

## INNOVATIVE FINANCE IN DEVELOPMENT: TRENDS, CHALLENGES, OPPORTUNITIES

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Edward T. Jackson

Presented to the Learning Forum, Save the Children Canada  
Toronto, July 7, 2015

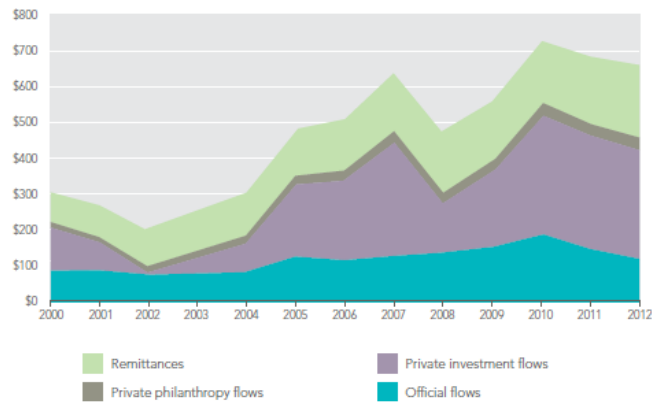


### The Big Picture: Five Key Trends

- Multi-polarity and volatility are the new normal
- China rules; the G20 energizes
- The SDGs reset the development agenda, but ODA is stagnant
- **Innovative development finance, especially mobilizing private sources, is necessary**
- Official Canada is a modest partner

## Total Finance

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



Source: [www.cgdev.org/doc/Working%20Groups/DIB%20Working%20Group%20Meeting%201.pdf](http://www.cgdev.org/doc/Working%20Groups/DIB%20Working%20Group%20Meeting%201.pdf)  
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Source: G8 Task Force, 2014

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## Strategic Implications for SCC

- Engaging new strategic actors for fundraising and program partnerships
- Using impact investing as a window to understand and shape the future
- Tilting the Canadian revenue mix from public to private sources

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## Innovative Finance for Development

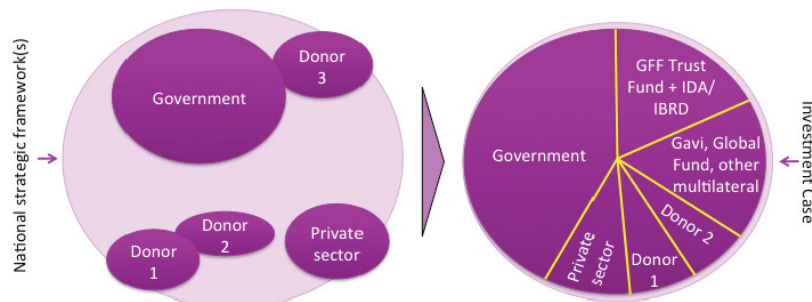


- Domestic public finance (taxes, user fees)
- Domestic and international private finance (FDI, remittances, impact investing)
- International public finance (multilateral and bilateral ODA-grants and loans)
- Trade
- Technology, innovation and capacity building
- Sovereign debt
- Systemic issues (global system stability)

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## Elements of the Investment Case, GFF

The Investment Case drives efficiency by focusing on evidence-based, high impact interventions (pink circles) while also improving alignment, which reduces gaps and overlaps as financiers increase funding for RMNCAH (purple circles)



Source: Business Plan for the GFF, 2015

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## Mechanism to Support Domestic Resource Mobilization - GFF

Informal  Formal

- Providing technical assistance/capacity building on public financial management
- Providing information on comparative performance and on lessons learned (including on innovative financing)
- Making the case for investing in health
- Strengthening continuity over time and accountability by ensuring involvement of civil society
- Publishing comparative data
- Including indicators on progress on resource mobilization in results frameworks
- Supporting regulatory reform to “crowd in” private capital and improve access to financing for the private sector
- Using financing as an incentive (or withholding it)
- Including requirements for domestic resource mobilization in legally-binding agreements

Source: Business Plan for the GFF, 2015

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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*

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## 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

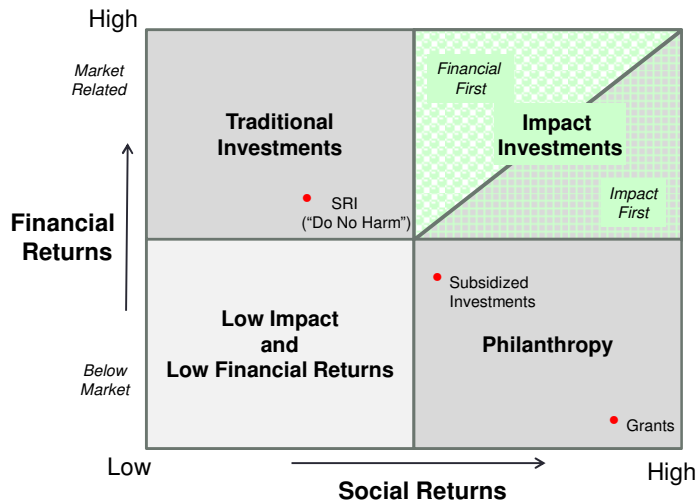
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## Impact Investing: Drivers

- 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

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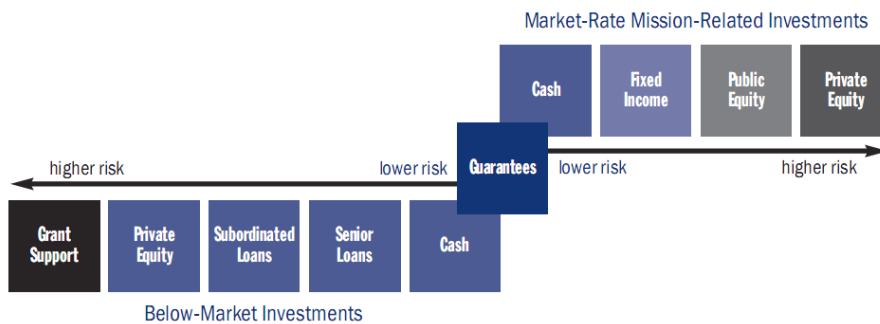
## Impact Investing: Mapping Returns



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

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## The Spectrum of Capital



Sources: F.B. Heron Foundation and Jessica Shortall (2009) "Introduction to Understanding and Accessing Social Investment"

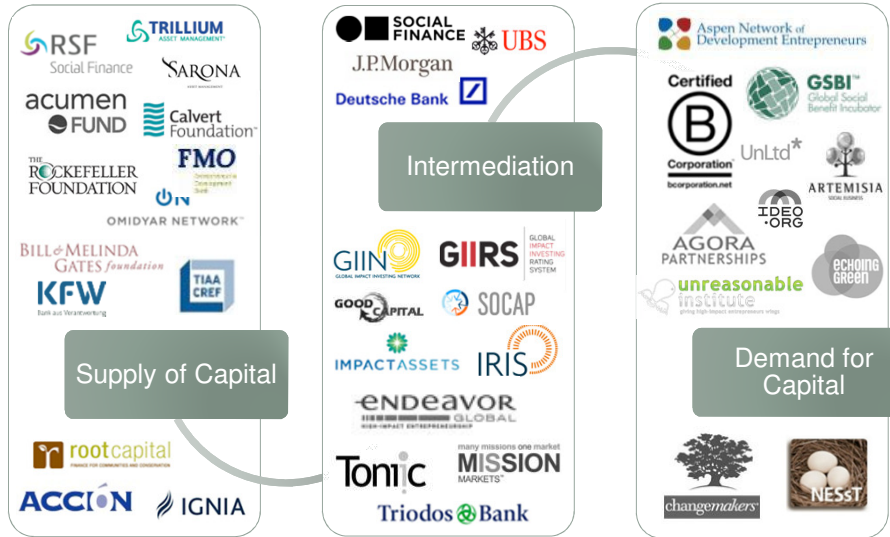
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# Impact Investing: Ecosystem

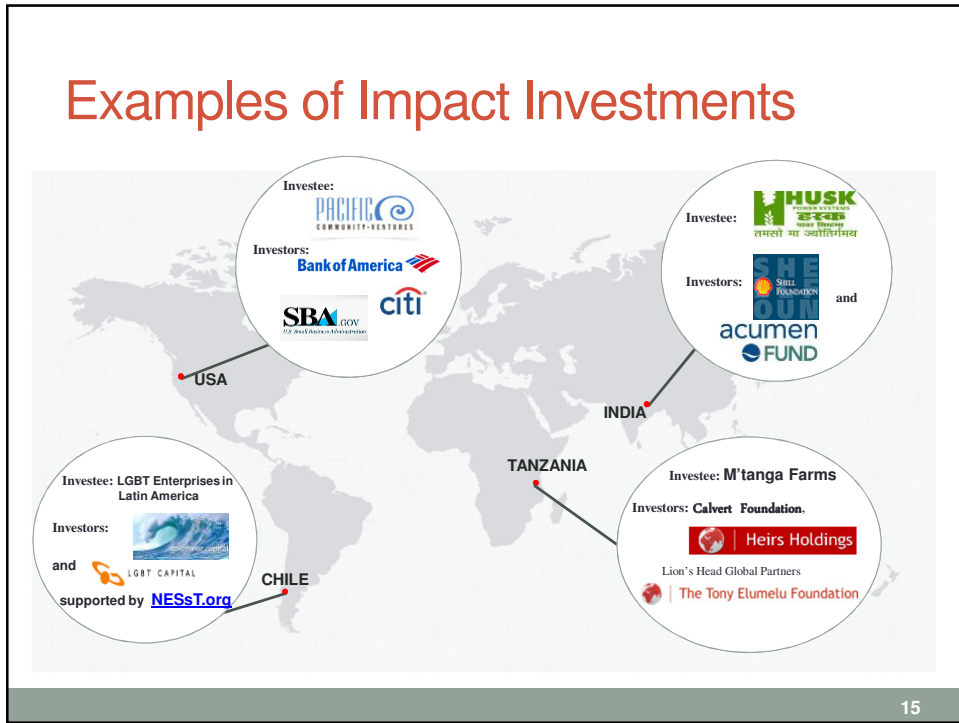


Source: Karim Harji and Edward Jackson (2012) "Accelerating Impact: Achievements, Challenges and What's Next in Building the Impact Investing Industry."

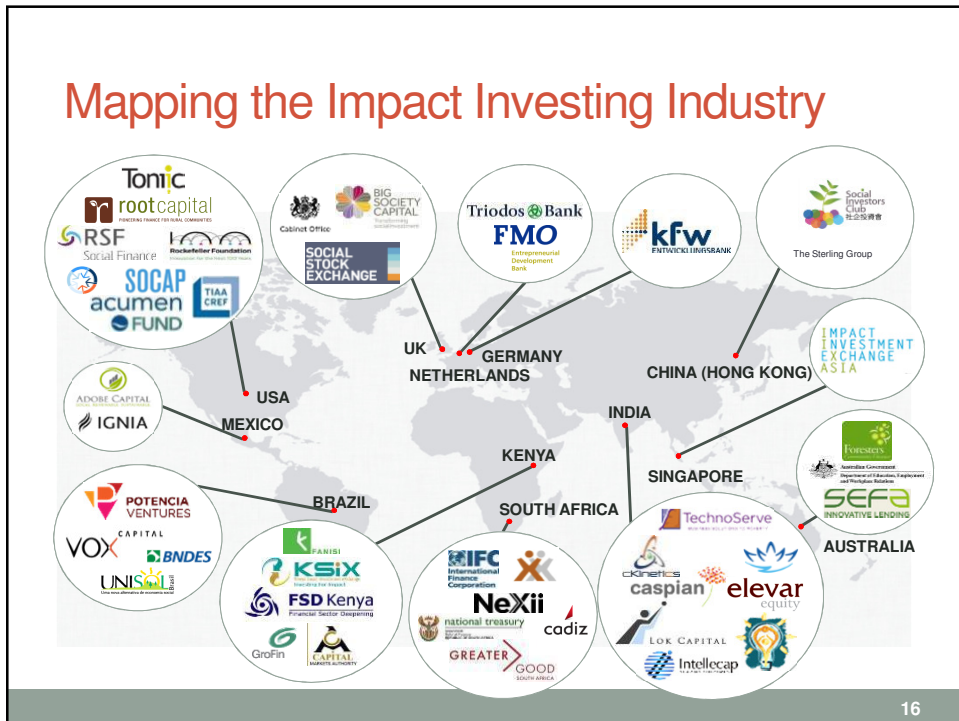
# Building the Impact Investment Market



## Examples of Impact Investments

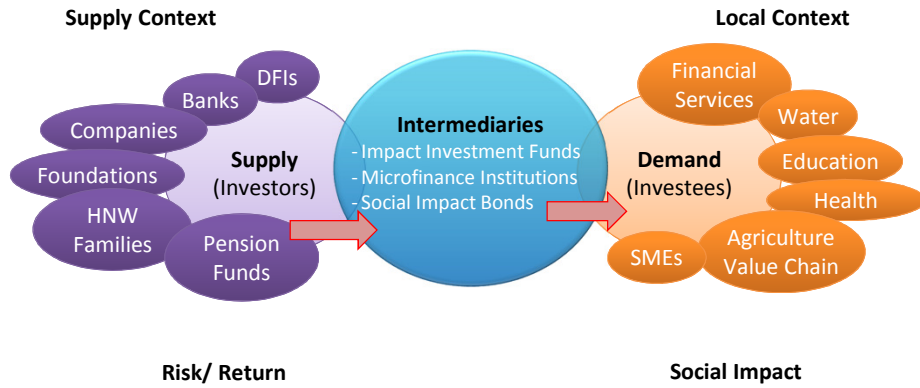


## Mapping the Impact Investing Industry





# Impact Investing Flows



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

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## Four Stages of the Pioneer Firm's Journey

STAGE	1. Blueprint	2. Validate	3. Prepare	4. Scale
	<i>Developing the blueprint for the future business</i>	<i>Testing and refining the business model</i>	<i>Enhancing the conditions required for scaling</i>	<i>Rolling out the model to reach large numbers of customers and/or suppliers</i>
<b>KEY ACTIVITIES</b>	<ul style="list-style-type: none"> <li>Understand customer needs</li> <li>Develop initial customer proposition</li> <li>Develop business plan</li> <li>Develop core technologies and/or product prototypes</li> </ul>	<ul style="list-style-type: none"> <li>Conduct market trials</li> <li>Test business model assumptions</li> <li>Refine business model, technologies and/or product as required</li> </ul>	<ul style="list-style-type: none"> <li>Stimulate customer awareness and demand</li> <li>Develop supply chains, upstream and downstream</li> <li>Build organizational capability to scale: systems, talent, plant, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Move into new geographies and segments</li> <li>Invest in assets and talent</li> <li>Enhance systems and processes</li> <li>Exploit scale efficiencies</li> <li>Respond to competitors</li> </ul>
<b>KEY NEEDS</b>	<ul style="list-style-type: none"> <li>Innovation capability</li> <li>Strategy development and business planning</li> <li>Talent networks</li> <li>Seed funding</li> </ul>	<ul style="list-style-type: none"> <li>Operationalizing the model</li> <li>Focus on cost, value and pricing</li> <li>Learning orientation and flexibility</li> <li>Innovation capability</li> <li>Funds to facilitate market trials and refinement</li> </ul>	<ul style="list-style-type: none"> <li>Marketing strategy and execution</li> <li>Supply chain design and implementation</li> <li>Systems and processes</li> <li>Talent and networks</li> <li>Funds for marketing, supply chain, fixed assets, inventory</li> </ul>	<ul style="list-style-type: none"> <li>Competitive strategy</li> <li>Realizing scale efficiencies</li> <li>Risk management</li> <li>Formalization of impact standards and expectations</li> <li>Stakeholder management</li> <li>Funds to support expansion</li> </ul>
<b>END MILESTONES</b>	<ul style="list-style-type: none"> <li>Compelling initial business plan</li> <li>Demonstrated core technologies and/or product prototype</li> </ul>	<ul style="list-style-type: none"> <li>Refined business model, technologies, product</li> <li>Validation of viability and scalability</li> <li>Indication of customer demand</li> </ul>	<ul style="list-style-type: none"> <li>Strong customer awareness and demand</li> <li>Effective supply chains</li> <li>Organizational systems, talent, assets in place to support scaling</li> </ul>	<ul style="list-style-type: none"> <li>Sustainably reaching all BoP customers and/or suppliers</li> </ul>

Source: Koh, H., A. Karamchandani and R. Katz, Monitor 2012

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## 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



## 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).

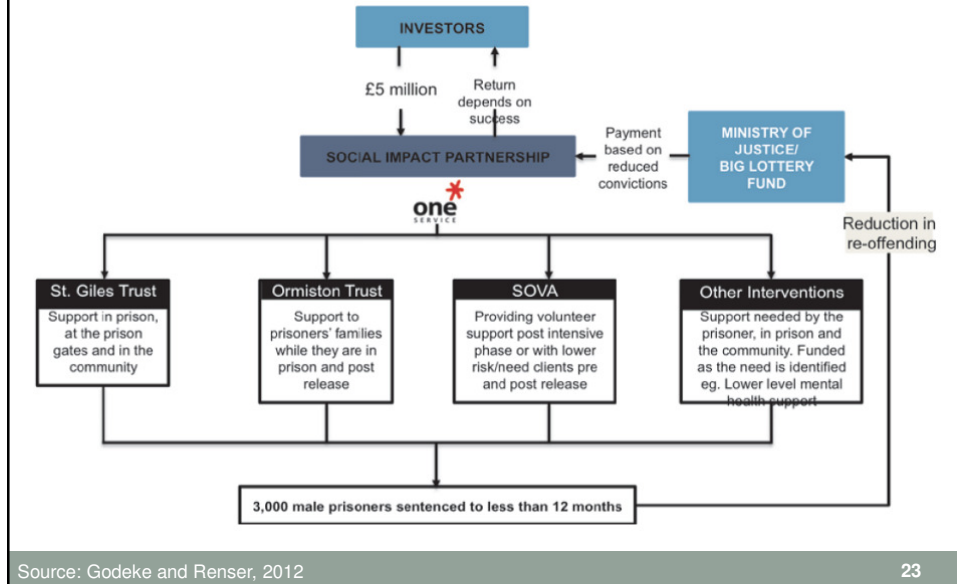
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## The G8 Social Impact Investment Task Force



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## Social Impact Bonds



## 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."

Clark, Emerson and Thornley, *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:**

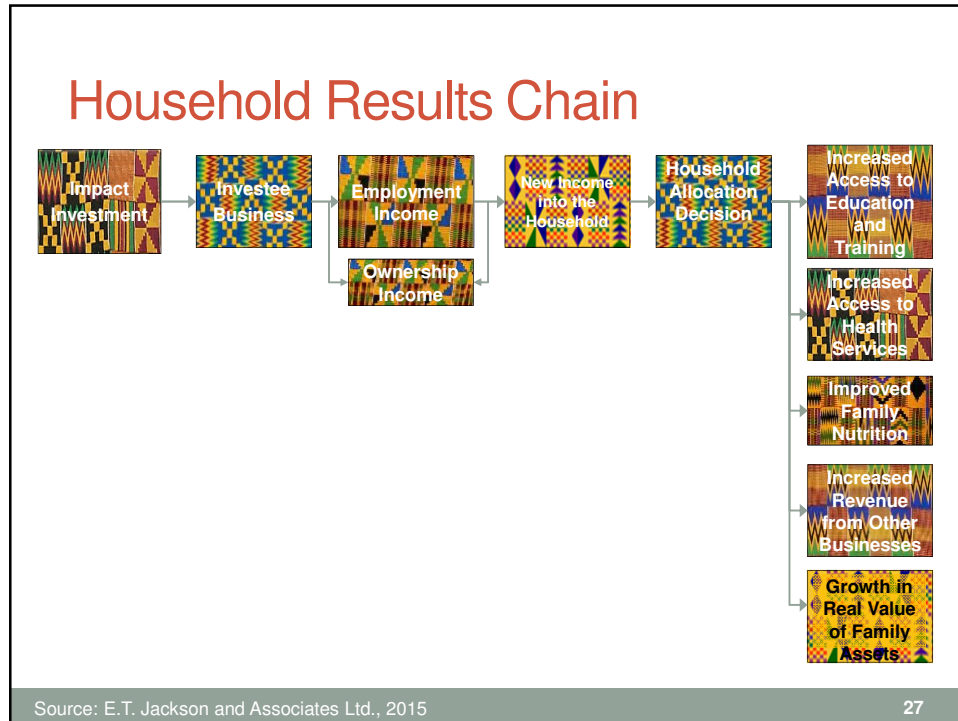
- Theory of change analysis/theory-based evaluation
- Participatory and gender-sensitive data collection methods
- Randomized clinical trials/experimental or quasi-experimental evaluation

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## 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?

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## 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?

- Global Impact Investing Network <http://www.thegiin.org/>
- Global Impact Investing Rating System <http://www.giirs.org>
- G8 Social Impact Investment Task Force  
<http://www.socialimpactinvestment.org/>
- Impact Reporting and Investment Standards  
[www.iris.thegiin.org](http://www.iris.thegiin.org)
- La Fiducie du Chantier de l'économie sociale  
<http://fiducieduchantier.qc.ca/>
- MaRS Centre for Impact Investing  
<http://impactinvesting.marsdd.com/>
- Purpose Capital [www.purposecap.com](http://www.purposecap.com)

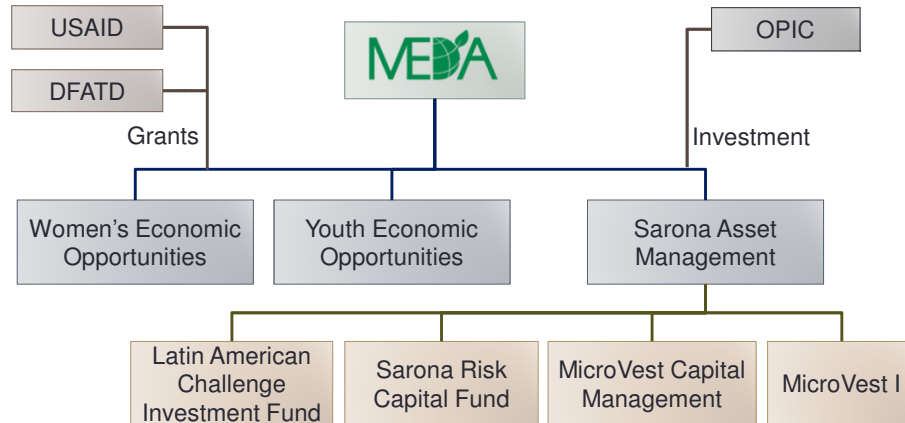
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## Canadian Forum for Impact Investment and Development



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## Example – Mennonite Economic Development Associates



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## Questions for Consideration

- How do these global trends affect the strategy of the international SC federated network?
- In what ways could SCC make use of impact investing:
  - for new fundraising initiatives?
  - for new programming partnerships?
- What lessons does the MEDA model offer?

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