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Social Impact Investment

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Impact Investing: What is it?

Social impact investment is an investment made with the intent to generate social or environmental benefit in addition to financial return. This form of investing is important to government because it facilitates limited public resources to leverage much larger quantities of private capital in pursuit of solutions to major occurring issues. If impact investments effectively and efficiently assist with social benefits, this will help invoke a more distinct and precise government intervention strategy.

Source: Impact Investing: A Framework for Policy Design and Analysis.

This strategy of investing in financial and social or environmental returns has helped to identify four factors that generate new interest and activity in what is now known as impact investing:

1. Broader considerations of risk in investment decisions, which has been triggered by the 2008-2009 financial crisis.
2. Growing awareness that existing resources are insufficient in addressing issues such as poverty, disparity, environmental destruction, and other global concerns.
3. A developing set of events demonstrating that it is possible to finance expandable business models that create social and environmental value.
4. The transfer of capital from individuals with high net worth, which can be used to embed their values in the distribution of their wealth.

** These four factors have produced substantial growth in the impact investing industry over the past few years and continue to help this type of business develop. **

- According to the Global Impact Investing Network (GIIN) and the Rockefeller Foundation, the definition of social impact investment is described as "investment intended to create positive impact beyond financial returns." Through this definition, the term impact investment is not only about financial and social returns, but is it about investors intentionally wanting to generate effective results from both areas. Essentially, impact investment is about creating a more stable and efficient social and environmental arena, where financial returns are beneficial, but not always feasible.

Source: Accelerating Impact: Achievements, Challenges, and What's Next in Building the Impact Investing Industry

Where does it stand today?

Over the past few years, the amount and diversity of actors in the social impact investment industry have grown. Among asset owners, individuals and families with high net worth have also played key roles in this growth. In addition, private foundations and finance institutions have aided with development. Other contributors include: companies, small and growing businesses, social enterprises and cooperatives, service providers, intermediaries and government, and networks and standard-setting agencies.

These past few years of building impact investing has been effective, formative, and productive. Tangible gains have aided in immobilizing capital for impact investments through a number of players. The amount of capital has steadily increased, prominent intermediaries have surfaced, and there has been substantial growth in products and in investment platforms.

Even though most of the growth in impact investing has been positive, there are still areas for improvement. More investment-ready projects and enterprises need to be created in order for optimum placement of new capital, and initial global standards and rating system need to be better developed and articulated. In addition, global networking and the building of platforms and partnerships in developing countries need to be more effectively organized.

Source: Accelerating Impact: Achievements, Challenges, and What's Next in Building the Impact Investing Industry

Through this overall examination process, six crucial dimensions to building the impact investing industry have been established:

1. **Unlocking Capital** – there has been a considerable acceleration of capital commitments toward social impact investing.
2. **Placing and Managing Capital** – this area has been proven to be problematic when trying to raise capital. However, there has been a steady, but uneven, progress in global development of intermediation.
3. **Demand for Capital** – this field has had difficulties in mobilizing and placing capital. There needs to be an increase in investment-ready opportunities for various regions and sectors across the globe.
4. **Assessing Impact** – social measurement continues to be one of the most active and efficient areas in the impact investing industry.
5. **Creating an Enabling Environment** – governments can play an active role by creating appropriate investment standards, targeting co-investments, taxation, subsidies, and procurements, and establishing better corporate legislation and capacity development.
6. **Building Leadership** – over the last few years, the number of organizations playing key leadership roles have increased. Promising progress has also been made in organizing this field, which has now led the focus of impact investing towards the execution of investments.

Source: Accelerating Impact: Achievements, Challenges, and What's Next in Building the Impact Investing Industry

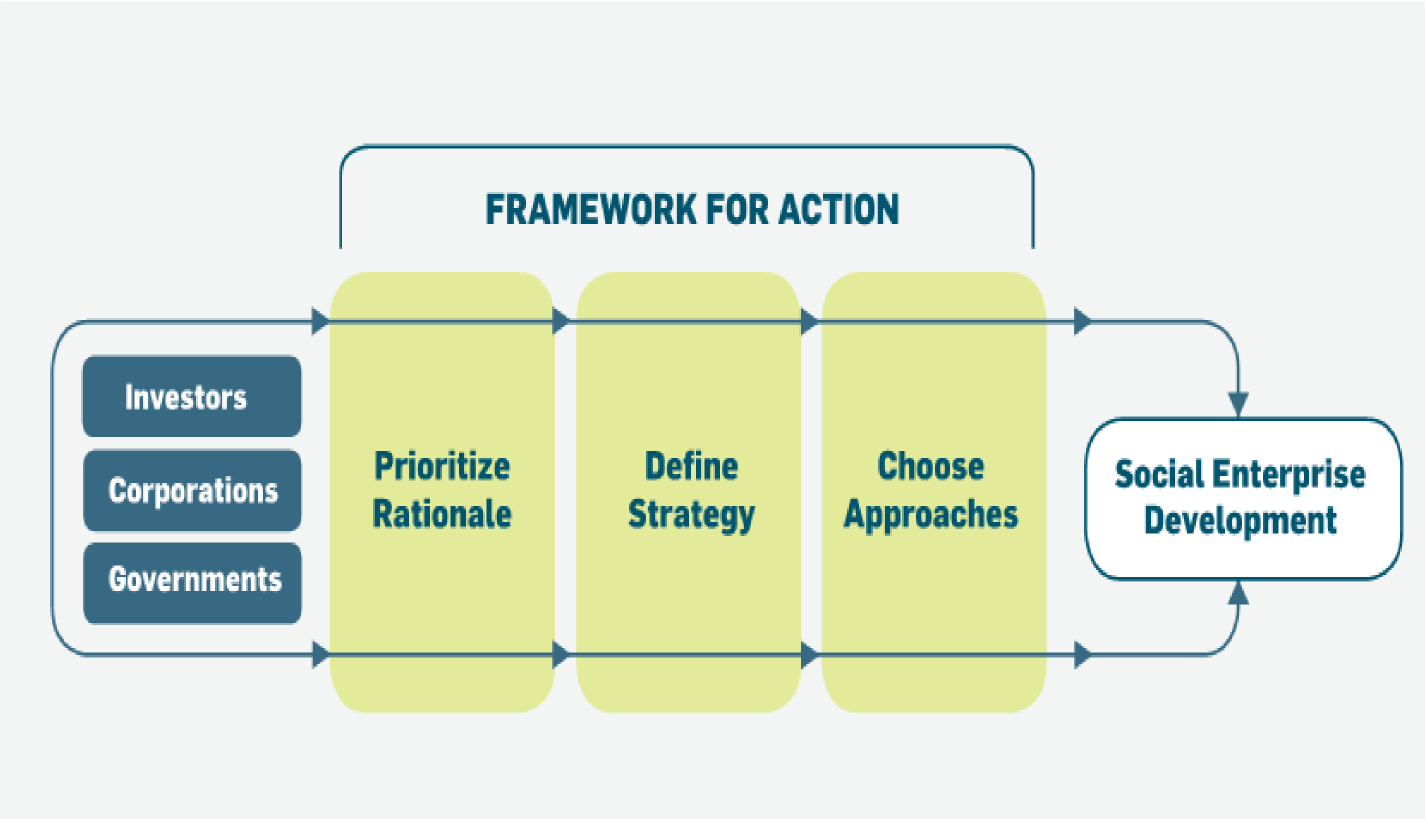
Framework for Action

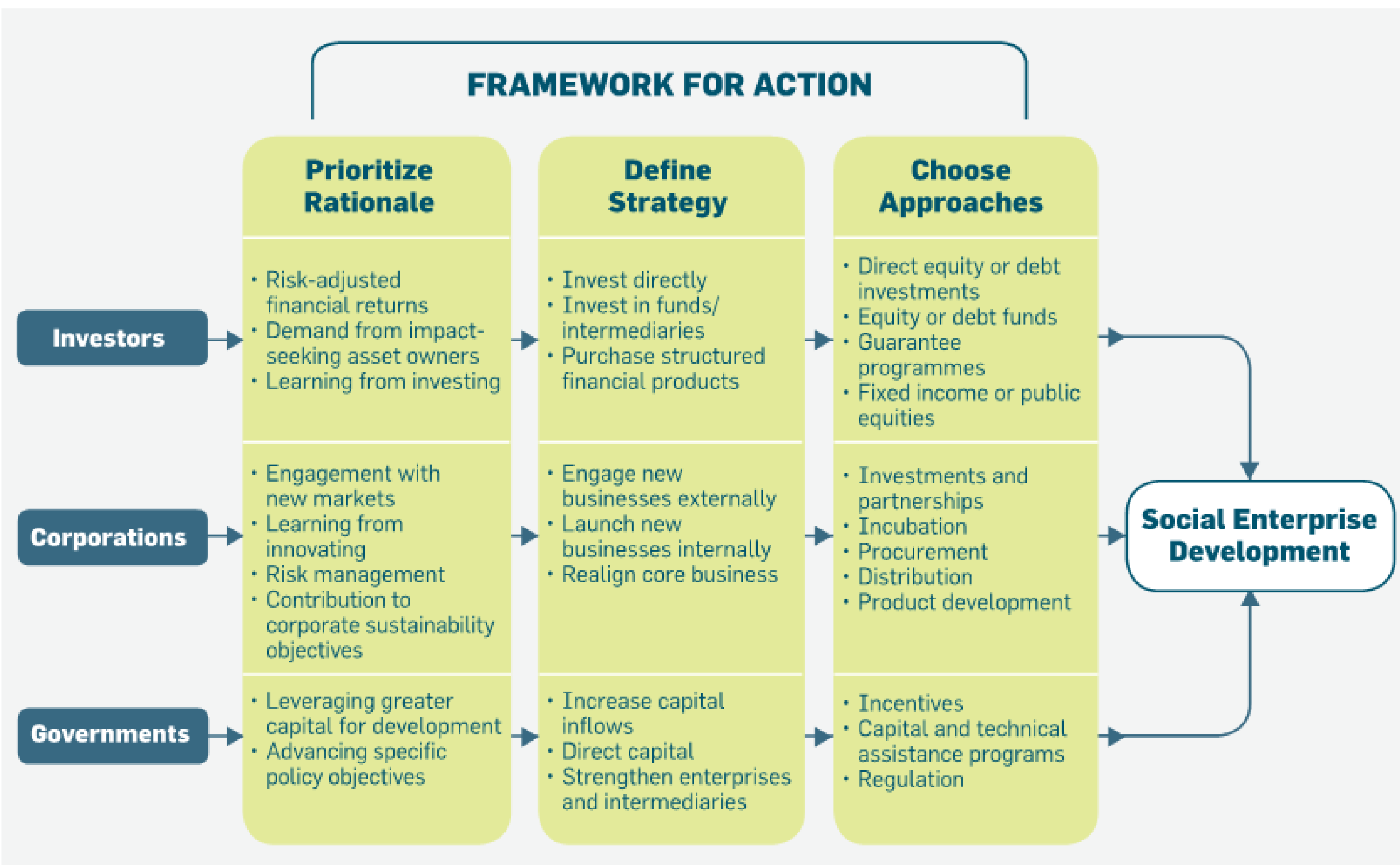
This framework presents a strategic, market-focused plan that notes the philosophy of corporate sustainability, which is defined as a company's long-term value in financial, social, environmental, and ethical terms. Typically, a social impact invest framework for action focuses on, but is not limited to, the following:

- Activities that provide products or services to low-income populations
- Intention to proactively create positive value rather than avoiding negative impacts
- Focusing geographically on developing and emerging nations

In addition, this framework aims to assist three stakeholder groups – investors, corporations, and public policymakers – in comprehending how to navigate the social enterprise and social impact investing arenas. Within each of these categories, there are three steps: prioritizing the rationale for engaging, defining a strategy, and choosing specific approaches to implement. Each step varies between stakeholders and among individual organizations.

Source: A Framework for Action: Social Enterprise and Impact Investing, 2012





Source: A Framework for Action: Social Enterprise and Impact Investing, 2012

Prioritize Rationale

Low-income populations in developing nations have become a growing recognition among investors and corporations. These populations have substantial market potential and are attractive due to their size, increasing purchasing power, and the demand they represent. Through building up local operating infrastructures, social enterprises will have better chances of commercially succeeding, which will then create greater investment opportunities.

Beyond the focus of capital returns, investors and companies stand to benefit from strategic value. Learning, diversification, and risk mitigation opportunities present advantages for social enterprise engagement and other related investments. In addition, social enterprise engagement offers a way to accelerate the formation of shared value. Inclusive and sustainable growth promotes economic and social development, which creates an enabling business environment that allows investors and corporations to prosper.

Source: A Framework for Action: Social Enterprise and Impact Investing.

Define Strategy

Once an organization has created its rationale for engaging with the social enterprise and impact investing fields, the investor, corporation and/ or policymaker must then decide on the strategy needed for entering this arena. Evaluation of strategies is essential when determining how they will support anticipated goals, especially when each strategy presents a unique set of opportunities and challenges that stakeholders will need to comprehend. In addition, organizations will need to determine the size and time intended for engagements. Stakeholders have the option of being aggressive when investing or they could adopt a more conservative approach. Most strategies are determined by the invest option and the possible projected gain.

Source: A Framework for Action: Social Enterprise and Impact Investing.

Choose Approaches

Once established, a social impact investment, social enterprise development, or enabling policy strategy can be implemented through one or multiple approaches. These approaches are a diverse set of options in which an investor, a business, or the government can use when actively involved in the impact investing and social enterprise fields. They are also the channels through which social and environmental impact is ultimately achieved. Below are a list of examples that investors, corporations, and governments may use:

Investors

- Debt and equity investment in social enterprises
- Incubation and seed funds
- Growth-stage funds
- Loan guarantee programs
- Structured financial products

Corporations

- Strategic investments and partnerships
- Incubation
- New product development
- Procurement
- Distribution realignment

Governments

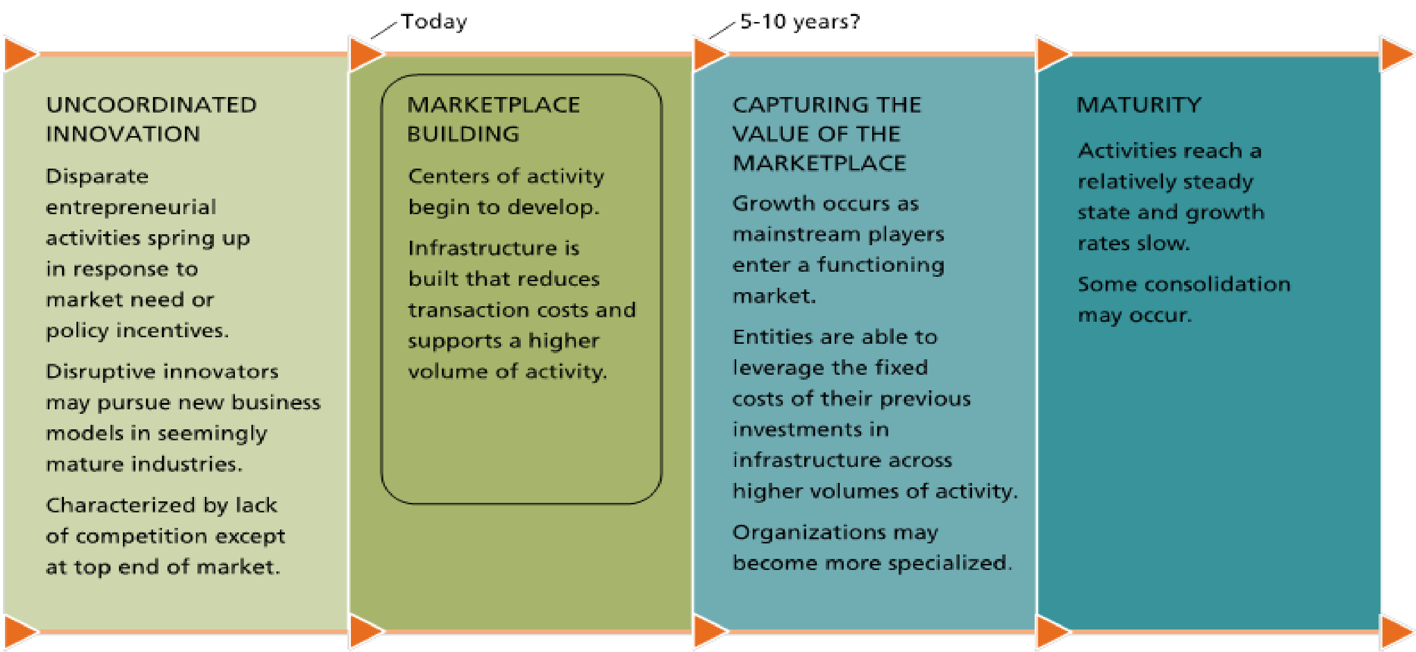
- Targeted incentives
- Capital and technical assistance programs
- Regulation reform

Source: A Framework for Action: Social Enterprise and Impact Investing.

Opportunities and Directions

Overall, the progress of the impact-investing sector has shown the field has moved decisively from the “uncoordinated innovation phase” to a sustained “market-place building” phase. Within this phase, the industry is shifting from a period focused on organizing and establishing the initial infrastructure to a period that is more focused on implementation.

Phases of Industry Evolution



Source: Freireich and Fulton, Investing for Social and Environmental Impact, 2009

In addition to these shifting periods, many leaders believe the social impact-investing field needs to move into an “era of execution or an era of acceleration.” In order to make this process succeed towards this era, concrete steps need to be taken and should be implemented. There are 15 important areas of action that need to be taken to realize the twin objectives of acceleration and execution.

Leadership Suggestions

The 15 suggestions that discuss the acceleration and execution objectives are directed to the leadership of the impact investing industry in a global sense. Specifically, it is recommended that leaders within this field should take steps to:

Unlocking More Capital

1. Strengthen business for large institutional investors, both in the public and private areas.
2. Encourage the use of research and education to help establish multi-investment portfolios, instead of just individual deals.
3. Urge foundations to continue to innovate through strategic and cultural shifts that are devoted to the agency's mission.

Placing and Managing More Capital

4. Create new intermediaries, and strengthen existing ones, that will facilitate investments in underdeveloped markets.
5. Increase the variety of products that address a wide range of investors, make products easily accessible for distribution systems, and offer product performance evaluations.
6. Create new options that can generate measurable returns (both financially and through social impact).

Strengthening Demand for Capital

7. Cosponsor research on emerging hybrid, scalable enterprise models.
8. Identify and support successful and cost-effective approaches to improving the management capacity of social entrepreneurs.

Assessing Impact More Effectively

9. Strengthen investor knowledge towards performance management and impact assessment initiatives.

Improving the Enabling Environment

10. Increase the production and application of practical knowledge products, including research and tools, aimed at governments engaged in or supporting social impact investing through the development of supply of capital, direct capital, and strengthen demand policies.
11. Facilitate a continuous and open exchange system for government engagement in supporting the impact investing industry.
12. Establish publicly funded safety nets that address the costs of failed or inadequate investments.

Renewing and Broadening Industry Leadership

13. Assemble multi-year grant funds to expand the public-goods infrastructure.
14. Work with educational institutions to development and promote professional development and graduate workshops for current fund managers, for new entrants, and for social entrepreneurs seeking investment opportunities.
15. Actively manage the impact investing field's integrity through media engagement, managing stakeholder and public expectations, and by strengthening the industry's definition.

Source: Accelerating Impact: Achievements, Challenges, and What's Next in Building the Impact Investing Industry

Case Studies

Case Study I: Investor

DBL Investors: Double Bottom Line Venture Capital

DBL Investors, a founding network member of the Global Impact Investor Network (GIIN), is a top tier venture capital firm that is based in San Francisco, California. Created in 2008 DBL has 25 portfolio companies, their main goal for all of its portfolio companies are to create a double bottom line approach. Their first bottom line refers to achieving the goal of being able to obtain top tier venture capital returns, while the second bottom line indicates the improvement of social, environmental, and economic conditions.

Rational: DBL Investors create its double bottom line by improving the local tax base and surrounding environment and condition. It targets primarily on low and moderate income areas, that traditionally with poor investment capital. .

Strategy: In order to best achieve their goal DBL Investors teams up with companies that their main focus are on clean technology, health care, information technology, and sustainable products and services. DBL Investors encourages their portfolio companies to plant themselves in low-income communities.

Approach: DBL Investors works together with their portfolio companies to ensure that as a whole they can achieve their double bottom line approach. To achieve that goal they work with each company separately to find what practices work best for them. Some examples of double bottom line practices include; better educating their employees so they can help them move up on the financial latter, employing people in their local communities, and traveling to local schools to educate and guide young students.

Impact: As of December 2012, DBL Investors' portfolio companies have created over 6,000 good paying jobs with health care benefits and retirement plans. A "Green Corridor" has been created along a main highway in California. A green corridor is a pathway (for example a bike trail) that connects to other areas; this has created a healthier and safer transportation option. Many of its portfolio companies have made its way into low to moderate communities such as Revolution foods which provide nutritious foods to schools. In 2011 DBL Investors closed with over $200million in funds which resulted in top quartile financial returns.

Case Study II: Corporation

Sinen En-tech

Sinen En-tech is the leading company in technology fields of high-temperature condensed water recovery. Its service is widely used in areas of oil refinery, petrochemical, steel, metallurgical, electricity, coal, pharmaceuticals, textiles, and fertilizer industries. Its technology has great improvement in water saving and CO2 emission reduction.

Rationale: China is currently suffering its worst drought in sixty years. One main reason is the increasing demand from industry. However, the country has only uses one-fourth the global average amount of water per capita. In the particular fields of high-temperature condensed water recovery, previous technologies lack effective methods of preventing steamed water from being contaminated from metal and organic contaminants which lead to large amounts of wastewater. The demand of energy efficient technology is high.

Strategy: Sinen En-tech's innovative procedure of treating used steam saves the steps of cooling and heating before and after the purification and directly dealing with steam of high temperature, thus reducing energy costs and creating steam that is ready for reuse. This product has advantages of energy cost reduction, highly security, waste residue prevention over other competitors and has cost advantages over others.

Approach: In order to reach various demands, Sinen En-tech makes its equipment with cross-platform ability, so that the equipment can be adjusted to various areas and industries.

Impact: By operating 24 hours a day 350 days a year, a Sinen En-tech equipment saves about 840 thousand tons of water and 8 thousand tons of coal. After adopting Sinen En-tech's steam treatment technology, Sinopec Tianjin Branch Company has saved approximately 3 million tons of water and avoided 78,600 tons of CO2 emissions since November 2004. Totally, Sinen En-tech helped its clients save up to 25 million tons of water as well as 252 thousand tons of coal. The financial return is also significant as Sinen's system pays for itself within 7 to 9 months and will create annual savings of more than one million dollars per year.

Source: CIF website (http://www.cifund.cn/product/9012.html) and World Resources Institute Website (http://www.wri.org/stories/2011/04/environmental-entrepreneurs-beijing-sinen-en-tech-saves-water-steam-recycling).

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