

# Impact Investing: Maximizing Social Impacts through Ethical Capital – What's Possible?

Edward Jackson  
Carleton University

Presented to the Canadian Centre for Ethics in Public Affairs,  
St. Mary's University, Halifax,  
March 19, 2013

# What is Ethical Capital?

Ethical capital constitutes financial assets that are mobilized and invested according to the system of moral ideals, or code of values, of the owners of the capital.

- \* Examples:
  - \* Ethically screened stocks on the stock markets
  - \* Ethically targeted direct investments, or impact investments.

# Examples of Impact Investments

- \* A loan to a renewable energy business, Husk Power, in Bihar, India-biomass gasification of rice husk, providing rural employment
- \* Mortgage financing for an affordable housing project in Oakland, California-routed through Pacific Community Ventures, a community-development finance institution

# Impact Investing: Part of the Future of Finance

Along with:

- \* Government tax revenues
- \* Domestic private investment
- \* Foreign direct investment
- \* Overseas development assistance
- \* Charitable grants
- \* Other innovative finance instruments

# Current Context

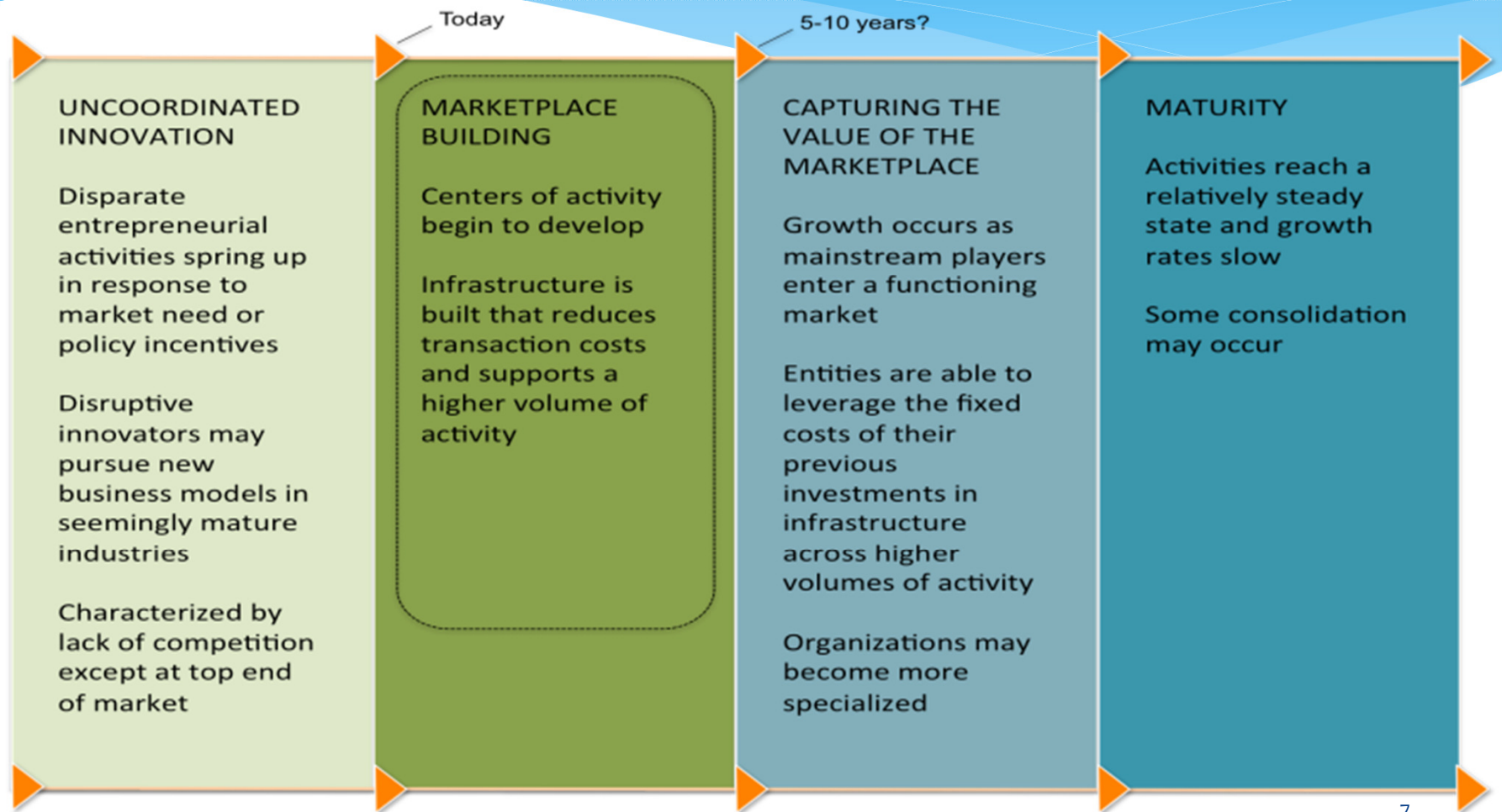
- \* Slow economic growth globally
- \* High unemployment and growing inequality
- \* Pressure to reduce western aid budgets
- \* Continued ascendance of new economic powers: China, India, Brazil, Korea, Indonesia
- \* Increased importance of G-20 in global governance
- \* Increased development assistance and trade on the part of the new powers
- \* Need and opportunity to lever private sector capital to address pressing social issues

# New Options for Innovative Finance

- \* Ten years of R&D by UNDP, OECD, World Bank, think tanks
- \* GAVI vaccine bonds: \$7B+ in long-term government pledges
- \* New options proposed that can be driven by G-20 countries:
  - \* SWF Infrastructure Fund
  - \* Financial Transaction Tax (Tobin Tax)
  - \* Remittance Transfer Savings
  - \* Diaspora Bonds
  - \* Fuel Tax (Global Component)

(see Gates, 2011)

**Impact Investing:** “actively placing capital in businesses and funds that generate social and/or environmental good and at least return nominal principal to the investor”



# Investments intended to create positive impact beyond financial return

The diagram features a blue header with the title. Below it, a white wavy line separates the header from the content. Four blue arrows originate from the wavy line and point upwards towards the header. The first arrow points from the 'Provide capital' section. The second arrow points from the 'Businesses designed with intent' section. The third arrow points from the 'Expect financial returns' section. The fourth arrow points from the '... to generate positive social and/or environmental benefit' section.

## **Provide capital**

- Transactions currently tend to be private debt or equity investments
- We expect more publicly traded investment opportunities will emerge as the market matures

## **Businesses designed with intent**

- The business (fund manager of company) into which the investment is made should be designed with intent to make a positive impact
- This differentiates impact investments from investments that have unintentional positive social or environmental consequences

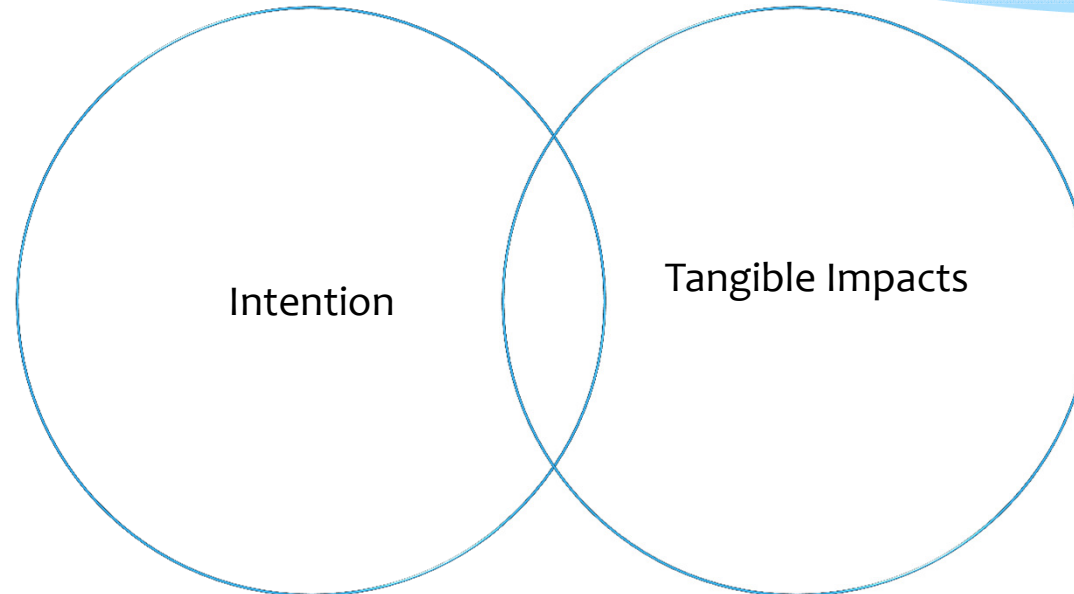
## **Expect financial returns**

- The investment should be expected to return at least nominal principal
  - Donations are excluded
  - Market-rate or market-beating returns are within scope

## **... to generate positive social and/or environmental benefit**

- Positive social and/or environmental impact should be part of the stated business strategy and should be measured as part of the success of the investment

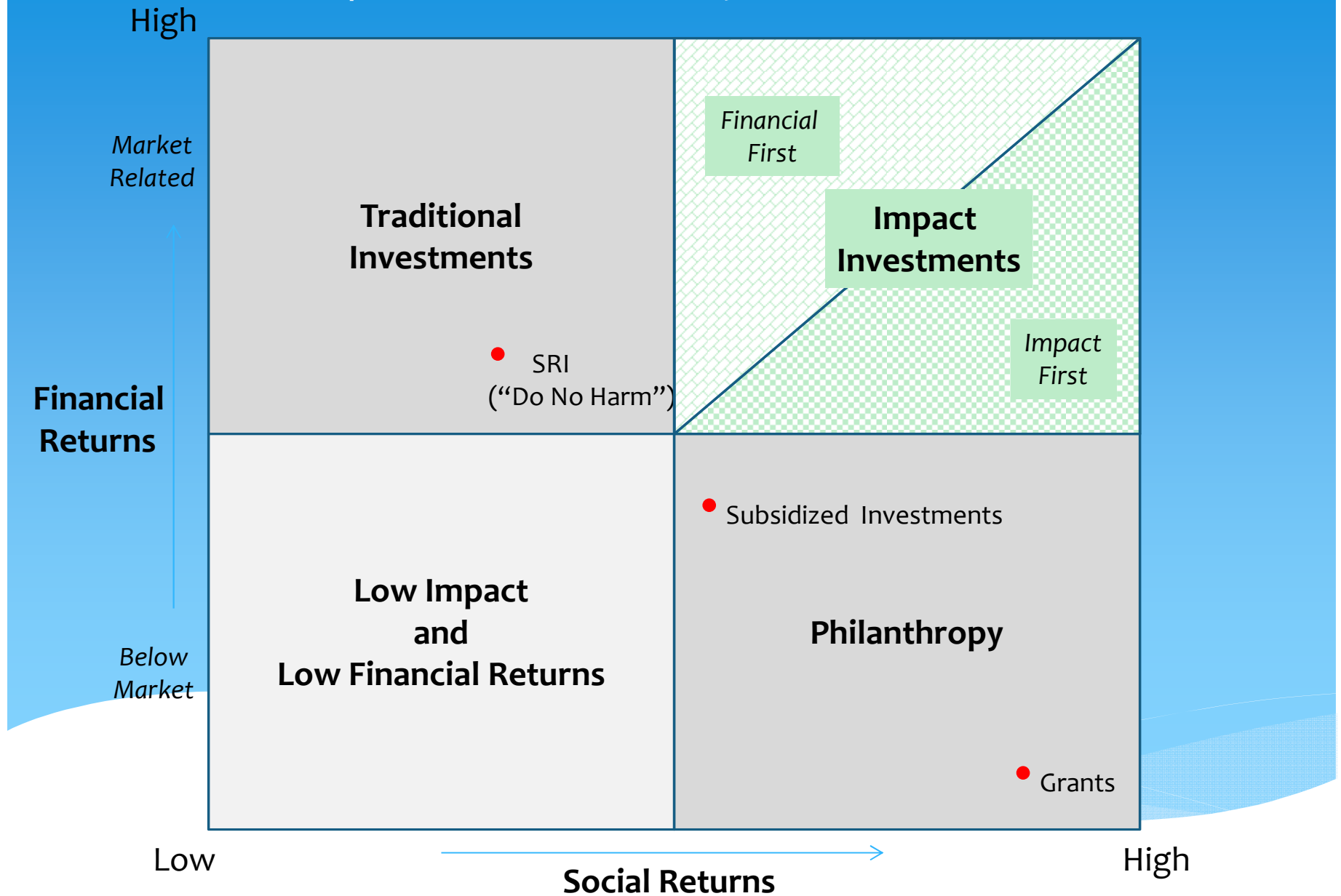
# Impact investing: Core Definitional Elements



“Investments intended to create positive impact beyond financial returns”

# Impact Investing: Mapping Returns

Source: adapted from Monitor Institute 2009, via Rockefeller Foundation , 2011



# Actors in the Impact Investing Industry

ASSET OWNERS	ASSET MANAGERS	DEMAND-SIDE ACTORS	SERVICE PROVIDERS
<ul style="list-style-type: none"><li>• High net worth individuals/families</li><li>• Corporations</li><li>• Governments</li><li>• Employees</li><li>• Retail investors</li><li>• Foundations</li></ul>	<ul style="list-style-type: none"><li>• Investment advisors</li><li>• Fund managers</li><li>• Family offices</li><li>• Foundations</li><li>• Banks</li><li>• Corporations</li><li>• Venture funds</li><li>• Impact investment funds/intermediaries</li><li>• Pension funds</li><li>• Sovereign wealth funds</li><li>• Development finance institutions</li><li>• Government investment programs</li></ul>	<ul style="list-style-type: none"><li>• Corporations</li><li>• Small and growing businesses</li><li>• Social enterprises</li><li>• Cooperatives</li><li>• Microfinance institutions</li><li>• Community development finance institutions</li></ul>	<ul style="list-style-type: none"><li>• Networks</li><li>• Standards-setting bodies</li><li>• Consulting firms</li><li>• Non-governmental organizations</li><li>• Universities</li><li>• Capacity development providers</li><li>• Government programs</li></ul>

# Describing Impact Investing Around the World



Source: Harji and Jackson, 2012

# Mapping the Impact Investing Industry



Source: Harji and Jackson, 2012

# Types of Impact Investment Products

- \* Private debt (loans, guarantees)
- \* Government debt (loans, guarantees)
- \* Equity-like debt (e.g., convertible bonds, warrants)
- \* Private equity (direct purchase of shares in enterprise)
- \* Social stock exchange units (purchase of tradable shares via an organized market)
- \* Social impact bonds (premium on financial return to private investors for non-profit achievement of outcome targets)

# More Types of Impact Investment Products

- \* Program related investments (usually debt) of foundations and endowments
- \* Deposits in social banks, credit unions, CDFIs
- \* Community investment notes
- \* Disability savings plan (Canada)

# Local Impact Investors

- \* Impact investment funds of banks
- \* Micro-enterprise, SME and non-profit financing from credit unions
- \* Micro-enterprise, SME and non-profit financing by Business Development Bank of Canada
- \* CED Investment Funds
- \* PRIs of foundations
- \* Loans and equity investments by high net-worth individuals and families
- \* Social impact bonds

# What Impact Investing is Not

- \* Not a silver bullet / panacea
- \* Not implying that every social issue can be solved through market-based approaches
- \* Not replacing the important role of philanthropy
- \* Not an excuse for governments to ignore their obligations to marginalized populations or their obligations to redistribute wealth

# The Potential of Impact Investing

- \* The ability to unlock new types of capital to address a range of social issues, and to combine capital in creative ways
- \* An opportunity to address the limitations of traditional investment approaches that narrowly focus on financial returns
- \* A desire by more wealthy investors to generate both financial and social returns

# Capital Growth

Mean number of  
investments made since  
investor inception:

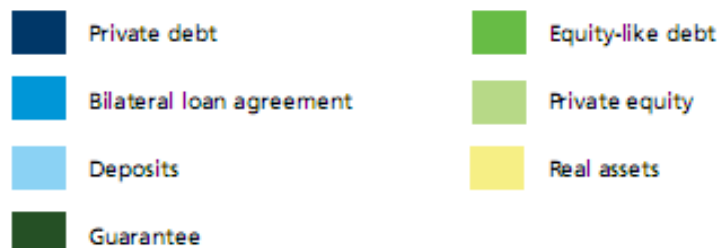
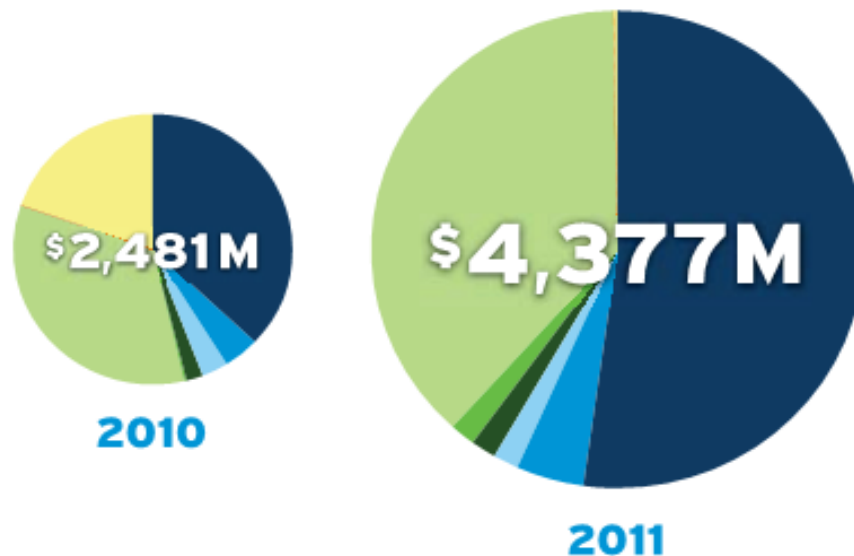
**159**

Mean value of  
investments planned  
for 2012 per investor:

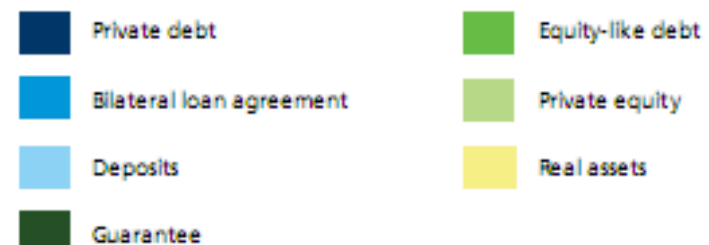
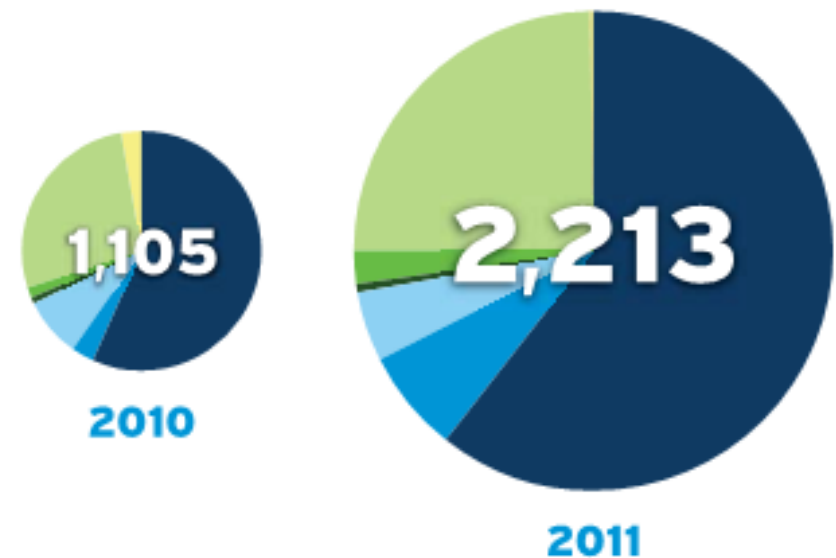
**\$75M**

*Source: J.P. Morgan, 2011.*

Value of Reported Investments

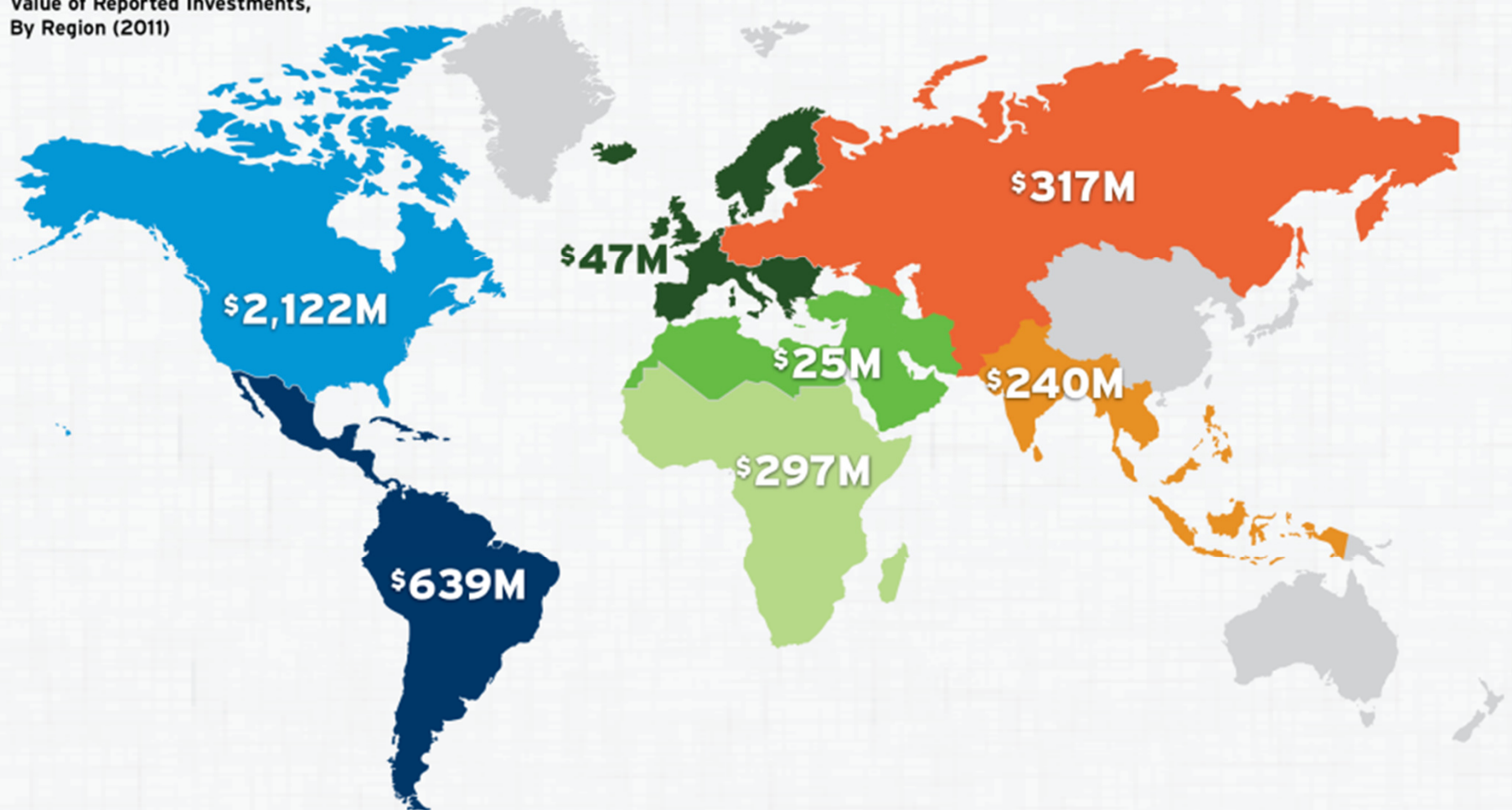


Number of Reported Investments



# Value of Reported Investments, by Region, 2011

Value of Reported Investments,  
By Region (2011)



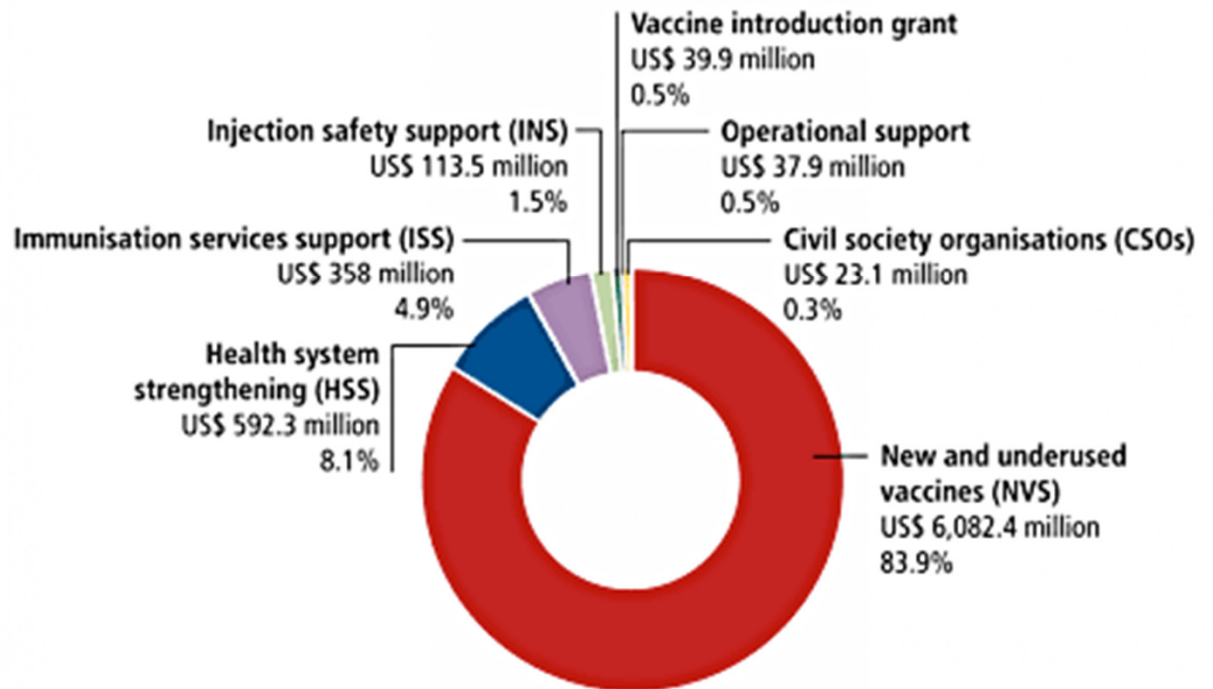
Source: Saltuk, Bouri and Leung, Insight into the Impact Investment Market, 2012

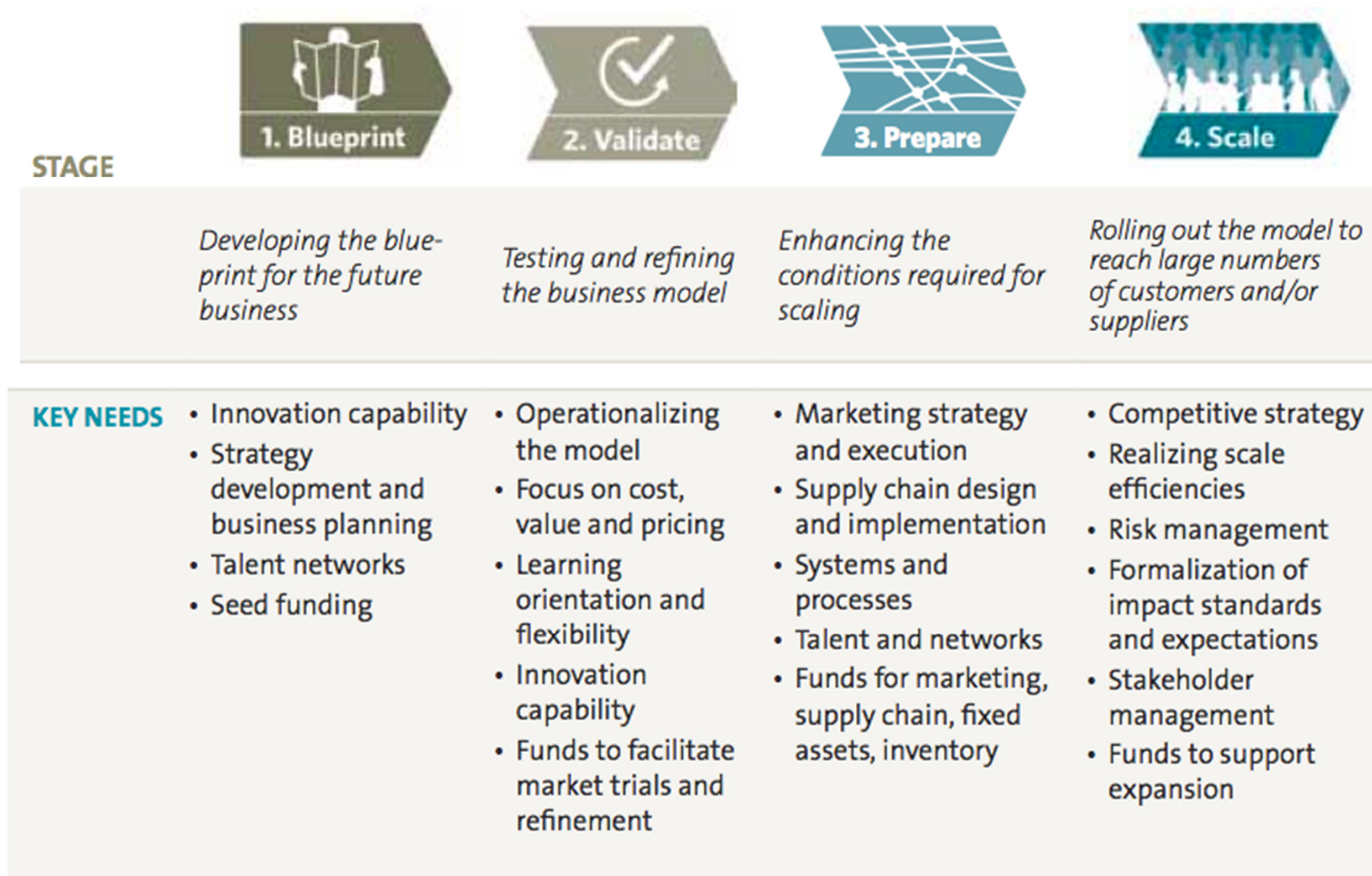
# Unlocking Capital at Scale: Vaccine Bonds

- \* Impact investors provide the upfront capital to stimulate vaccine research and development
- \* Investments backed by international aid commitments
- \* 2008: International Finance Facility (IFFI) for Immunization issued bonds which raised the equivalent of over \$1 billion

**US\$ 7.2 billion committed to countries**

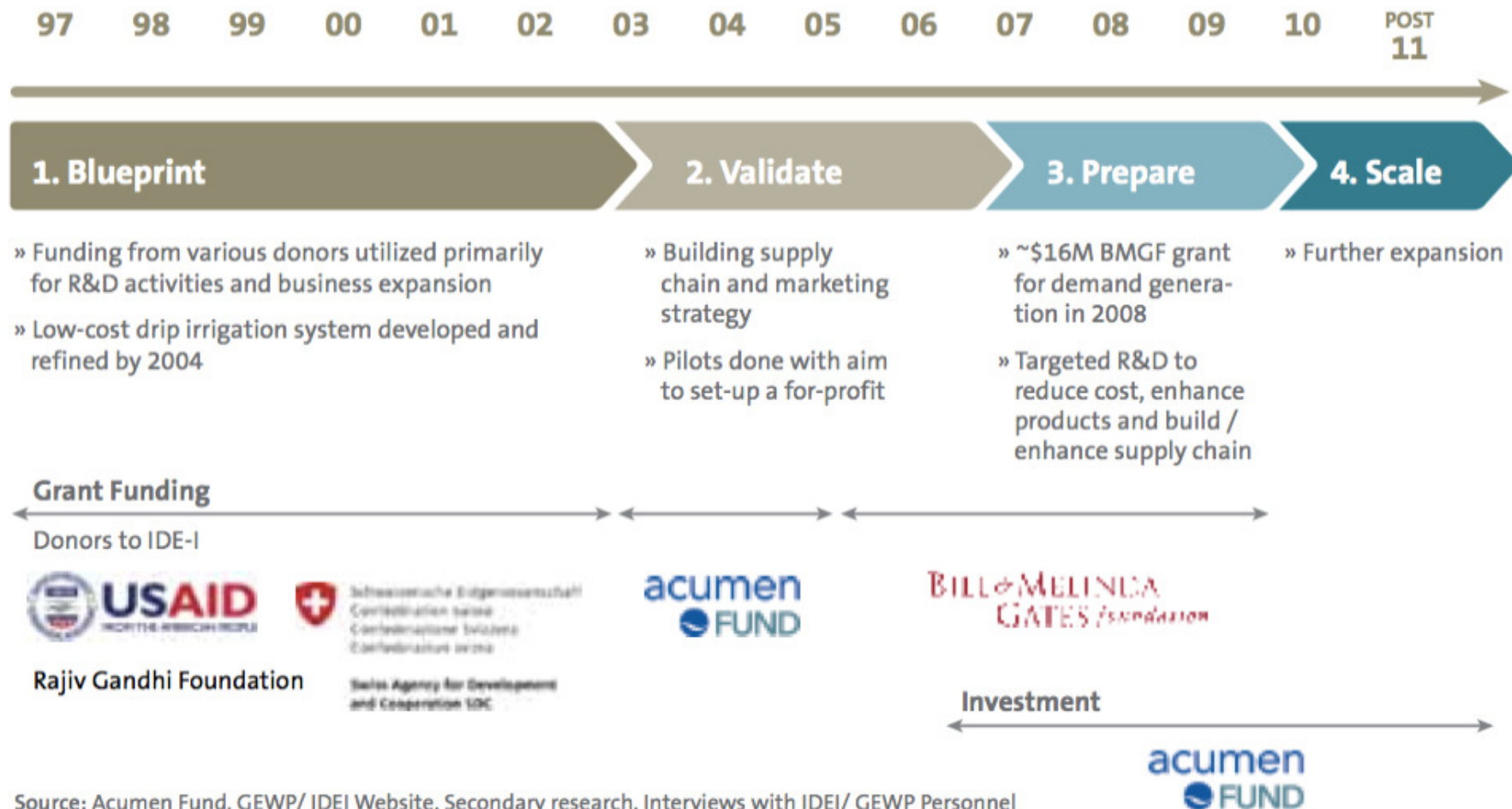
Source: GAVI Alliance data as at 31 December 2011





# Case Study: Global Easy Water Products

## Stages of Business Development of GEWP



# Measuring Social Impact: Interrogating the Theory of Change

- \* The key to an effective social impact measurement system is a clear theory of change
- \* A theory of change sets out, usually in a visual format, the investor's theory of how the channeling of capital into business and social activities undertaken will result in change in the lives of employees, community members or other key stakeholder groups and what indicators are used to judge the success of these efforts
- \* A theory of change also depicts the key assumptions and potential obstacles expected in trying to achieve this social impact
- \* A theory of change evolves and adapts through experience and learning

# ROOT CAPITAL IMPACT

Through our Lending program and Financial Advisory Services, Root Capital strengthens rural small and growing businesses (SGBs). While our ultimate goal is to improve farmer household income, our financing also strengthens local communities, promotes sustainable landscapes, and increases the availability of commercial sources of capital.



## **Outputs: Capital and Financial Training**

We disbursed \$81.4M to 170 rural SGBs and trained managers from 80 enterprises.



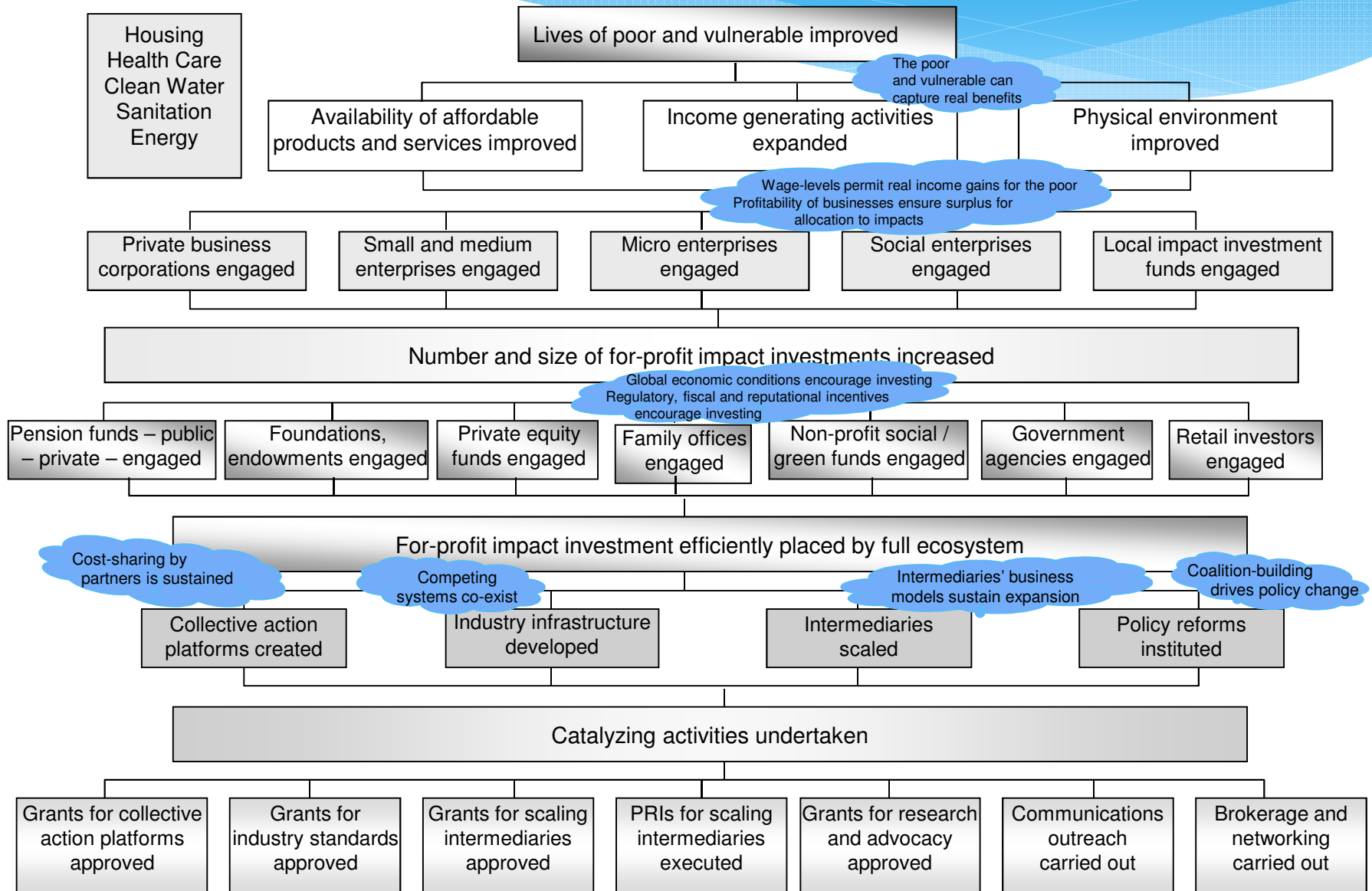
## **Enterprise Level Outcomes: Small and Growing Business Growth**

During 2011, our borrower enterprises generated \$354M in revenue.



\* This figure reflects the impact of our Sustainable Trade Fund (STF).

# Theory of Change: Impact Investing Initiative



Source: Jackson and Harji, 2012

# Measuring Social Impact: A Sample of Tools and Approaches

- \* **Language:** Impact Reporting and Investment Standards (IRIS)
- \* **Enterprise Governance:** B Corporations
- \* **Investor Ratings:** Global Impact Investing Ratings System (GIIRS)
- \* **Approaches/Uses:** Rating, Assessment, Management
- \* **Tools:** Social Return on Investment



**463**  
NUMBER OF ORGANIZATIONS  
REPORTING THROUGH  
ANDE AND PULSE

**58**  
NUMBER OF  
COUNTRIES REPRESENTED  
Based on location of organization's operations

**"Earned Revenue"**  
**\$1,434,980,390**  
N = 387 organizations | Median = \$1,104,267

**"Clients" SERVED**  
**7,994,642**  
N = 71 organizations | Median = 438

**"Supplier Individuals" SUPPORTED**  
**914,831**  
N = 243 organizations | Median = 570

**"Permanent Employees"**  
**23,355**  
N = 288 organizations | Median = 18

**63%**  
PERCENT OF  
REPORTING ORGANIZATIONS  
THAT ARE PROFITABLE  
N = 121 organizations

#### SOCIAL IMPACT OBJECTIVES

	ORGANIZATIONS	PERCENT PROFITABLE*
ACCESS TO FINANCIAL SERVICES	6	67%
AGRICULTURAL PRODUCTIVITY	11	64%
CAPACITY BUILDING	9	89%
EMPLOYMENT GENERATION	31	84%
FOOD SECURITY	6	67%
HEALTH IMPROVEMENT	16	81%
INCOME & PRODUCTIVITY GROWTH	16	69%
ANY SOCIAL IMPACT OBJECTIVE***	161	76%

#### ENVIRONMENTAL IMPACT OBJECTIVES

	ORGANIZATIONS	PERCENT PROFITABLE**
ENERGY & FUEL EFFICIENCY	21	71%
NATURAL RESOURCES CONSERVATION	8	100%
POLLUTION PREVENTION & WASTE MANAGEMENT	11	100%
SUSTAINABLE ENERGY	34	94%
ANY ENVIRONMENTAL IMPACT OBJECTIVE***	89	91%

**1,931** NUMBER OF  
MICROFINANCE INSTITUTIONS  
REPORTING THROUGH MIX

**"Clients" SERVED**  
**91,899,981**  
N = 1,115 organizations | Median = 10,119

**70%**  
PERCENT OF  
REPORTING ORGANIZATIONS  
THAT ARE PROFITABLE  
N = 1,077 organizations

Rating Status: Verified



Rating Date: July 31, 2011

Fund Name:

Green Legacies I

## FUND RATINGS REPORT

GIIRS ratings are third party verified and provide investors with rigorous, transparent, comprehensive, and comparable ratings of company impact. GIIRS helps investors make money while solving the world's most challenging problems. GIIRS Driving Capital to Impact

Powered by



## FUND RATING

	Points Earned (200 pts avail)	% of Points Available
<b>OVERALL FUND RATING</b>	<b>96.2</b>	<b>48%</b>
Investment Roll-Up	93.0	47%
Fund Manager Assessment	125.0	63%

## INVESTMENT ROLL-UP

	Points Earned (200 pts avail)	% of Points Available
<b>OVERALL RATING</b>	<b>93</b>	<b>47%</b>
<b>Governance</b>	<b>8</b>	<b>80%</b>
Related to a company's mission, stakeholder engagement, governance structure and controls, and overall transparency		
<b>Workers</b>	<b>30</b>	<b>75%</b>
Focuses on how the company treats its workers through compensation, benefits, training, worker ownership, and work environment.		
<b>Community</b>	<b>24</b>	<b>53%</b>
Covers the company's impact on external community stakeholders		
<b>Environment</b>	<b>36</b>	<b>80%</b>
Focuses on indirect and direct environmental impact of the company and its operations		

## FUND MANAGER ASSESSMENT

	Points Earned (200 pts avail)	% of Points Available
<b>OVERALL RATING</b>	<b>125</b>	<b>62.8%</b>
<b>Targeted for Investment</b>	<b>46.67</b>	<b>93.3%</b>
Information about the historical performance of the fund manager and the intent of the current fund		
<b>Investment Criteria</b>	<b>57.27</b>	<b>81.8%</b>
Covers information about the fund's investment policies in regards to impact		
<b>Portfolio Management</b>	<b>21.67</b>	<b>27%</b>
Focuses on the way the fund managers its investments post-disbursement		

## FUND DESCRIPTION

Green Legacies I invests in companies that provide sustainable and healthy consumer products

**Asset Class:**  
Venture Capital & Private Equity

**Security Type(s):**  
Equity

**Stage:**  
Early Stage; Growth Stage

**Investing Status:**  
Actively Investing

**Vintage Year:**  
2011

**Fundraising Status:**  
Closed

**Primary Target Market:**  
Developed

## FINANCIAL INFORMATION

<b>Total Committed Capital - Fund</b> \$35,000,000	<b>Total Amount Deployed:</b> \$20,000,000
<b>Target Committed Capital - Fund</b> \$35,000,000	<b>Number of Investments:</b> 8

**Target Gross IRR:**  
15%

## INVESTMENT MANAGER PROFILE

<b>Fund Manager</b> Green Legacies	<b>Certified B Corporation?</b> Yes
<b>Total Assets Under Management</b> \$35,000,000	

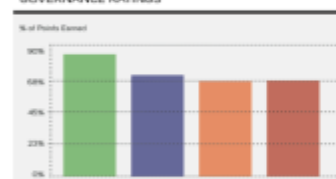
## BENCHMARKING

### OVERALL RATING

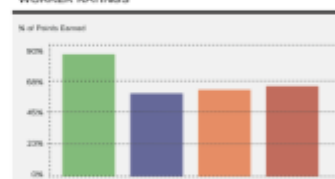


**FUND**  
**ALL DEVELOPED MARKET (IM)**  
**ALL DEVELOPED MARKET (EQUITY)**  
**ALL DEVELOPED MARKET (EQUITY - EARLY & GROWTH STAGE)**

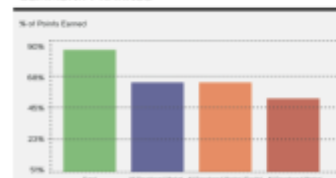
### GOVERNANCE RATINGS



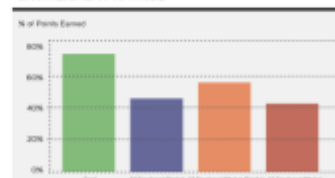
### WORKER RATINGS



### COMMUNITY RATINGS



### ENVIRONMENT RATINGS



## FUND MANAGEMENT ASSESSMENT DETAILS

	Points Earned (200 pts avail)	% of Points Available
<b>OVERALL RATING</b>	<b>125.6</b>	<b>62.8%</b>
<b>Targeted for Investment</b>	<b>57</b>	<b>81%</b>
Fund Manager	57	81%
Current Fund	27	90%
<b>Investment Criteria</b>	<b>57</b>	<b>81%</b>
Positive Impact	57	81%
<b>Portfolio Management</b>	<b>21</b>	<b>27%</b>
Mission Lock	8	33%
Mission-Aligned Exit	9	5%
Capacity Building	8	5%
Portfolio Reporting	15	70%

### TARGETED FOR INVESTMENT

What % of the fund manager's total assets under management are impact investments?	75%+
What % of your total fund (getting carried) targets impact investments?	100%
Fund has a formal due diligence process to review potential investments according to social and environmental criteria that is included in a written format for an investment committee review in place?	Yes

## INVESTMENT CRITERIA

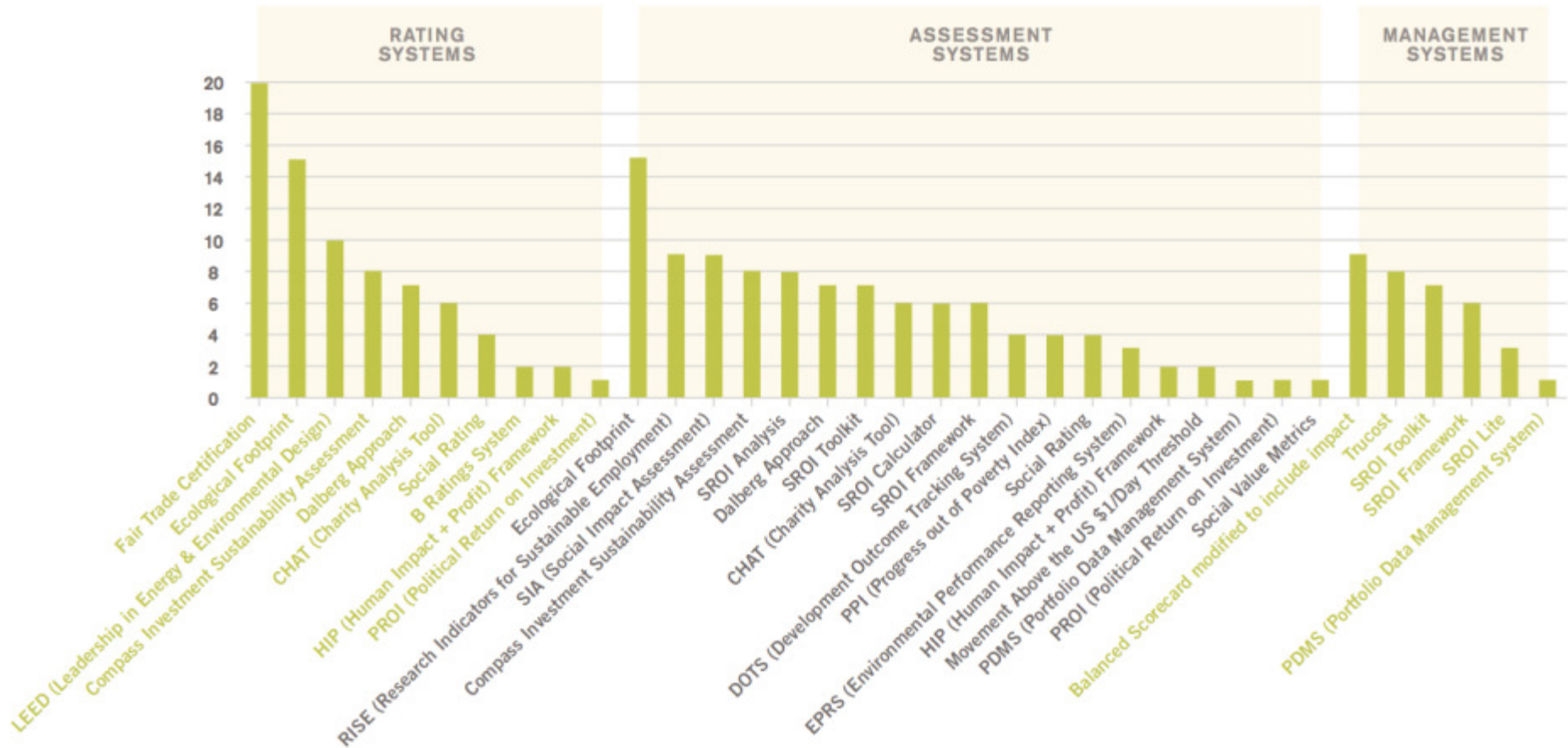
Obliges fund managers to consider social and environmental performance	Obliges fund managers to consider social and environmental performance
Fund LP or other comparable agreements includes the following:	Obliges fund managers to consider social and environmental performance
Fund has a formal due diligence process to review potential investments according to social and environmental criteria that is included in a written format for an investment committee review in place?	Yes
Minimum bar that prospective investments must exceed in order to receive investment?	Longer than average fund lifetime
Mechanisms in place to ensure that investors have access to patient capital & flexible capital?	Longer than average fund lifetime

## PORTFOLIO MANAGEMENT

Is the managing partners' compensation and incentive structure at least partially determined by the social and environmental performance of the fund?	No
What % of the total fund is invested in companies that have a mission-focused governance structure that requires consideration of its stakeholders?	25-50%
Does the fund commit (as outlined in its LP/LP agreement or comparable agreement) to donate a specific % of gains to charitable organizations?	0% committed for charitable donation
Does your fund have a policy that includes specific screening criteria for potential acquirers of your portfolio companies that includes the capacity of the acquirer to maintain or expand the company's social or environmental practices post the time of sale?	Applied on a case by case basis
Which of the following types of capacity building assistance do a majority of your portfolio companies receive as a result of?	None
Which of the following types of capacity building assistance do a majority of your portfolio companies receive as a result of?	None
Does your fund provide capacity-building or technical assistance to prospective investments, prior to an investment being made?	No

Source: GIIRS, 2011

# Type and Maturity of Measurement Method



# Where Measurement Approaches are Applied



# Observations on Social Impact in Impact Investing

- \* Impact investing field has been “metrics rich but data poor”, but this is changing
- \* Investor focus dominates
- \* Sectoral metrics vary (e.g., microfinance)
- \* Moving beyond data collection → analysis
- \* Tension between centralized and decentralized systems persists
- \* Important to understand and apply the models and tools of social impact assessment

# When Things Go Wrong

- \* Bad things can happen to good ideas and good people
- \* Managing the social and business dimensions at the same time is challenging
- \* Business environments are volatile
- \* The private sector fails all the time, but it is private!
- \* Capital and measurement are not enough

# What To Do? Short-Term Responses

- \* Evaluate on a case-by-case basis and programs as a whole
- \* Protect vulnerable parties
- \* Undertake SROI and other value-analysis studies
- \* Rebuild the business plan, reposition the enterprise
- \* Ensure strong business leadership, financial reporting
- \* Draw lessons for future investments and programs
- \* Strengthen regulation and monitoring
- \* Get back on the horse and keep riding!

# What to Do? Long-Term Responses

- \* Build a cohort of new leaders in business, finance and the social sector with the skills and commitment to design and execute impact investments and social enterprises successfully
- \* Develop targeted training programs jointly designed by community, government, business and educational stakeholders, using case studies of both failure and success
- \* Increase resources for monitoring, evaluation, regulation and mentoring

# Accelerating Impact Investing

## **Increase the velocity of:**

- \* Evaluating, monitoring, learning and improving
- \* Scaling up capital pools
- \* Diversifying investment products and services
- \* Strengthening the capacity of social enterprises to receive and use capital
- \* Refining cost-effective impact-measurement tools
- \* Building the leaders of the future

# Resources: Accelerating Impact



<http://www.rockefellerfoundation.org//uploads/images/fda23ba9-ab7e-4c83-9218-24fdd79289cc.pdf>

# Resources

## **Publications**

- \* Bugg-Levine, A. and J. Emerson. Impact Investing: Transforming How We Make Money While Making a Difference. 2011.
- \* Gates, B. “Innovation with Impact: Financing 21<sup>st</sup> Century Development.” Report to the G-20 Leaders, Cannes, 2011.
- \* Godeke, S. “Building a Healthy & Sustainable Social Impact Bond Market: The Investor Landscape.” Godeke Consulting and Rockefeller Foundation, 2012.
- \* JP Morgan, GIIN, Rockefeller Foundation. “Impact Investments: An Emerging Asset Class.” 2010.
- Monitor and the Acumen Fund. “From Blueprint to Scale: The Case for Philanthropy in Impact Investing.” 2012.
- \* Monitor Institute. “Investing for Social and Environmental Impact: A Design For Catalyzing An Emerging Industry.” 2009.
- \* SVT Group. “Catalog of Approaches to Impact Measurement.” 2008.
- \* United National Development Program. “Innovative Financing for Development: A New Model for Development Finance.” 2011.

# Resources

## Organizations

- \* Carleton Centre for Community Innovation [carleton.ca/ccci](http://carleton.ca/ccci)
- \* GIIRS [giirs.org](http://giirs.org)
- \* Global Impact Investing Network [thegiin.org](http://thegiin.org)
- \* MaRS Centre for Impact Investing [impactinvesting.marsdd.com](http://impactinvesting.marsdd.com)
- \* Purpose Capital [purposecap.com](http://purposecap.com)
- \* Social Investment Organization [socialinvestment.ca](http://socialinvestment.ca)
- \* SROI Network (Canada) [sroi-canada.ca](http://sroi-canada.ca)

# Contact Information

Edward Jackson

[edward\\_jackson@carleton.ca](mailto:edward_jackson@carleton.ca)