

Evaluating Impact Investing: An Emerging Area of Development Evaluation Practice



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Current Context

- Slow economic growth globally and in the advanced economies in particular
- High unemployment and growing inequality in OECD countries
- Pressure to reduce western aid budgets
- Continued ascendance of new economic powers: China, India, Brazil, Korea, Indonesia
- Increased importance of G-20 in global governance and development
- Increased development assistance and trade on the part of the new powers
- Need and opportunity to lever private sector capital to reduce poverty, inequality and global warming, promote livelihoods and well-being



New Options for Development Finance - Annual Flows, Driven by G-20 Countries

■ Aid Commitments	\$80 B
■ SWF Infrastructure Fund	\$ 8 B
■ Financial Transaction Tax	\$ 9 B
■ Remittances Transfer Savings	\$16 B
■ Diaspora Bonds	\$ 4 B
■ Fuel Tax (Global Component)	\$37 B
Total	\$165 B

(Gates Foundation, 2011)

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A New Role for African Development Evaluators

- African stakeholders have a right and the responsibility to be at the table to *shape* new development finance instruments
- African evaluators have a right and the responsibility to ensure that meaningful *development outcomes* are being achieved by these new instruments
- *Impact investing* is a field in which African evaluators can, and should, play this role

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What is Impact Investing?

- “Making investments that generate social and environmental value as well as financial return” (*Monitor Institute, 2009*)
- Deployment of capital with the *intention of actively* creating positive social or environmental impact
- A subset of *social/responsible investing*, including microfinance, SME finance, community development finance

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What is the Impact Investing Field?

- Emerging marketplace and field of practice of investors, investees, consultants, networks and standards-in-process
- Currently in the organizing and market-building phase
- To date, strong presence of Northern impact investors (foundations, non-profit funds, DFIs) and Northern and Southern (e.g., India, Kenya, Mexico) social entrepreneurs (for-profit and non-profit)
- Global market potential of \$500B to \$1 trillion
- Key player is Global Impact Investing Network (GIIN) and its Investors’ Council, as well as the associated Impact Reporting and Investment Standards (IRIS) and Global Impact Investing Rating System (GIIRS)

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Examples of Impact Investments

- Provision of *below-market loans* by a development finance institution to small businesses in a post-conflict zone
- Provision of *loan guarantees* (as program-related investments, or PRIs) by charitable foundations in an affordable housing fund, which then can lever additional commercial finance
- Purchase of the *securitized debt* of a microfinance loan portfolio by a commercial bank on commercial terms, which helps the MFI expand its lending
- Purchase by private investors of *shares* or *units* in a green energy fund that, in turn, invests in local renewable energy facilities in poor communities

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Who are the Key Players?

Supply of Capital

- Non-profit and for-profit social funds (Root Capital, African Agricultural Capital, Acumen, Fanisi)
- Charitable foundations (Elumelu, Rockefeller, Gates)
- Development finance institutions (OPIC, FMO, CDC)
- Commercial banks (UBS, Deutsche Bank)
- Development agencies (USAID, DFID)
- Major corporations
- Pension funds
- Sovereign wealth funds
- Intermediaries for investors

Demand for Capital

- Social entrepreneurs (non-profit, for-profit)
- Small and medium-sized enterprises
- Microenterprises
- Microfinance institutions
- Non-profit housing projects
- Urban revitalization projects
- Green energy businesses
- Sustainable agriculture initiatives
- Water systems
- Health care facilities
- Intermediaries for investees

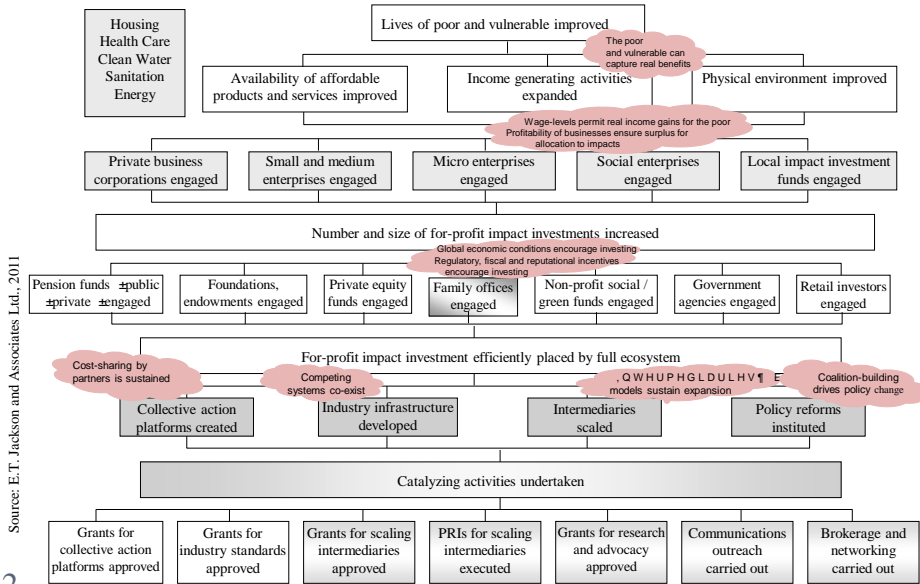
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Issues to be Engaged Going Forward

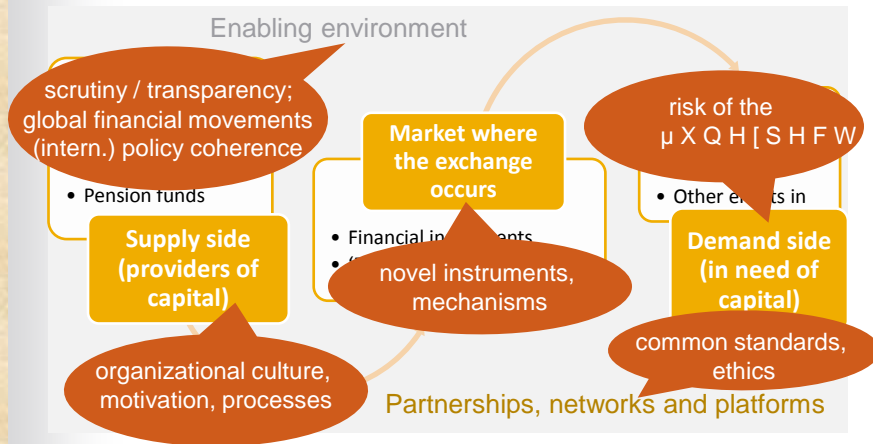
- Integrating II's *supply and demand* sides
- Engaging the *larger players* in II: pension funds, sovereign wealth funds, major corporations
- Understanding and resolving the different *cultures and practices* of the II and development evaluation fields
- Balancing metrics, data and performance assessment at the *centralized and decentralized levels*
- Making the business case for *SROI studies*
- "Africanizing" the field of impact investing, at the global and country levels

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Impact Investing Initiative-Theory of Change



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What Evaluation Methods are Most Relevant to Impact Investing?

- Methods and processes that provide for measurement, accountability, and understanding through 'learning', customized to each assignment
- Methods that can be applied at multiple levels - on the supply and demand sides: e.g. individual, household, enterprise, program, 'change', fund, field, system
- Methods that distinguish between groups, e.g. for equity issues
- Methods that deal with systems and emergence
- Methods that incorporate understanding of, and tools for, assessing financial returns and business performance and viability

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Range of Approaches and Methods † some examples

- **Clarifying the change logic(s), and understanding how, why, under**

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e.g., theory-based evaluation (Carol Weiss, Huey Chen)

theories of change / program theory analysis (Funnel & Rogers, 2011)

Realistic Evaluation (Pawson 2010, Pawson & Tilley, 2006)

- **Making provision for emergence, turbulence, (fast)-changing contexts:** Developmental evaluation (Patton, 2010)

- **Understanding systemic change (integrating the components of the II**

Z • Ç • š System concepts in action (Williams & Hummelbrunner, 2011; Williams & Iman, 2007); Realistic Evaluation; etc.

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Range of Approaches and Methods † some examples

- **Evaluating specific components:** organizational assessment (IDRC / Universalia model); network evaluation (Raynor, 2011); policy evaluation (e.g., Pawson 2010)

- **v • μ Œ] v P Z À }] [U Œ o] š Ç Z I] v P Œ e.g., stakeholder engagement (Chevalier & Buckles, 2008); utilization focused evaluation (Patton, 2010)**

- **Understanding and assessing (un)expected impact:** range of impact evaluation approaches and designs – ref. 3ie, NONIE, IE4ID, InterAction Guidance (2012); contribution analysis (e.g., Mayne, 2008); unexpected consequences and impacts (Morell, 2010)

- **Valuing beyond direct financial returns:** Social return on investment - SROI (e.g. New Economics Foundation, REDF); environmental impact assessment; expanded value added statement (Mook, Quarter and Richmond, 2007);

- And many more

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