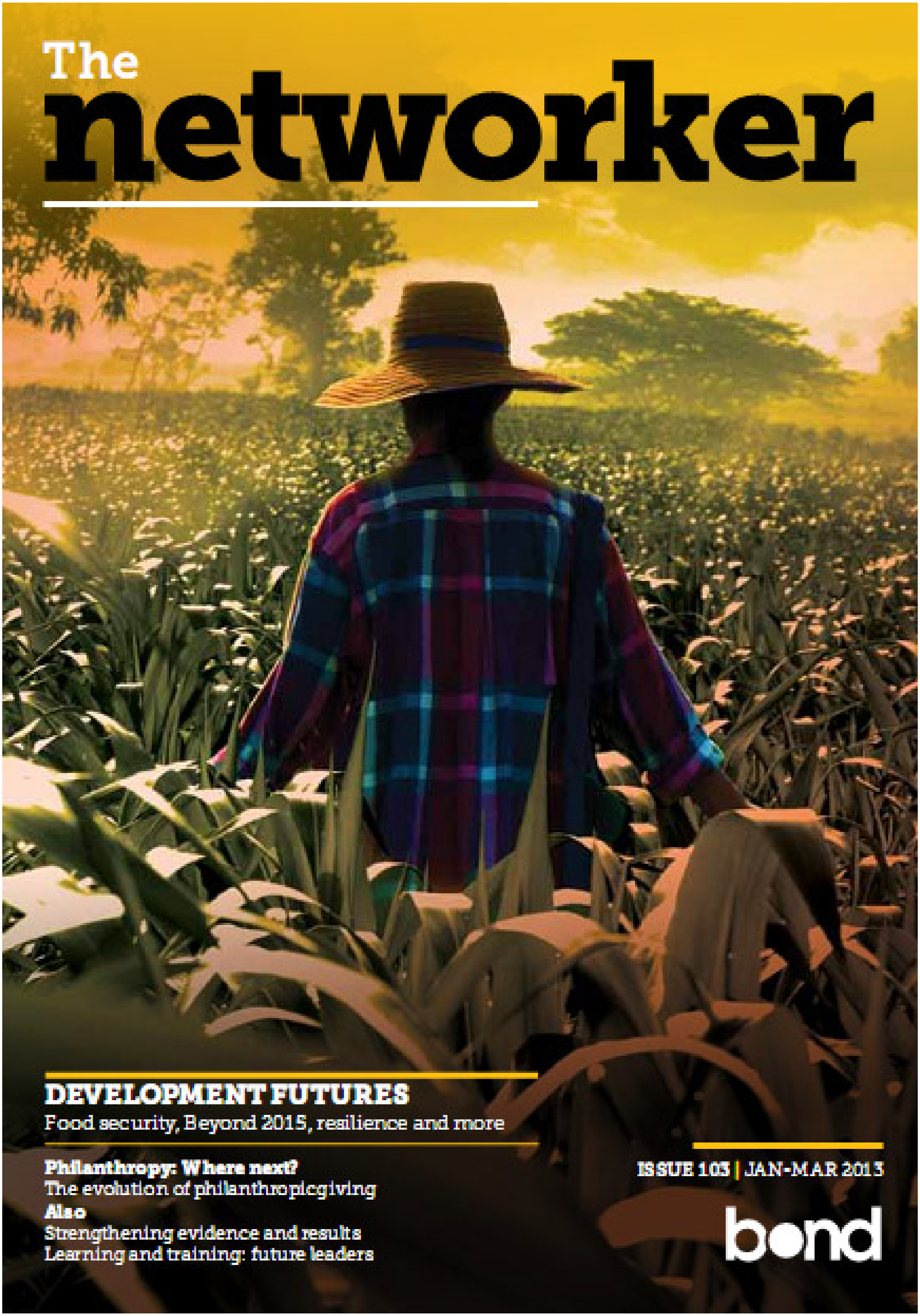

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IMPACT INVESTING

A growing global opportunity

Impact investing is here to stay, according to Ted Jackson, and there's never been a better time for UK development NGOs to shape the movement.

Impact investing—your smart phone buzzes with tweets, blogs and reports on it, and your networks and partners bring it up all the time.

As 2013 begins amid heavy workloads, rapid policy shifts and a turbulent world, what should you do about this new idea?

What is an impact investment and who's involved?

Impact investments aim to achieve social or environmental impacts *and* financial returns at the same time. They may mobilise private or public capital, or both. From the provision of a loan to a cooperative that builds affordable housing in Kenya, to the purchase of shares in a green energy company in India—impact investing is found in many forms across the world.

A wide range of players are already involved: *asset owners* such as high net-worth individuals, charitable foundations and governments; *asset managers* like investment advisors, fund managers, banks, and specialised impact investment funds; *demand-side actors* that include social enterprises, small private businesses, microfinance institutions and community development corporations; and *service providers* such as networks, standards bodies, consultants and universities.

In fact, over the past five years, these actors have joined forces to create a dynamic young industry—a movement, really—with platforms and champions emerging in all regions of the world. While the initial push came from investors in the global north and enterprises and projects in the global south, new structures and funds are being created by local leaders in Africa, Asia and the Americas.

Impact investing should be exploited

So, what should UK development organisations do about all this? While impact investing is not going to replace aid and other forms of grant assistance—and should not—there is no doubt now that it will be an element in the evolving field of development finance for many years to come. It should therefore be engaged with energy and creativity. Indeed, rather than passively sitting on the sidelines, development professionals now have to actively *shape* this movement. This is a real opportunity that should be fully exploited.

There are real debates in and around impact investing. There are tensions over who will drive this sector globally: the 'north', the 'south', or some new, flatter G20-like coalition of champions? Some impact investors put impact first, while others (often because of regulatory obligations) put financial returns first—though there are also recent examples of the sequencing and layering of different types of investors and investment instruments in the same enterprise or project.

And, yes, the actors in the industry bring different ideological perspectives to this work. Some see this approach to investing as a means of reducing the role of the state in economic and social

> "There is no doubt that [impact investing] will be an element in the evolving field of development finance for many years to come."

development, but there is also a constituency that supports a robust role for both governments and markets. The fact that these and other diverse components of the movement can work together on a common agenda is an indicator of the organising power of the concept of impact investing itself.

Learn. Test. Build. Assess. Repeat.

Recognising such tensions, what should UK NGOs actually *do* about impact investing? First, they should learn more about this concept and movement. The recipient of a recent major DFID grant, the Global Impact Investing Network (GIIN) has become the pivotal international body for the industry, offering networking, education and research services. While its origins and founding members are largely American, the network is actively expanding its membership and partnerships around the world. Susannah Nicklin, an investment professional, is the GIIN's liaison person based in London.

Other international groups with valuable expertise include:

- Global Impact Investing Ratings System (GIIRS), an analogue to Standard and Poor's for the impact investing field
- Impact Investing Policy Collaborative, which studies and promotes the role of government policy to advance impact investing
- Rockefeller Foundation, central to the start-up of the sector and now shifting to the demand side
- Omidyar Network, with its leadership experience in microfinance and social ventures.

USAID has also has been a key funder of the field, as have development finance institutions like the OPIC in the US, FMO, the Dutch development bank, in The Netherlands, together with the Inter-American Development Bank.

Indeed, the UK itself is home to impressive capacity in impact investing, which actually began to be built during the first term of Tony Blair's government and has continued through the current government under David Cameron, both inside and outside the state. Among the key sources of expertise are Bridges Ventures, Big Society Capital, CAF Venturesome and Social Finance UK. Alliance Magazine is also a fine resource on philanthropy and social investment.

But learning more is just the start. UK development NGOs can become actors in the impact investing field in their own right. For one thing, their boards and managements may choose to test the idea by investing a portion of the financial assets they manage in impact investment funds, or by setting up their own targeted impact funds. They can assess how well this works and, depending on the results, scale up such investments.

Together with their southern partners, UK development organisations can also help national networks in the south find and nurture both local investors and local enterprises that can help build capacity and scale of impact investors on the ground. In addition, UK NGOs and their partners can support the building of local evaluation capacity in southern countries to hold impact investors accountable for their declared intentions and impact targets.

Learn. Test. Build. Assess. Repeat. This cycle of action and reflection works and can be applied to impact investing. That's what needs to happen now.

Ted Jackson, President, E. T. Jackson and Associates

The Paradigm Project brings clean cooking stoves to rural Kenya. The Paradigm Project aims to develop world-class, impact ventures that generate meaningful and sustainable economic, social and environmental value for millions of families in the developing world. It works primarily in rural Kenya, providing women with clean cooking stoves that reduce wood consumption and toxic smoke, saving long and often treacherous journeys to collect wood and preventing the development of pneumonia and other respiratory illnesses. www.theparadigmproject.org

Paradigm Project

E.T. Jackson and Associates is an international management consulting firm providing professional services in strategic planning, organisational learning and performance assessment to grant-makers and investors in the public interest. With a track record of award-winning work in Africa and Asia, the company specialises in impact investing, microfinance, social enterprise, civil-society organisations, gender equality, local governance, and basic and higher education.