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 smartphone buzzes with tweets, blogs and reports on it, and your network 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 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, faster 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...
development, but there is also a
consensus 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 organisational power of
the concept of impact investing.

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. Susan Rabinin, an
investment professional, is the
GIIN’s liaison person based in
London. Other international
groups with valuable expertise
include:

- Global Impact Rating
  Investment System (GIRIS), an
  analogue to Standard & Poor’s for
  the impact investing field
- Impact Investing Policy
  Collaborative, which studies and
  promotes the role of government
  policy to advance impact investing
- P2P Finance, focusing on
  the start-up of the sector and now
  shifting to the demand side
- Omniaár Network, with its leadership
  experience in microfinance and
  social ventures.

USAID has also been a key
funder of the field, as have
development financial institutions
like the OFID 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
throughout the current
government under David Cameron,
both inside and outside the state.
Among the key sources of expertise
are British Venture, Big Society Capital,
CAF Venturesome and Social Finance
UK Alliance Magazine is also a
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 another, their
boards and managers 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 local investors and local
to help build capacity and
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.

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in impact investing, microfinance,
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