Impact Investing:
A Tool for New Partnerships for Sustainable Development

Dr. Edward T. Jackson

A paper for discussion at IVCO 2017, Seoul, October 22-25, 2017

Contents

Abstract

Defined as investments "made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return," impact investing is a $120 billion industry practised by asset owners (such as pension plan members, high-net worth families, corporations, governments), asset managers (managers of private equity funds, endowments, development finance institutions, etc.), demand-side investees (particularly small businesses, social enterprises, cooperatives, financial institutions), and service providers (e.g. standards bodies, universities). While some international development NGOs have participated in investment funds or development impact bonds, most international volunteer cooperation organizations (IVCOs) are still assessing the potential of impact investing to advance their missions. A review of the field indicates that IVCOs can choose among at least five roles in impact investing through which to form new partnerships to advance the SDGs. They can serve as an investor or co-investor, financial product developer, business advisor, evaluator or field builder, or pursue a combination of these roles. IVCOs interested in pursuing these possibilities should learn more, ensure relevant internal capacity, and test initial lines of action.

Introduction

The purpose of this paper is to provide an overview of the field of impact investing and its potential for international volunteer cooperation organizations (IVCOs) to form new partnerships in order to advance sustainable development. The paper defines impact investing and notes its significance, examines key strategies for undertaking impact investing, points to relevant cases involving development organizations, reviews some of the critical issues facing the field, and outlines five mission-aligned roles that IVCOs can play in relation to impact investing going forward.

Context

At the 2017 World Bank annual meeting, an important theme was the call for new instruments and tools to mobilize private capital to fight poverty more effectively across the globe. Indeed, beyond available taxes and development assistance, it is estimated that $2.5 trillion in private financing is required annually to fully implement the Sustainable Development Goals (SDGs). However, there is a growing international body of practical, professional expertise and products that is addressing this challenge. For example, in the field of climate finance, a range of green bonds are issued on the capital markets to attract private investment in renewable energy and waste management in the Global South. Another proven source of knowledge and practice for mobilizing private capital for the SDGs is the impact investing industry. And it is one worthy of the attention of IVCOs.

What is Impact Investing?

The **Global Impact Investing Network** (known as the GIIN), the leading industry association, defines impact investing as: "Investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on investors' strategic goals." Impact investors deploy their capital to address some of the world's most pressing challenges by investing in businesses and projects in, for example, affordable housing, clean water, women's entrepreneurship, and much more. Not only is the intentionality of the investor to generate social or environmental impact a key feature of this approach to investing, but, as the GIIN underscores, so is the investor's commitment to measuring that impact.

Figure 1: Impact Investing's Return Rate Spectrum

Global Impact Investing Network

Why Does Impact Investing Matter?

There are three main reasons why impact investing should matter to volunteer-sending development agencies. First, the field is a rich and proven source of knowledge and action on mobilizing private capital for sustainable development. Given the funding gap in SDGs implementation, this is significant in its own right. The field has developed a menu of strategies and products that are being applied and refined in developing countries on a range of issues, from sustainable agriculture to health care and primary education. Second, with about $120 billion in assets under management, the impact investing industry has gained considerable scale over the past decade. Recent new entrants into the field have included some of the world's largest investment banks and funds, notably **BlackRock** and **Bain Capital**, spurring further growth (as well as calls for close monitoring and accountability of these and other industry players).

Finally, and perhaps most importantly for IVCOs, the impact investing industry provides a platform for engagement by development organizations with new types of partners, such as venture capitalists, pension fund managers and officials of major foundations and family offices. While these new partners are in fact focused on making investments rather than providing grants, their financial and business expertise as well as the loans, guarantees and equity investments they can provide, create the conditions for creative, forward looking collaborations that can complement current partnerships with aid donors that make grants.

Actors in the Impact Investing Ecosystem

The prime actors in the impact investing ecosystem are **asset owners** such as pension plan members, high-net worth families, corporations and governments. Other key players are **asset managers**, including the managers of venture funds, endowments, pension funds, development finance institutions, and non-profit funds. What distinguishes asset owners and asset managers from other actors in the broader development environment is their fundamental and disciplined focus on **risk, return and exit**. They are, after all, investors, and there will be no meaningful social or environmental impact if businesses fail. Moreover, their culture is distinct: marketing is aggressive; metrics drive decisions, meetings are short. The third component of the ecosystem involves *demand-side actors* that receive capital, notably small businesses, social enterprises, cooperatives and financial institutions, including rural banks, microfinance institutions and village loan funds. Finally, the impact investing ecosystem also includes *service providers*, such as networks, standards-setting bodies, consultants and universities.

Figure 2: Impact Investing Ecosystem

ASSET OWNERS	ASSET MANAGERS	DEMAND-SIDE ACTORS	SERVICE PROVIDERS
• High net worth individuals/families • Corporations • Governments • Employees • Retail investors • Foundations	• Investment advisors • Fund managers • Family offices • Foundations • Banks • Corporations • Venture funds • Impact investment funds/intermediaries • Pension funds • Sovereign wealth funds • Development finance institutions • Government investment programs	• Corporations • Small and growing businesses • Social enterprises • Cooperatives • Microfinance institutions • Community development finance institutions	• Networks • Standards-setting bodies • Consulting firms • Non-governmental organizations • Universities • Capacity development providers • Government programs

Harji and Jackson, 2012

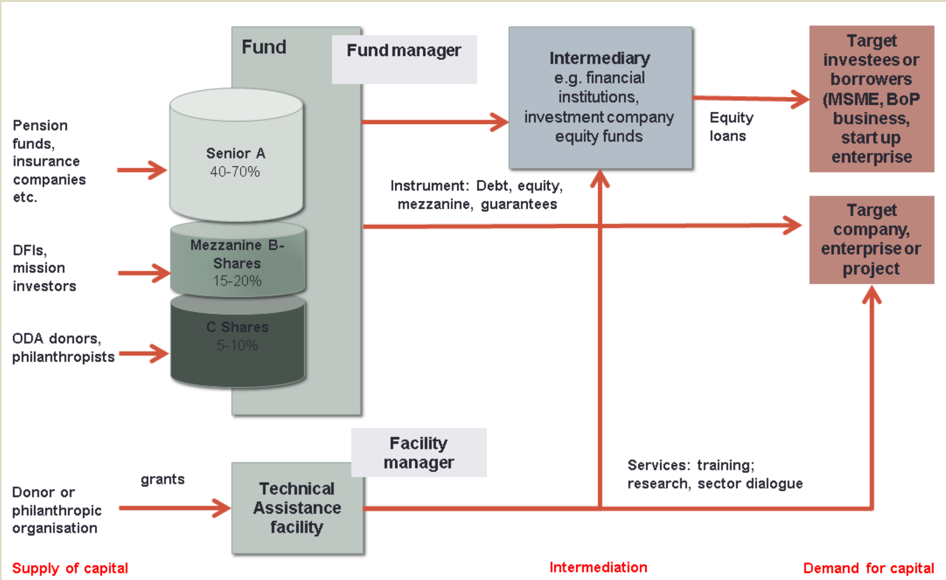
Strategies for Undertaking Impact Investing

Undertaking impact investing is not simple or easy, but it can provide a powerful means for addressing pressing development challenges. Over the past decade, a range of strategies for making impact investments has been designed, tested and refined. IVCOs should be aware of five such strategies, in particular.

Blended Finance: The Organisation for Economic Co-operation and Development and the World Economic Forum define blended finance as: the "strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets, driving greater capital flows to projects and companies with development impact by shifting the risk-return profile, sharing local knowledge and shaping policy and regulatory reform." Funded with tax dollars by governments in the Global North, development finance institutions (DFIs), which invest in private companies in developing countries, are increasingly making use of this strategy. Southern-based DFIs in South Africa and Brazil, for example, are exploring this approach, as well. Blended finance can be implemented through individual investments or via investment funds. In this regard, one resource organization is worth noting: supported by the Government of Canada, Citi Foundation and the Ford Foundation, **Convergence** is a grant-maker and platform that connects and supports investors to execute blended finance transactions. IVCOs can explore blended-finance partnerships with private, philanthropic and public investors through this mechanism or, alternatively, through bilateral relationships with DFIs or other actors.

Structured, Layered Funds: This is the most common vehicle for undertaking impact investing. These investment funds seek development, social or environmental impact while offering investors various options on risk, return and exit. Typically, these funds are owned by private or non-profit proponents. They operate on the basis of an investment thesis, or theory of change, which usually prioritizes certain regions and countries as well as SDG themes and business sectors. Professional fund managers mobilize capital from private, philanthropic and public investors, "layer in" these different types of capital, and steward them for onward investment. The fund managers and their partners on the ground carry out due diligence on prospective investee enterprises, both privately or socially owned, and the investment committee of each fund will decide which businesses are funded. Some impact investment funds also invest in regional or local funds or financial institutions, which, in turn, place capital in enterprises. Structured funds frequently benefit from grant-based technical assistance activities for on-the-ground business advisory and training services, which strengthen the capacities of investees and reduce the risk and optimize the return (both financial and developmental) to investors. Figure 3 depicts a generic structured fund for impact investing.

Figure 3: Typical Structure Fund

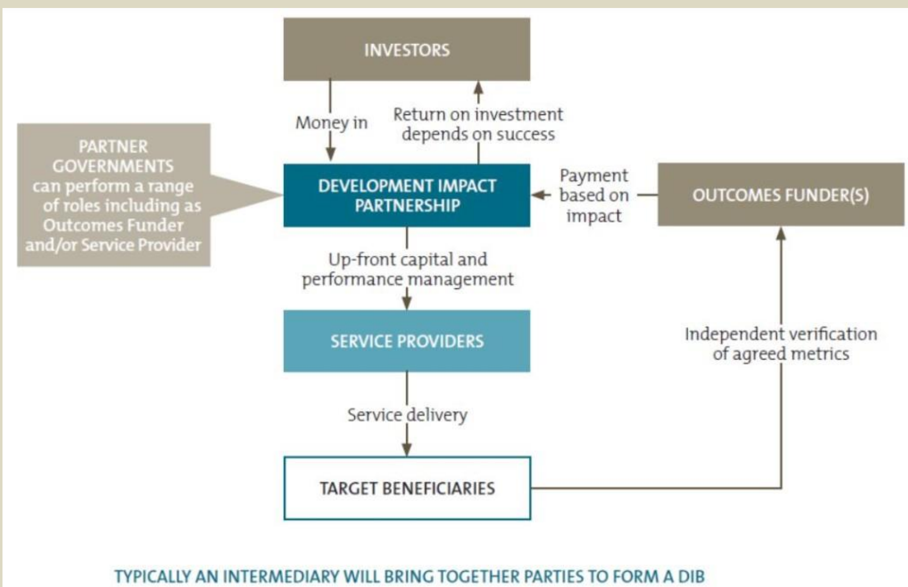


Koenig and Jackson ,2016

Development Impact Bonds: Derived from their analogues in the Global North that are known as social impact bonds (SIBs), development impact bonds (DIBs) are not technically bonds per se, but are actually performance-based or pay-for-success contracts. Private investors finance an intervention and are repaid, with an agreed-upon financial return, if key program targets are achieved. Outcome payers are usually governments or foundations, and non-profit organizations typically implement the initiative. While DIBs are labour-intensive to structure and manage, require specialized technical expertise, and must guard against overly optimistic expectations, they are being developed and tested to address a number of important development issues. One notable case involving the UBS Optimus Foundation is that of a DIB that promotes girls' education for 9,000 female students in nearly 170 schools in a single district in India. This initiative is being rigorously monitored and aims to increase the girls' enrollment and test achievements. At the two-year point of the project, the DIB has made progress on its key metrics, but still must do more to hit its ultimate targets. More recently, the International Committee of the Red Cross launched a "humanitarian impact bond" that aims to achieve efficiency innovations in physical rehabilitation centres in Nigeria, Mali and the Democratic Republic of Congo. In this case, outcome funders are European aid agencies and a foundation. For its part, Convergence is supporting a feasibility study of a DIB focused on refugee livelihoods. Several Northern organizations have promoted DIBs and SIBs, including the Rockefeller Foundation, the UK and Australian governments, and Convergence. The **Center for Global Development** is a useful source of information on DIBs.

Program Related Investments: Over the past 40 years, and pioneered by the Ford Foundation, American philanthropies have employed a particular strategy for making impact investments that is permitted by their regulator, the Internal Revenue Service, and can be targeted geographically and thematically. According to Mission Investors Exchange, program related investments (PRIs) "are vehicles for making inexpensive capital available to organizations that are addressing social or environmental concerns. Unlike grants, PRIs are expected to be repaid, often with at least a modest rate of return. Once repaid, PRIs are reused for other charitable purposes." In the development sphere, an important leader in using PRIs to address global health, agriculture and financing issues is the **Gates Foundation**, which uses them "as high impact tools to stimulate private-sector driven innovation, encourage market-driven efficiencies and attract external capital to priority initiatives." While Gates has highlighted some of its accomplishments involving this strategy, the foundation has also reflected on the challenges and unintended consequences of PRI implementation. IVCOs may be interested in the **SDG Philanthropy Platform**, which is a vehicle for American and other foundations to deploy grants and PRIs to advance the Sustainable Development Goals. Supported by the Hilton, Ford and MasterCard foundations, the platform provides detailed research and carries out pilot projects in Colombia, Ghana, Indonesia, Kenya and Zambia.

Figure 4: Structure of a Development Impact Bond



Savedoff et al, 2015

Direct Investments: Rather than routing capital through impact funds, DIBs or PRIs, impact investors can also place their capital **directly** in individual businesses. This strategy calls for considerable in-house or contracted expertise on the part of the investor, in order to mobilize and manage capital, carry out due diligence on prospective investees, execute deals, monitor investment implementation, report on development results, and, eventually, exit the investment in a way that sustains its original social mission. Some development NGOs have set up their own impact investment funds as separate legal structures, in order to make such direct investments, often attracting co-investors from the private, public or non-profit sectors. While retaining ownership and control over their investment fund, an NGO can also choose to engage professional managers or advisors to manage, deploy and monitor the placement of capital—an option that has real advantages.

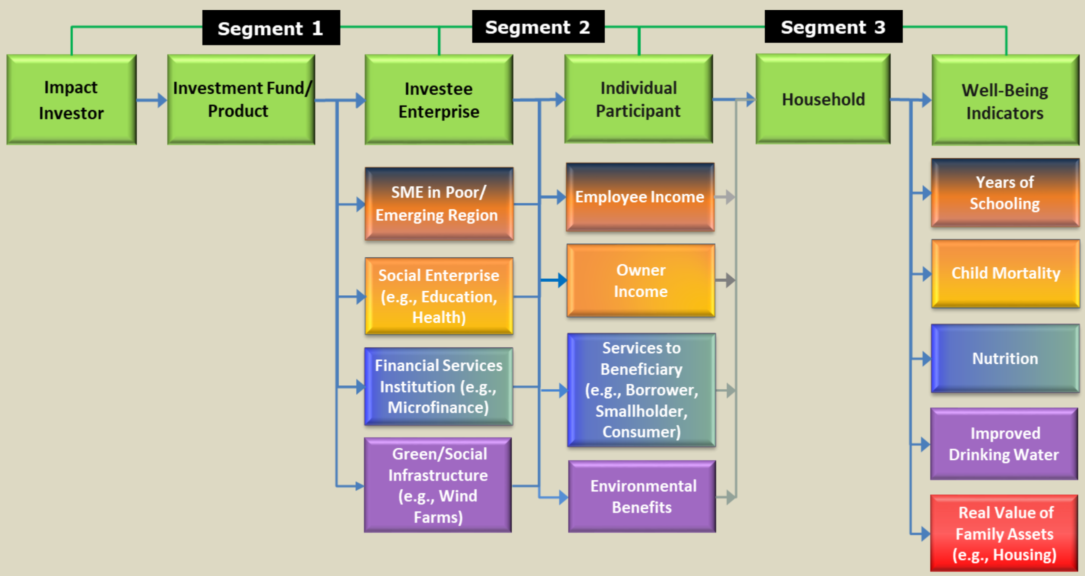
Understanding the Impact Investment Results Chain

Regardless of the strategy selected for undertaking impact investing, it is important to understand in some detail how impact investments generate results—and the nature of those results. Two general observations are necessary here. First, the impact investing industry has only recently begun to more formally link its practice and discourse to the Sustainable Development Goals. The US-based Global Impact Investing Network, the prime industry association, is making more efforts in this direction. In addition, in conferences and publications, as well as in everyday investment practice, development organizations are featuring more prominently in helping to align investment activities with the SDGs. Second, at the same time, the industry continues to refine its approach to impact analysis, standards and indicators, through the ongoing efforts of, among others, the **Impact Reporting and Investment Standards** (IRIS) system of the GIIN, the fund and enterprise social performance analytics of **B Lab**, and the **Impact Management Project**, a multi-stakeholder initiative. This and other work is rendering more precision in the use of the term "impact" and its measurement. Too often, when they use the term "impact," actors in the industry have conflated what in development practice are usually called outputs, outcomes and impacts.

In the interests of greater precision, Figure 5 presents one way of understanding the impact investing results chain. The "front end" of this chain, designated as Segment 1, focuses the attention of the stakeholders involved on the role of the impact investor in mobilizing capital, the choice and appropriateness of the investment fund or product, and the investment-readiness and impact potential of the investee enterprise. Assessing the effectiveness and efficiency of these front-end activities is a core evaluation task. Moving on along the chain, Segment 2 focuses on the relationship between the investee enterprise (for example, a small business, social enterprise, microfinance institution (MFI) or green project) and its expected and actual benefits to individual participants, notably employees, owners, suppliers, borrowers, and any environmental benefits they gain.

For its part, Segment 3 highlights the results generated at the furthest point of the chain: that of the households of the individual participants. Here, selected changes in well-being indicators (e.g. years of schooling, child mortality, nutrition status, improved drinking water and other basic services, and the value of hard assets like housing) can be assessed. It is possible, and desirable, to align these indicators with SDG targets, national statistics, and the components of the Human Development Index. Further, the **contribution** of incremental employment or ownership income (or customer savings) toward any improvements in these indicators can be examined, as well. Moreover, the influence of gender and cultural dynamics on household decisions to utilize this incremental income can also be interrogated. Mixed research methods, both quantitative and qualitative, can be used to collect and analyze relevant data.

Figure 5: The Impact Investment Results Chain



E.T. Jackson and Associates Ltd.,.2016

Development NGO Engagement in Impact Investing

Over the past decade, the impact investing industry has been largely driven and shaped by major foundations, DFIs and private equity and venture funds. However, especially over the last five years, development NGOs and other non-profits have increasingly engaged with the field in a variety of roles. Taking a learning-by-doing approach, these organizations have launched funds, bolstered investee businesses and participated in professional networks. IVCOs can benefit from this experience.

Perhaps the most striking case of impact investing scaling a social-purpose business has been led by two world-class Bangladeshi NGOs: **BRAC and Grameen**. With more than 28 million current users, bKash is the fastest growing mobile money services provider in Bangladesh, and, indeed, the world. Launched in 2010 by BRAC Bank in collaboration with Grameen Phone (itself a partnership between Grameen Bank and Norway's Telenor), bKash's growth was financed by impact investments from BRAC Bank, the International Finance Corporation, Money in Motion (a private venture firm that also manages the business) and the Gates Foundation. "By providing financial services that are convenient, affordable and reliable, bKash aims to widen the net of financial inclusion," bKash pursues it social mission through its core business model.

Another impressive leader in the impact investing field has been **Root Capital**, a US-based non-profit social investment fund that lends to small and growing agricultural businesses, as well as connects them with the formal capital markets. Its clients include agricultural cooperatives and small holder associations and Root's loans are often secured against clients' inventory and equipment. Since 1999, the fund has disbursed more than $1 billion in loans that have directly reached one million producers and, indirectly, nearly six million households. One of the first impact investors to explicitly employ a theory of change to guide its strategy and operations, Root Capital was also a pioneer in assessing its portfolio investees on their gender equality policies and performance. The fund is a founding member of the Investors Council of the Global Impact Investing Network.

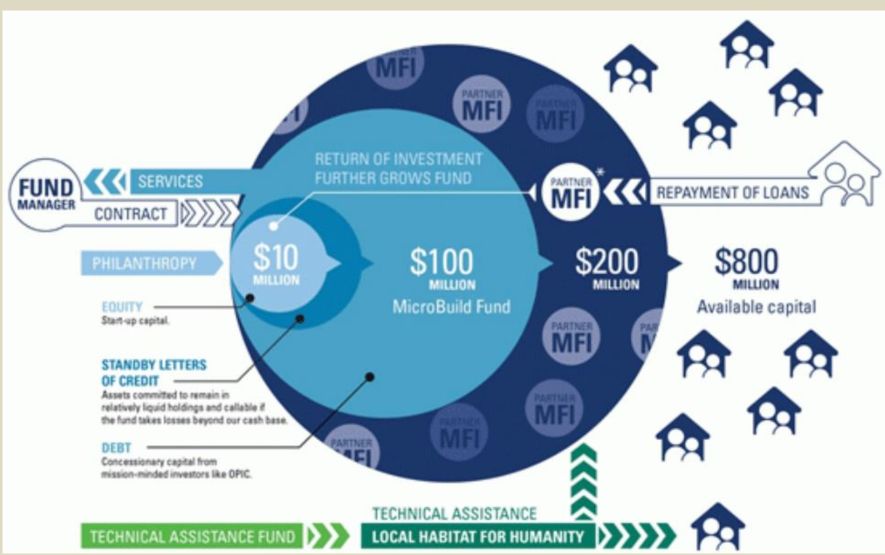
The **Acumen Fund**, a non-profit think tank, has been a leader in the impact investing industry, as well. Also, a founding member of the GIIN and an early contributor to the design of the IRIS system, Acumen raises charitable donations from corporations, foundations and individuals which it invests in social enterprises for demonstration and learning purposes. Its early work with the biofuel business, Husk Power in India, helped impact investors understand the importance of front-end grant and seed investments to enable social-purpose business growth—and that moving enterprises from start-up to scale could take as much as a decade. More recently, Acumen has worked with partners in Africa and Asia to test "lean data" collection using mobile and participatory methods in order to assess the impacts of investments at the levels of investee enterprises, employees and households.

Another leading group is **Sarona Asset Management**, a private investment firm that takes equity positions through local and regional funds in growth-stage companies in frontier and emerging markets in Africa, Asia and the Americas. It currently manages a portfolio of more than $200 million. Sarona was founded by the non-profit Mennonite Economic Development Associates (MEDA) and, in 2010, became a separate company through a management buyout; MEDA retains 10% ownership of the firm. With support from the Government of Canada, Sarona is partnering with MEDA and the MaRS Centre for Impact Investing to invest in up to 18 local funds for onward investment in 130 high-impact SMEs. The project also involves grants to 30 SMEs to improve their social, environmental and governance (ESG) sustainability as well as a mentorship component that matches 20 experienced North American venture capital and private equity managers with counterpart fund managers in frontier and emerging markets. In addition, Sarona and MEDA have been anchor founders of a new national non-profit, the Canadian Forum on Impact Investing and Development.

To date, the most broad-based initiative involving non-profits, at least those based in North America and Europe, is the **INGO Impact Investing Network**. Animated by the US-based Mercy Corps and Pact, and the Aspen Network of Development Entrepreneurs, 40 international NGOs have been active in the network, learning about and sharing their experiences as impact investors, business advisors and field-builders. Members of the network include, for example, ACDI-VOCA, BRAC, CARE, Catholic Relief Services, fhi360, Habitat for Humanity, Heifer, Hivos, MEDA, The Nature Conservancy, Oxfam, VSO, World Vision and the World Wildlife Fund.

A number of network members have founded and are operating innovative impact investment funds and programs. **Mercy Corps** operates the Mercy Corps Social Venture Fund, which provides seed capital and early stage financing to technology-intensive start-ups in the agriculture, financial services and health sectors. Since 2012, the **Pact** Global Microfinance Fund has worked with MFIs in Myanmar to provide loans, savings facilities and business support to more than 930,000 borrowers. At the same time, internationally, Pact Ventures acts as an intermediary between private investors and local social enterprise. For its part, **Habitat for Humanity** has established the $100-million MicroBuild Fund, which "supplies debt capital and technical expertise to help microfinance institutions increase the availability of housing loan products for their low-income customers." Figure 6 depicts structure and operations of the MicroBuild Fund. Finally, World Vision has set up a number of funds and vehicles to attract capital for impact investing. The organization offers prospective investors a menu of potential investment deals aimed at improving, for example, watershed management in Tanzania, reforestation in Ethiopia, and the health workforce in Kenya; it is seeking investments in the range of $25,000 to $5 million.

Figure 6: Structure and Operations of the MicroBuild Fund

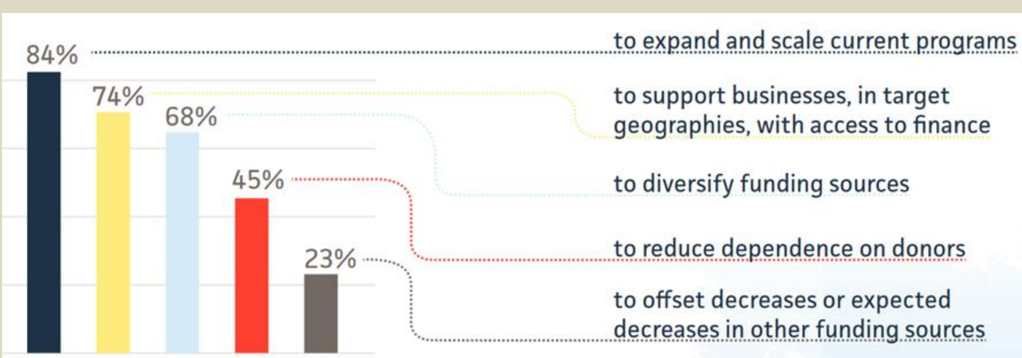


Habitat for Humanity

A 2016 report, entitled *Amplify*[ii], summarized findings from a survey of 31 members of the INGO Impact Investing Network, including that:

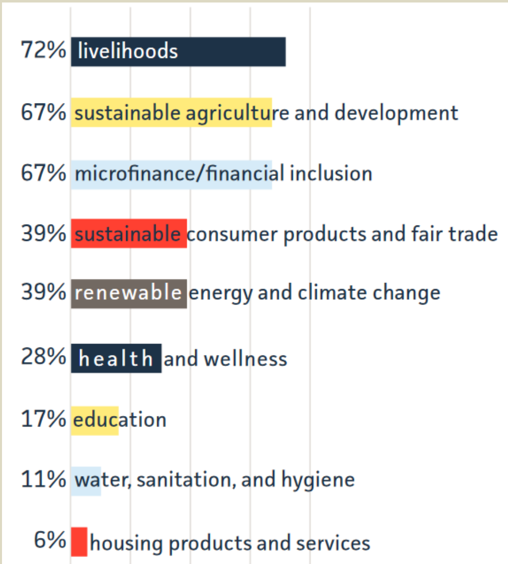
- "…almost 60% of INGOs are actively engaged or piloting their approaches with the remainder exploring how to incorporate impact investing into their programs and strategies;"
- INGO-founded or managed impact funds report about $545 million in assets under management;
- "Though activity to date is focused 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";
- "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, 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 system."
- Figure 7 highlights the reasons underlying INGOS' engagement in impact investing. Program expansion and scaling is the leading motivation. Figure 8 lists the main sectors in which the surveyed members are engaged. While livelihoods, agriculture and financial inclusion (microfinance) account for most of the engagement, there is also considerable activity in the areas of sustainable consumer products and fair trade, renewable energy and climate change, and health and well-being. Finally, Figure 9 lists the sources preferred by INGOs for raising capital for impact investing. High net-worth individuals and philanthropic funds are ranked highest.

Figure 7: Main Reasons Why INGOs Want to Engage in Impact Investing n = 31



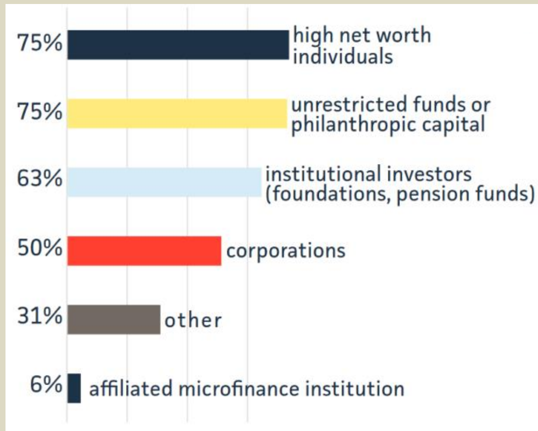
Amplify[ii], 2016

Figure 8: Impact Investment Sector Focus n = 18



Amplify[ii], 2016

Figure 9: Sources for Raising Capital n = 16

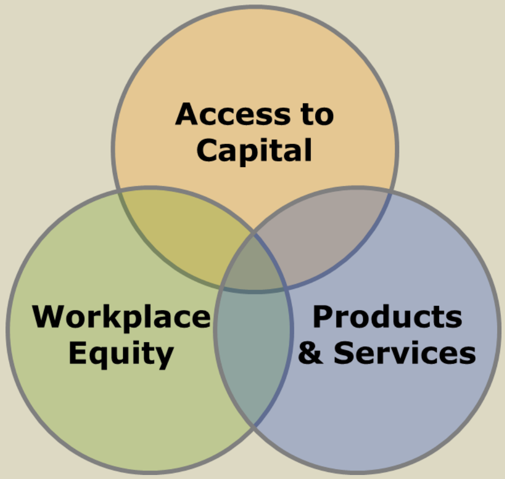


Amplify[ii], 2016

Gender Lens Investing

An approach to impact investing that is gaining visibility and momentum is known as gender lens investing. Combining the ingenuity and commitment of women investment professionals and gender rights activists, and drawing on the research of the **Criterion Institute**, the gender lens for selecting investments includes three components: providing access to capital for women-led businesses; enabling the growth of companies that provide decent work, fair wages and benefits, and safe workplaces for women; and investing in enterprises that make products or provide services that enhance the well-being of women. Thus, an impact investor using this gender lens could elect to invest in, variously: a woman-owned business that produces and sells honey, a garment factory that adheres to a strict workplace equity policy, and a firm that makes affordable, highly nutritious protein bars. Figure 10 depicts the components of this gender lens.

Figure 10: Components of the Gender Lens



Criterion Institute, 2015

One of the most comprehensive applications of gender lens investing effort to date is the **Investing in Women** initiative, which operates in Indonesia, the Philippines and Vietnam. The project works to: enable more businesses to achieve gender equality in their workplaces, support national partners in removing barriers to women's economic empowerment, increase impact investment in women's SMEs, and promote women's voice in the media and public policy on their economic empowerment. The project is supporting impact investment funds for women's small businesses run by Patamar Capital and by Small Enterprise Assistance Funds. In addition, it has helped launch a new Indonesian business coalition for women's empowerment. At the regional level, the project collaborates with APEC and ASEAN. Funded by Australia's Department of Foreign Affairs and Trade, the project's partners also include Ernst and Young and the University of Sydney.

While conference sessions and publications on gender lens investing in the impact investing industry are more prevalent, progress on this approach nonetheless remains modest. Much more needs to be done. Many IVCOs are not only committed to gender equality, but are also highly skilled in designing and implementing programming that advances women's empowerment. There are many opportunities, therefore, for IVCOs to engage in this work. Becoming a gender lens investor or co-investor is one possibility. So is helping investors develop appropriate financial products for women entrepreneurs and other women-friendly businesses. Another role for IVCOs is to provide technical assistance to prepare women-owned SMEs to receive capital. Designing and conducting gender-sensitive evaluations of impact investments constitutes yet another role for volunteer-sending agencies. Finally, IVCOs may also choose to play the role of field-builder with their partners, by supporting national networks, conferences and research projects that expand the effective in-country practice of gender lens investing.

Human Rights and Impact Investing

While work on impact investing and gender rights is being pursued through the gender lens approach, the impact investing industry is also more frequently engaging with other human rights issues. At the 2017 Social Capital Markets (SoCap) conference, several sessions examined how impact funds can more effectively advance human rights, including those related to forced labour and modern slavery, and to racial inequality. One innovative ecosystem actor, for example, the non-profit **NESsT**, has explored a range of ways of providing capital and advisory support to social enterprises that are owned by or employ LGBTQ citizens in developing and transition countries. NESsT helps incubate and grow social businesses that employ other groups excluded from the labour market as well, such as at-risk youth, ethnic minorities, and persons with disabilities.

In a broader effort, the Economic Advancement Program of **Open Society Foundations**, launched in 2016, uses a combination of impact investments and grants to advance economic development and social justice for marginalized groups, including small holder farmers, women, and Roma communities, among others. With founder George Soros planning to inject an additional $18 billion into these foundations, the EAP approach is likely to become even more influential.

Another notable example of impact investing for human rights is the Working Capital Investment Fund of **Humanity United**, a non-profit foundation affiliated with the Omidyar Network. The fund invests in start-ups with technology solutions that can reduce labour exploitation and modern slavery. The fund's director writes

> At Humanity United, we believe that corporations and entrepreneurs have a powerful role in delivering market-based solutions that can improve supply chain transparency and drive sustained positive change. Impact investing and other financial interventions are of growing importance as we seek to scale innovative solutions that address key supply chain challenges, including worker empowerment, product traceability, and ethical recruitment.

Working Capital's first investment was in **Provenance**, a UK-based, woman-owned company that employs block chain technology and big data to make corporate supply chains more transparent and accountable and, also, provide secure channels for employees themselves to report on local working conditions.

Some IVCOs may wish to become involved in impact investing that explicitly aim to advance human rights. As with gender lens investing and impact investing more generally, volunteer-sending agencies can choose to play a range of roles, with local partners, including that of investor or co-investor, product developer, business advisor, evaluator of field builder. IVCOs already working in the human right space can offer specialized knowledge and on-the-ground programming experience to investment and finance partners.

Questions and Issues

The impact investing industry is constantly evolving, and will continue to do so. The field benefits from a wide range of perspectives and capacities drawn from the private, public and non-profit sectors. And, as with other sectors, the actors in the impact investing ecosystem engage in debate and discussion of key questions and issues. IVCOs should be aware of some of the more important areas of contention.

Policing the definition: Some actors are concerned that as the field grows, especially with the entry of the giant investment banks into the impact investing space, the definition of what is considered impact investment will be diluted or otherwise weakened in the service of marketing and profits. These commentators make the case for a renewed policing of the definition by networks and standards bodies, particularly to ensure adherence to the principles of intentionality and impact reporting.

Recalibrating the prospects of market-rate returns: In addition, some actors, recently Oxfam and Sumerian Foundation, have argued that the industry "has been seduced by a false narrative of combining social impact with financial gains," while the GIIN has found that most impact investors responding to its annual survey target risk-adjusted market or near-market financial returns. But these authors note that the challenges faced by investees on the ground make the prospects of delivering such returns most of the time unlikely, and call for more realistic expectations and discourse.

Paying for serious evaluations: Even when investors are very successful, their margins only allow them to pay for limited impact assessments usually confined to outputs and stories. The costs of more thoroughgoing, outcome or impact evaluations, particularly those that examine results accruing (or not accruing) to individuals and their households, require grants or other forms of subsidies from governments, foundations and other players. Yet many in the industry still talk as if these costs can be fully borne by investors, which is not possible.

Preparing for unintended consequences: Bad things can happen to good movements. In 2010, for example, high interest rates by MFIs, mounting debt by poor borrowers, aggressive collection tactics and other factors contributed to what has been termed "an epidemic of suicides" among low-income customers in India. The microfinance movement was completely unprepared for the human and reputational fallout. While impact investing conferences and reports are more often embracing the complexity of their work, and highlighting challenges, there is little evidence that the industry is ready to deal with investors, investees and the media should any high-profile failures occur in the coming years.

Balancing innovation and jobs: Many investee companies feature innovative digital technology that makes their business models efficient, effective and scalable. The problem with this is that the same technology can also reduce or restrict job creation and retention. In the years ahead, as the nature of work changes, actors in the impact investing ecosystem will need to work harder to achieve a reasonable balance between innovation and jobs.

Preserving mission at exit: Like all investors, impact investors must eventually exit their investments. The question is: can they exit while preserving the social, environmental or development mission and results? An initial study by the Wharton School of about 50 exited impact investments found that fund managers were satisfied they had preserved the impact component upon exit. Training fund managers in various tactics for accomplishing this objective should be a priority going forward.

Advancing national sovereignty: Finally, and perhaps most importantly, the prevalence and strength of Northern investors and intermediaries in Southern impact investing ecosystems can undermine national sovereignty. Instead, external actors should place a priority on supporting local asset owners and asset managers to expand and multiply local impact funds, to achieve significant social, environmental or development results, and to build self-sustaining national impact investing ecosystems.

In the years ahead, there is an opportunity for IVCOs to work with impact investing actors to address these and other questions and issues. Working with a range of partners, volunteer-sending organizations can bring valuable knowledge, ingenuity, experience and capacity to this effort.

Potential Roles in Impact Investing for IVCOs

To summarize, there are at least five potential roles through which IVCOs can participate in the field of impact investing. Volunteer sending organizations may even elect to play several of these roles at the same time. However, to maximize the results of these new partnerships, IVCOs will need to: build their own knowledge of and capacity in investment, finance and business; fully align their structures and operations in impact investing with their core mission; and continuously monitor, learn and adapt as their impact investing activities proceed forward. As with all development interventions, some actions will work and can be expanded; others will not, and may need to be modified or even terminated.

Investor or Co-Investor: Like other development NGOs, IVCOs may choose to become investors or co-investors. This requires mobilizing investment capital from the organization's reserves or its donors, individual or institutional. This capital should be patient; that is, it should be available for investments for five to ten years. Decisions should be made regarding the priority geographies and themes or sectors (e.g. agriculture, health, women, energy, water) of the investment portfolio, size and duration of investments, financial risk and return requirements, the mix of instruments to be used (loans, guarantees, equity), and metrics for social or environmental impacts sought. Developing an investment thesis or theory of change for the impact investing program is also an important task. Whether the IVCO sets up its own fund or becomes a co-investor in an existing impact investing vehicle, it will need to hire specialists with investment and finance expertise if they are not already on staff.

Product Developer: Rather than directly investing, some IVCOs could instead choose to help investors, investees and their affected communities design, test and roll out financial products that fit the needs of their target beneficiaries. For example, using a participatory process, an IVCO's volunteer could work with the business leaders of a group of rural districts to assess any capital gaps in the micro, small and medium sized enterprises involved in key agriculture and agribusiness value chains (e.g. honey or dairy products, seasonal vegetables or flowers). Then, working with an allied investment fund or financial institution, the IVCO could accompany, monitor and adjust the implementation of loan and guarantee products that aim to meet the identified needs. The role of product developer can reduce risk for investors and optimize benefits for investee businesses. Again, IVCOs playing this role will need to hire internal professional expertise in investment, finance and business.

Business Advisor: One of the most persistent challenges faced by impact investors in all parts of the world is to develop a full "pipeline" of viable future investments in their preferred areas of intervention. To help address this issue, IVCOs can join forces with investment funds and use grant-based programs to provide volunteer-driven business advice and training to make prospective investees ready to receive and utilize capital. Business support can also be provided during the implementation of the investment, and after the investor has exited the project. Playing this role, on the "demand side" of the impact investing ecosystem, may be a more natural role for some IVCOs that are already involved in private sector and market systems development activities. In any case, thorough training of and support for volunteer business advisors in enterprise and market development and impact investing will be key to success for all parties.

Evaluator: Another role that may be a fit for some IVCOs involves evaluating impact investing programs at the level of individual investments or at the broader portfolio level. To be sure, there is evaluative work to be done at the "front end" of the results chain, to assess the effectiveness and efficiency of the investor in mobilizing and deploying capital in sufficient quantity and through appropriate products. However, the most important evaluative work is to be undertaken in the middle and back ends, assessing the outcomes (expected and unexpected, positive and negative) for investee firms and their employees, customers and suppliers. Mixed research methods make sense here. Key results metrics for these stakeholders are quantitative. But using qualitative data collection and analysis can help investors and investees alike understand the nuances and underlying dynamics (e.g. age, gender and ethnic differences) associated with those indicators. Good preparation and supervision of volunteers working on evaluation teams is essential here. So is accessing the skills and knowledge of local evaluation professionals in the private, public or university sectors.

Field-Builder: Finally, IVCOs can become field builders. In most developing countries, national impact investing ecosystems remain underdeveloped. Exceptions are India, Kenya and South Africa, where impact funds, social-purpose businesses, and impact analysts are numerous and active. However, in general, these ecosystems are asymmetrically structured, still dominated by western development finance institutions and foundations as well as private equity funds and non-profits headquartered in high-income countries. These conditions undermine impact, reach and sustainability as well as sovereignty. Against this backdrop, and working closely with local leaders in the industry, IVCOs can field volunteers to organize professional workshops and conferences, animate national associations or networks, and target special training and support for local investment professionals, relevant policy makers, and entrepreneurs engaged in high-impact sectors.

Conclusion

It is clear enough that international volunteer cooperation organizations should be aware of the impact investing industry as a source of new partnerships for SDG implementation as well as an innovative and substantial field of practice in its own right. In addition to providing an overview of the industry, this paper has outlined a number of roles that IVCOs could play in engaging with actors in the impact investing ecosystem in the years ahead. Volunteer sending agencies seeking to collaborate with impact investing industry partners should consider taking three next steps: undertake research and networking to learn more about the field, build internal or contracted capacity in investment, finance and business, and begin testing new roles and relationships through pilot projects and other initial actions. In this area of development practice, as in so many others, learning by doing offers the most productive way forward.

Further Reading

Anderson, J. and K. Miles. The State of the Field of Gender Lens Investing. Criterion Institute, Haddam, CT, 2015. http://criterioninstitute.org/wp-content/uploads/2012/06/State-of-the-Field-of-Gender-Lens-Investing-11-24-2015.pdf

Dente, T., S. B. Libby, S. Turpin and S. Sharma. *Amplify[ii]: The INGO Value Proposition for Impact Investing*. INGO Impact Investing Network, 2016.
https://www.insidengo.org/sites/default/files/amplifyreport.pdf

Global Impact Investing Network. *Achieving the Sustainable Development Goals: The Role of Impact Investing*. New York, 2017. https://thegiin.org/knowledge/publication/sdgs-impinv

Jackson, E.T. and K. Harji. *The Household as the Unit of Analysis: Evaluating the Multidimensional Household Outcomes of Impact Investing in West Africa*. Presented to the 16th Finance, Risk and Accounting Perspectives Conference and the Social and Sustainable Finance, Entrepreneurship and Impact Investing Conference, University of Cambridge, Cambridge, September 27, 2017.
http://etjackson.com/wp-content/uploads/Household_as_Unit_of_Analysis_08_2017.pdf

Jackson, E.T. and K. Harji. *Evaluating Impact Investing: Syllabus*. Rockefeller Foundation and Other Partners, 2016. www.evaluatingimpactinvesting.org

Koenig, A. and E.T. Jackson. *Private Capital for Sustainable Development*. Danida Evaluation Department, Copenhagen, 2016.
http://www.evaluatingimpactinvesting.org/resources/private-capital-for-sustainable-development/

Mudaliar, A., H. Schiff, R. Bass and H. Dithrich. *Annual Impact Investor Survey 2017*. Global Impact Investing Network, New York, 2017. https://thegiin.org/knowledge/publication/annualsurvey2017

Saldinger, A. *Is there room for NGOs in the impact investing ecosystem?* Devex, February 12, 2016.
https://www.devex.com/news/is-there-room-for-ngos-in-the-impact-investing-ecosystem-87735

Samans, R. and E. Solheim. *A How-To Guide for Blended Finance*. Organisation for Economic Co-operation and Development and the World Economic Forum. Paris and Geneva, 2015.
http://www3.weforum.org/docs/WEF_Blended_Finance_How_To_Guide.pdf