

Investing for the Poor: How Impact Investing Can Serve the Common Good in the Light of *Evangelii Gaudium*

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Pope Francis has called on the world to find ways to use money to serve people. IMPACT INVESTING - investments made with the intention to generate measurable social and environmental impact alongside financial return – holds great promise as a tool to serve the poor. By unlocking significant amounts of private capital to complement public resources and charitable donations, impact investing presents the opportunity to utilize market-based solutions to foster social justice and to help solve global challenges such as sustainable agriculture, affordable housing, accessible healthcare, clean energy, and financial services for the poor. One of the major international banks, J.P. Morgan, estimates that over USD \$8 billion is already being invested for positive impact and the potential market over the next decade ranges from USD \$400 billion to \$1 trillion, focusing on the more than 4 billion people living on less than \$8 per day.

IMPACT INVESTING OVERVIEW

Compiled by Patricia M. Dinneen, May 2014¹

What is Impact Investing?

- “Investments intended to create positive social and environmental impact beyond financial return”²
- A lens through which investors consider investment options across asset classes, such as bonds, listed equities, and private equity. Also a process by which investment managers screen, evaluate and monitor investments.
- Requires the measurement and management of social and environmental performance in addition to financial risk and return.
- Operates at the intersection of philanthropy and profit-maximization (“doing good and doing well”).
- Has potential to unlock significant amounts of private capital to complement public resources and charitable donations.
- Seeks innovative market-based solutions for global social and environmental challenges including sustainable agriculture, affordable housing, affordable and accessible healthcare, clean technology and financial services for the poor.

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² Source: GIIN, J.P. Morgan and the Rockefeller Foundation

Who are the Players?

- Philanthropic foundations and firms (e.g., Rockefeller, Omidyar, Bill and Melinda Gates, Clinton Global Initiatives)
- Commercial financial institutions (e.g., J.P. Morgan, Morgan Stanley, Citigroup, Prudential, Zurich Insurance)
- Pension Funds (e.g., PGGM, TIAA-CREF, CalPERS)
- High net worth individuals and family offices (e.g., Capricorn, Anthos, RS Group)
- Development Finance Institutions (e.g., IFC/World Bank, OPIC, CDC)
- Public securities firms (e.g., Calvert Investments, Domini Social Investments)
- Private equity firms (e.g., Leapfrog, Vital Capital, Accion, TriLinc Global, FIR Brazil)
- Private companies (e.g., Starbucks, General Mills, Danone)
- Non-Government Organizations (e.g., GIIN, Big Society Capital, Oxfam)

Representative Examples of Funds and Investors

There are approximately 300 active investment funds³ listed in ImpactBase (GIIN)⁴ of which:

- North America (26%), Africa (23%), Asia (21%), Latin America (17%), Europe (10%), Oceania (3%)
- Private Equity (55%), Fixed Income (26%), Real Assets (16%), Fund of Funds (3%)
- Finance (23%), Basic Services (19%), Employment Generation (16%), Green Tech/Clean Tech (13%), Environmental Markets (12%), Sustainable Consumer Products (9%), Other (8%)

What are the Target Sectors?

- Basic Needs: Agriculture, Water, Housing
- Basic Services: Education, Health, Energy, Financial Services

What are the Social Impact Objectives (in addition to financial returns for investors)?

- Increase incomes and assets for the poor
 - Create jobs, access to energy, financial services, education, income/productivity growth, agricultural productivity, capacity-building, community development
- Improve basic welfare for people in need
 - Conflict resolution, disease-specific prevention and mitigation, access to clean water, affordable housing, food security, generate funds for charitable giving, health improvement, equality and empowerment
- Mitigate climate change
 - Biodiversity conservation, energy and fuel efficiency, natural resources conservation, pollution prevention and waste management, sustainable energy, sustainable land use, water resources management

³ Excluding public equity funds

⁴ www.impactbase.org

How Large is the Opportunity?

- Estimated 2.7 billion potential new customers currently living on less than \$2/day⁵
- Estimated purchasing power of people living at the “Bottom of the Pyramid” (BoP) in excess of \$5 trillion⁶
- Based on annual survey by JP Morgan, more than \$10 billion already being invested by 125 major institutions in 2013 with expected \$12.7 billion in 2014.⁷
- Estimated market potential, based on assumptions about demand in 5 sectors: affordable urban housing, clean water in rural areas, maternal health, primary education, microfinance:
 - Potential investment \$400 billion to \$1 trillion⁸
 - Potential profits \$183 to 667 billion⁹

What are the Potential Benefits?

- Financial benefits ranging from return of principal capital to market-rate or even market-beating returns
- Access to basic services for the poor: agriculture, clean water, housing, education, health, energy, financial services.
- Access to production processes for society – e.g., quality jobs, energy efficiency, local asset accumulation and/or purchasing inputs from local or smallholder providers.

How are Benefits>Returns Measured?

- Financial (e.g., various benchmarks for high yield debt, corporate debt, venture capital/private equity, public indices)
- Social and environmental metrics (e.g., “Investment Reporting and Investment Standards” (IRIS) and Global Impact Investing Rating System (GIIRS))
- Range of innovative, practical and pragmatic metrics mutually agreed by investors and managers

What are the Challenges/Risks?

- Barriers to information flows and collaboration
- Underdeveloped ecosystem
- Shortage of high quality investment opportunities with track records
- Difficulty exiting investments (for non-listed investments)
- Lack of innovative deal/fund structures

⁵ Daryl Collins, Jonathan Morduch, Stuart Rutherford Orland Ruthven, Portfolios of the Poor: How the World’s Poor Live on \$2 a Day, Princeton University Press 2009

⁶ International Finance Corporation and World Resources Institute, The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid, March 2007

⁷ JP Morgan Global Social Finance, Spotlight on the Market, May 2014

⁸ J.P. Morgan Global Research, Impact Investments, An Emerging Asset Class, 29 November 2010, Global Research

⁹ *ibid*

- Lack of common way to talk about impact investing
- Lack of research and data on products and performance
- Lack of investment professionals with relevant skill sets
- Inadequate impact measurements
- Difficulty in scaling up businesses

How to Differentiate Impact Investing from Similar Programs/Groups/Initiatives?

- Socially Responsible Investing (SRI) – generally seeks to minimize negative impacts, using filters (e.g., “Do no harm”)
- Environmental, Social, Governance (ESG) - investment methodologies using sustainability factors to identify companies with superior business models.
- UN Principles for Responsible Investing (UNPRI) – incorporating ESG into investment analysis and decision-making
- Catholic Social Teaching (CST)– seeks to build a just society and live lives of holiness
- Corporate Social Responsibility (CSR) – self-regulation incorporated into a business model to ensure compliance with spirit of the law, ethics and international norms
- Activist shareholders
- Triple Bottom Line (TBL): people, planet, profit or “the three pillars”

Examples of Impact Investment Funds:

Real Estate in Angola: Vital Capital has committed over \$200 million (with co-investors) to build 40,000 affordable houses in six provinces throughout Angola. The investment seeks also to provide a full spectrum of the necessary elements for a vibrant life including clean water, sanitation, power, education, social services and health services. These combine for better employment opportunities, cohesion and empowerment in an integrated community environment. They have already achieved a partial exit yielding over \$1 billion in proceeds.

Infrastructure in Kenya: African Development Finance Bank (AfDB) financed, with help from investors and the Kenyan Government, a €115m investment in wind power in Kenya’s Lake Turkana region. It provides clean energy, reduces energy costs to consumers and connects landlocked regions to the rest of the country through improved infrastructure.

Clean Water and Sanitation in India: Spring Health, established in 2010, sells affordable safe drinking water to rural Indians through local kiosk owners. The water is purified at the point of sale through a radically low-cost chlorination technique. The company is already operating in 170 villages, with 120 staff, selling 3.5m liters of water/month to 85,000 customers and expects to serve 100 million customers in 10 years. It is targeting profitability in the next few years.

Life Insurance for HIV+ Patients in South Africa: AllLife was established in 2004 to provide life insurance to the neglected and underserved populations in South Africa. The company provides simple, affordable life and disability insurance for HIV+ and diabetic individuals. No waiting period and up to R 10 million cover available. Premiums from R 130 per month. Clients

must commit to follow an appropriate health monitoring and treatment program. Clients average a 15 percent improvement in their health care after 6 months. With AllLife's cover, people with HIV+ are able to insure themselves, access capital, such as home loans, and re-enter the economy.

Glossary of Terms (from INSEAD Business School)

- **Base of the Pyramid** – BoP refers to a broad set of business activities focused on the 4 billion people living on less than \$3 per day. Different schools of thought within the BoP community advocate that low-income populations should be seen as potential consumers, producers, partners, and/or innovators. (Adapted from Monitor Institute)
- **Corporate Social Entrepreneurship (CSE)** – the process of developing and growing impact driven initiatives inside large companies. These initiatives usually leverage existing corporate capabilities to address neglected societal problems. They target long-term impact under the condition of financial sustainability. (INSEAD Social Entrepreneurship)
- **Hybrid value chain** – pioneering social-business models that leverage and combine the assets and capabilities of corporations and citizen sector organizations (CSOs) to systemically address low-income populations' needs through the delivery of essential products and services. (Drayton)
- **Impact Assessment** – the process of analyzing, monitoring and managing the intended and unintended social consequences, both positive and negative, of planned interventions (policies, programs, plans, projects) and any social change processes invoked by those interventions. Its primary purpose is to bring about a more sustainable and equitable biophysical and human environment. (International Association for Impact Assessment)
- **Inclusive Business** – Inclusive business refers to sustainable business opportunities that are designed to be profitable and benefit low-income communities. Companies focused on developing including business models may be considered social purpose businesses or social enterprises. Examples include direct employment of the poor, often through targeted development of supply chains, and the provision of affordable goods and services to them. (Adapted from Monitor Institute)
- **Social Business** – a non-loss, non-dividend company designed to address a societal problem through a market-based business model. It is distinct from a non-profit because the business should seek to generate a modest profit which will be used to expand the company's reach, improve the product or service or in other ways to subsidize the social mission. (Adapted from Yunus)

Additional Resources:

1. The Power of Impact Investing by Judith Rodin, May 6, 2014 – excellent overview of core impact investing concepts
2. Unpacking the Impact in Impact Investing by Paul Brest and Kelly Born, Stanford Social Innovation Review, Fall 2013 - http://www.ssireview.org/articles/entry/unpacking_the_impact_in_impact_investing
3. Impact Investments, An Emerging Asset Class by J.P. Morgan Global Research Team, 29 November 2010 - very comprehensive and lengthy but Executive Summary is extremely valuable tutorial
4. A Portfolio Approach to Impact Investing, A Practical Guide to Building, Analyzing and Managing a Portfolio of Impact Investments, by J.P. Morgan Global Social Finance Research Team, 1 October 2012 - lots of useful case studies
5. A Primer on Impact Investing by Credit Suisse Global Research Private Banking Team in Zurich, 1 January 2013 - useful background
6. Insight into the Impact Investing Market, An in-depth analysis of investor perspectives on over 2200 transactions by J.P. Morgan Social Finance Research Team, 14 December 2011 - fascinating to sample the wide range of transactions
7. Glossary of Terms for Social Entrepreneurship and Impact Investing by Filipe Santos and Christine Driscoll Goulay at INSEAD Centre for Entrepreneurship - extremely useful guide to the universe of related terms
8. Fortune at the Bottom of the Pyramid by C.K. Prahalad, 2004
9. The Next 4 Billion, World Resources Institute and IFC, 2007
10. Poor Economics, A Radical Rethinking of the Way to Fight Global Poverty , by Abhijit V. Banerjee and Esther Duflo , 2011
11. Impact Investing, Transforming How We Make Money While Making a Difference, by Antony Bugg-Levine and Jed Emerson, 2012
12. The Business Solution to Poverty: Designing Products and Services for the Three Billion New Customers, Paul Polak and Mal Warwick. BK Publishers. 2013
13. The Emerging Markets Private Equity Association (EMPEA) website: <http://www.empea.org/>