IMPACT INVESTING: WHAT’S ALL THE FUSS ABOUT?

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Impact Investing: Definition

“Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.”

Global Impact Investing Network
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)
- Program related investments of foundations/endowments
- Securities based on microfinance portfolios
- Deposits in social banks, credit unions
- Community investment notes
- Social impact bonds/Development impact bonds

Impact Investing: Drivers

- Persistent, wicked, evolving, large-scale problems: poverty, food security, climate change, water, gender inequality, etc.

- The 2008-2009 financial crisis

- Declining or stagnant official development assistance (ODA)

- Support for market-based approaches to development/innovative finance

- Rollout of the UN Sustainable Development Goals, 2015-2030
Total Finance

TOTAL FINANCE TO DEVELOPING COUNTRIES
BY FLOW TYPE ($ BILLION)

Impact Investing: Mapping Returns

Source: G8 Task Force, 2014

Source: Adapted from Monitor Institute 2009, via Rockefeller Foundation, 2011
The Spectrum of Capital

Impact Investing: Ecosystem

Source: F.B. Heron Foundation and Jessica Shortall (2009) "Introduction to Understanding and Accessing Social Investment"
Building the Impact Investment Market

Supply of Capital

J.P. Morgan
Deutsche Bank

Intermediation

UBS

Demand for Capital

Agora Partnerships

Examples of Impact Investments

Investors: Calvert Foundation, Lion’s Head Global Partners
Investee: M’tanga Farms

Investors: LGBT Enterprises in Latin America
Supported by NESST.org

Investors: Heirs Holdings
Investee: M’tanga Farms
Local Impact Investing Actors: South Africa

- South African Network for Impact Investing
- Greater Capital
- Cadiz Asset Management
- Business Partners Limited
- TUHF
- Nexii
- National Treasury
Impact Investing in Canada and Quebec

Canadian Task Force on Social Finance Recommendations

1. Private and public foundations should invest 10% of their capital in mission-related investments
2. The federal government should partner with private, institutional and philanthropic investors to establish the Canada Impact Investment Fund
3. Investors, social enterprises and other stakeholders should develop new bond and bond-like instruments
4. Government should mandate pension funds to disclose responsible investing practices, clarify fiduciary duty and provide incentives to mitigate risk
5. Policy makers and regulators should modernize their frameworks to ensure charities and non-profits can undertake revenue generating activities in support of their missions
6. A tax working group should be established to develop and adapt proven tax-incentive models
7. The eligibility criteria of small business development programs should be expanded to include the range of social enterprises (profit, for-profit, hybrid).
The G8 Social Impact Investment Task Force

Social Impact Bonds

Source: Godeke and Renser, 2012
Multilingual Leadership and Impact Investing

“Impact investing is an entrepreneurial approach (business speak) to delivering measurable social outcomes (non-profit speak), in markets that are often characterized by pervasive market failure (government speak). In order to succeed in impact investing, we must demonstrate "multilingual leadership" – mastering all three of these "languages" and related tools.”

Ben Thornley and Cathy Clark, co-authors of The Impact Investor (2015)

Evaluating Impact Investing

The Main Question: How can the social or environmental impact of impact investments be evaluated in a credible, cost-effective and standardized way?

Approaches:
- Theory of change analysis/theory-based evaluation
- Participatory and gender-sensitive data collection methods
- Randomized clinical trials/experimental or quasi-experimental evaluation
Two Key Evaluation Questions

- What kinds of social impacts are created by small and medium-sized enterprises (SMEs) in poor regions that receive impact investments?

- How do households convert new revenue from employment income or ownership income from SMEs into social outcomes?

Household Results Chain

Source: E.T. Jackson and Associates Ltd., 2015
Debates

- **Yay-Sayers:** Impact investing offers a creative new tool, a new set of actors and a new industry that can advance poverty reduction and environmental sustainability
- **Nay-Sayers:** Impact investing is neo-liberalism through the back-door and another effort to make development into even more of a business
- **Private Sector:** The focused nature of an investment is appealing, but what’s the financial and reputational risk?
- **Policy-Makers:** To what extent should governments support this emerging field, and how can tax incentives and co-financing be targeted to benefit the marginalized?

Want to Learn More?

- Impact Reporting and Investment Standards [www.iris.thegiin.org](http://www.iris.thegiin.org)
- Purpose Capital [www.purposecap.com](http://www.purposecap.com)