

Innovations in Development Finance

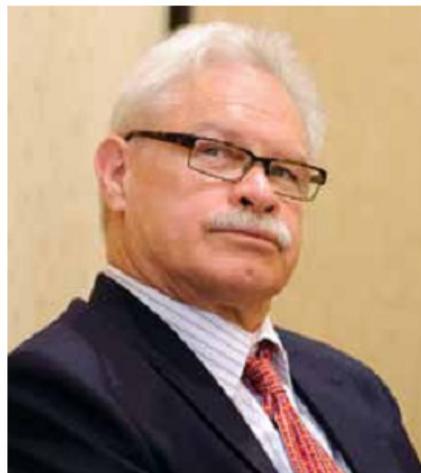
► What impact investing is, why it matters, and what you should do about it.

By Edward T. Jackson, President, E. T. Jackson and Associates Ltd.

AS THE STRUCTURE of the global economy continues to change, innovations in development finance matter more than ever. Working hard to cope with their own challenging domestic conditions, Western governments have begun to cut back on their aid spending.

Sponsored by the Rockefeller Foundation, a Forum workshop explored the emerging field of impact investing and its implications for development. As a complement to—but not a replacement for—both government spending programs and private philanthropy, impact investments channel capital in the form of loans, guarantees, equity or other instruments into companies and projects that can generate positive social and environmental, as well as financial, returns. Impact investors work to place capital in ways that ultimately make a difference in the lives of poor and low-income citizens in both the Global North and South, targeting enterprises whose goods and services result in, for example, increased income for poor households, more affordable housing, access to low-cost social services like health and education, and more.

Who are these impact investors? The Rock-



efeller and Gates Foundations, among others, make program-related investments for this purpose. Social venture firms like the Omidyar Network take equity positions and provide loans to social enterprises. High net worth individuals and families are exploring impact investing as a means of achieving deeper, longer lasting results. Dedicated social impact funds like Root Capital and the Acumen Fund use a variety of financial instruments, including equity, loans and guarantees, to promote the growth of social-purpose small businesses and cooperatives. Larger, institutional investors—such as development finance institutions, banks' private wealth management units and public-sector pension funds—are also committing funds to impact investing.

Through the grant-making of the Rockefeller Foundation and other institutions, the initial public goods infrastructure has been put in place to organize and build this new sector worldwide.

Growing impact investing is not easy, however. For one thing, different sets of actors around the world hold a wide range of views of what constitutes impact investing. For another, almost every stakeholder has a different conception of what social or environmental impact really looks like. Moreover, while mobilizing and placing capital are fundamental functions in this movement, so too is smart policymaking. An appropriate mix of citizen engagement, regulation, accountability and incentives is essential to impact investing's success.

As the impact investing industry evolves and expands, it must guard against "impact washing" by players that seek to market themselves as actors in this field, but have little commitment to social impact. Development organizations can hold these actors accountable for their social performance, and, at the same time, build alliances with other stakeholders genuinely committed to meaningful social change.



While ownership, activity and discourse in the impact investing field are centered largely in the Global North, Southern investors and networks are emerging. Development organizations can bring their knowledge and partnerships in development to this field-building process. They can also help strengthen the metrics and measurement work of the impact investing field.

The more than 40 participants at the innovative financing for development workshop at the Forum were eager to learn more about impact investing. A growing number of their organizations, including very large NGOs and major bilateral and multilateral agencies, are examining ways of tapping into new financial resources to fund their programs or to increase and sustain the results of their spending, or both. Some have worked extensively with social enterprise and small businesses in poor regions, and seek capital to enable these businesses to grow and succeed. Others realize they have relevant previous experience in this field through microfinance projects or village savings groups, and can build on that base. Still others want to align more of their capital assets with their social mission. The lively, focused discussion, facilitated by **Nancy MacPherson**, managing director for evaluation in the Rockefeller Foundation, was for many in the room a spur to further learning and action. ☺

For more on the role of impact investing in development, please contact the author at Edward_jackson@etjackson.com or the Rockefeller Foundation at Evaluation@rockfound.org.