three years to properly monitor changes at the three levels. Additionally, an impact officer/local staff conducts monitoring visits to suppliers of these enterprises to gather qualitative data and track the evidence of change on the ground.

Leveraging the strengths of INGOs in the Consortium

INGOs in the consortium have extensive presence and existing programs in more than 50 countries. They have a strong understanding and knowledge of the local contexts that impact investors might not be able to access. Because of the large footprint of their work and their networks they have long-term relationships with enterprises in over 100 agriculture value chains. Through the platform, the INGOs are able to provide investors and enterprises access to their pooled expertise in terms of social and market impact, extensive local networks, and measuring impact while contributing to the running costs of the platform. This unique partnership approach helps connect and leverage the expertise of different stakeholders. By demonstrating the effectiveness of investing for social good, ACRE hopes to influence wider investment practice by encouraging more impact investors to support early stage small and medium enterprises.


“Accelerating Impact,” The Rockefeller Foundation, 2012


For the purposes of this report, we are defining social enterprises or social ventures as businesses with a double-bottom line, seeking to generate profit and social impact.

“Ahead of the Curve,” FSG, 2013

“From Seed to Impact,” Global Social Entrepreneurship Network

According to the 2016 GIIN Annual Impact Investor survey, organizations managing 92% of the assets under management are headquartered in developed markets, despite half the assets being allocated to emerging markets.

Gross loan portfolio is the amount of outstanding principal for all loans. Asset size and gross loan portfolio data is based on desk research for the INGO sector as a whole, not survey data from network members.

Impact-first investors’ primary goal is creating social and environmental impact. Finance-first investors’ primary goal is generating competitive financial returns.

More data from these respondents is included in Appendix 3.


IRIS, Sustainability Accounting Standards Board (SASB), Acumen Lean Data, Social Return on Investment (SROI), Gold Standard [environmental impact], and IPA Goldlocks ToolkitAZ, to name a few.

Palladium is not an INGO but due to similarities with respect to operating model, target markets, and overall objectives, it has joined the INGO Impact Investing Network to collaborate and share thoughts and findings.


International Fertility Research Program was renamed Family Health International (FHI) in 1982.
