The Power of Impact Investing

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Chapter 1: Why Impact Investing and Innovative Finance?

In 2005, Dr. Judith Rodin was facing a new challenge. After serving for ten years as the 7th president of the University of Pennsylvania, Rodin had assumed the presidency of the Rockefeller Foundation at a most critical time. The Rockefeller Foundation was in desperate need of innovative reorganization. Its traditional fundraising models were limited in the face of key twenty-first century global issues (The Rockefeller Foundation, 2016). Rodin swiftly recognized the areas of the organization with potential for growth. As the leader, she embraced radical and extensive changes that modernized the entirety of the Rockefeller Foundation’s internal structures and external programs. One of the most important projects Rodin and her team championed as part of this strategic period was impact investing.

Impact investing introduces the power of financial investments within the sphere of philanthropy. It is a young yet impactful industry that aligns social and environmental goals with financial returns through the strategic redirection of investment capital (Rodin and Brandenburg, 2014). Although some early forms of impact investing existed before Rodin’s presidency, under her leadership the Rockefeller Foundation both envisioned, designed, and pioneered the impact investing industry as it is recognized today. Empowering key partners and leaders, developing industry infrastructure, and catalyzing platforms and awareness were essential to the organization’s strategy (E.T. Jackson and Associates, 2012). Between the years 2008 and 2012, the Rockefeller Foundation invested $50 million toward impact investment marketplace building. The industry itself is estimated to be valued at $60 billion (The Rockefeller Foundation, 2016; Kania, et al., 2014). According to the 2017 investor survey by the Global Impact Investing
Network (GIIN), the 208 respondents surveyed across the globe currently manage and aggregate a total of $114 billion in impact investment assets (Mudalir, et al., 2017).

**Defining the Field**

_What exactly is Impact Investing?_

An impact investment is an investment that intends to achieve both social and/or environmental impact as well as a financial return (Rodin and Brandenburg, 2014; Bugg-Levine and Emerson, 2011). Unlike traditional grants, donations, giving circles, and even venture philanthropy, the defining feature of impact investors is that they specifically seek a financial return on their investment whereas others who use their capital for socially or environmentally minded pursuits may not emphasize the financial return to the same extent. Furthermore, impact investing requires the production of evaluative and performance metrics in assessing the social and/or environmental impact of the investment (Rodin and Brandenburg, 2014). Evaluation is essential to impact investing because without a measureable and reliable assessment of the investment’s impact, it may be difficult to calculate the exact returns owed to the investor and the effectiveness of their investment. Evaluation is also critical for understanding if the programs supported by investment are worthy of continuation.

Just like a solely for-profit investment, impact investments cover a broad scope of sectors and exist in many different asset forms. The most common impact investors are corporations and high-net worth individuals, or individuals that have at least $1 million in liquid assets available for investment (Rodin, 2014). More recently, there has been an increasing amount of opportunities for individuals with a lower net worth to engage in impact investment, mainly by pooling their money with other individuals interested in similar causes. Impact investments are
not limited by geographical location, and instead exist worldwide. Impact investment asset classes include equities, equity-like debt, bonds, loans, real estate, forests, farmland, and fund portfolios (Rodin and Brandenburg, 2014).

Asset classes more unique to the impact investment industry include social enterprises and social impact bonds. Social enterprise existed well before the Rockefeller Foundation launched its impact investment campaign. Foundations, governments, and private institutions have published many uniquely nuanced definitions of social enterprise, but at the most fundamental level a social enterprise is an innovative business that aims to help society or the environment through a market solution (European Commission, 2015). The Rockefeller Foundation played a strategic role in promoting and raising awareness of social enterprises through its empowerment of strategic partners. For instance, in 2011, beyond investing millions in funds that supported social enterprise, the Rockefeller Foundation facilitated the Australian government’s investment of $20 million to the Australian Social Enterprise Development Investment Fund, which supports local Australian social enterprises (E.T. Jackson and Associates, 2012).

Social impact bonds, sometimes referred to as Pay For Success (PFS) bonds, are another type of asset closely linked with impact investment. Social impact bonds are performance based financing models that involve government, investors, and service entities. Typically, a social impact bond includes a financial investment from an investor who expects to earn a return from the government. The amount of the return earned by the investors depends on the extent to which certain social or environmental results are achieved. A service organization is utilized to provide the social service (Bridges Impact+, 2014). At the final stages, a separate evaluative organization,
or sometimes the service organization itself, will perform a quantitative analysis to ascertain how well the social or environmental goal was met. This evaluation is critical for determining the justified return on investment. Recidivism and early education have been popular causes for social impact bonds (Bridges Impact +, 2014).

The Rockefeller Foundation was an early supporter of the very first social impact bond, which was designed by Social Finance UK in 2010. The Rockefeller Foundation identifies Social Finance UK as one of its thirty core allies of the impact investment initiative alongside J.P. Morgan and USAID (E.T. Jackson and Associates, 2012). The purpose of the Social Finance UK social impact bond was to lower recidivism rates among Peterborough prison’s ex-offenders. The first cohort phase achieved an 8.4% reduction in reconviction rates, a percentage reduction sufficient to unlock investor returns. The social impact bond, unfortunately, was discontinued after the second cohort, but still inspired numerous other social impact bonds worldwide (Dear, et al., 2016; Ministry of Justice, 2015). Today, a total of 15 different countries have launched at least 60 social impact bond projects worldwide, including the U.S., Germany, India, Canada, and Sweden (Dear, et al., 2016). The Rockefeller Foundation would later support the first social impact bonds in the U.S. and continue to support the social impact bond field’s development through its resources (Murray and Arrillaga-Andreessen, 2017).

Why Impact Investing?

Even before the impact investment industry was officially named, the Rockefeller Foundation was familiar with institutions of impact investment. In 2000, the Rockefeller Foundation defined the term “blended value”, which denotes the idea that investors can simultaneously achieve financial as well as social and environmental returns (Bugg-Levine and
Emerson, 2011). Impact investing, however, was first fully defined during the years 2007 and 2008 at the height of the financial crisis (Monitor Institute, 2009; Bugg-Levine and Emerson, 2011; Rodin and Brandenburg, 2014). In this time of economic fragility, businesses and individuals across the globe faced financial stress on scales comparable to the Great Depression. The Rockefeller Foundation leaders and their partners therefore specifically hoped that the impact investment initiative would supplement limited government resources by leveraging investor capital to solve complex socio-environmental issues.

In context, the impact investment initiative was a cornerstone innovation initiative enacted by Rodin amongst other groundbreaking programs. President Rodin championed strategic philanthropy, leveraging finance, and private-public partnerships throughout her presidency and many unique programs to accompany her values (The Rockefeller Foundation, 2016). For example, Rodin also spearheaded the Resilience focus under which 100 cities were transformed to Resilient Cities that could sustain solutions for economic stability, social integration, and environmental protection (The Rockefeller Foundation, 2016). Impact investment is therefore a success endeavor brought forth from period of innovation amongst the Rockefeller Foundation leadership.

**Early Stages: Pre-2007 and the Beginnings**

*Deep Roots: The Pre-2007 Impact Investment Field*

The Rockefeller Foundation first coined the phrase “impact investing” at the 2007 Bellagio Conference, but scattered elements of the industry existed beforehand (The Rockefeller Foundation, 2014; Kania, et al., 2014; E.T. Jackson and Associates, 2012). Impact investing stems from a desire to apply one’s values in all aspects of life, including the financial. From this
perspective ideological roots of impact investment can be traced as fast back as 17th century England in which Quakers aligned their investments with personal values. More recently, however, ideas of social corporate responsibility, fair trade of consumer goods, and divestment campaigns that arose during the 1970s and 1980s serve as natural precursors to the impact investment initiative (Bugg-Levine and Emerson, 2011).

Before 2007, some businesses, funds, and other investment opportunities that aligned social and financial values existed. Yet, there was dearth of industry infrastructure and networking opportunities to unify these early pioneers. One notable example of an early institution of social impact is the Acumen Fund founded in 2001 by Jacqueline Novogratz. The Acumen Fund is a non-profit supported by the Rockefeller Foundation that mobilizes venture capital to invest in entrepreneurial solutions to poverty in East Africa and South Asia. Another is the Grameen Bank of 1983 of Bangladesh founded by Muhammad Yunus, which is a microfinance organization that provided credit streams to low income Bangladeshi women (The Rockefeller Foundation, 2014; E.T. Jackson and Associates, 2012).

Although organizations like the Acumen Fund and Grameen Bank mobilized capital in ways that aligned with their core social and environmental values, they did not identify as entities of an impact investment industry. The Bellagio Conferences of 2007 and 2008 would shift this perspective and open up the conversation for marketplace building. In the five years following the conferences, the Rockefeller Foundation and its partners would establish the essential marketplace components almost from scratch: capital markets, industry terminology, standardized evaluative systems, policy changes, and networks (The Rockefeller Foundation, 2014; Kania, et al., 2014).
Naming the Game: The Story of the Bellagio Conferences of 2007 and 2008

In order to direct the Rockefeller Foundation into a completely new marketplace, recruiting experts with diverse and specialized backgrounds was among Rodin’s top priorities (Murray and Arrillaga-Andreessen, 2017). Antony Bugg-Levine was the man chosen to co-lead what would soon be entitled the “Harnessing the Power of Impact Investing” initiative in 2007. Bugg-Levine was a unique choice. Prior to Rodin’s presidency, the Rockefeller Foundation usually recruited experts and leaders strictly from philanthropy, global development, or academia. Bugg-Levine in contrast had spent the past half-decade consulting for McKinsey & Company and then leading TechnoServe’s initiative implementing business solutions to rural poverty in Africa (Bugg-Levine and Emerson, 2011; Murray and Arrillaga-Andreessen, 2017). Upon his arrival, Rodin asked Bugg-Levine to evaluate the Rockefeller Foundation’s impact investment portfolio. He noted the tremendous potential of impact investing, but also the budding industry’s fragmentation. Most of all, Bugg-Levine highlighted the critical need for coordination in the form of networks between industry pioneers who would bridge the pieces of the emerging industry (The Rockefeller Foundation, 2014).

In 2007, as part of his first steps with the Rockefeller Foundation, Bugg-Levine convened entrepreneurs, philanthropists, and investors at the foundation’s Bellagio Conference Center in Italy. At this first meeting, the leaders discussed the possibilities and the technicalities of how investment could solve social problems while generating returns. They coined the term “impact investment” to denote to their new market and pondered how their individual expertise in business, investment, and altruism could intertwine. These early pioneers referred to themselves
as the Rockefeller Impact Investing Collaborative (Kania, et al., 2014; The Rockefeller Foundation, 2014; Murray and Arrillaga-Andreessen, 2017).

Nine months later, the Rockefeller Impact Investing Collaborative met once again at the Bellagio Conference Center in Italy in 2008, the pinnacle of the Great Recession. Approximately 40 participants attended and expanded on the previous meeting by clearly defining their goals and visions for the impact investment market. Four formal working groups were formed in alignment with four core goals: create a global network for impact investor leadership, develop standardized evaluation infrastructure, establish an impact investment bank, and assemble a working group of investors focused on sub-Saharan African sustainable agriculture (The Rockefeller Foundation, 2014).

The Evolving Role of the Rockefeller Foundation in Impact Investment (2007–present)

Since the Bellagio Center Conferences of 2007 and 2008, the Rockefeller Foundation has successfully spearheaded the development and establishment of the impact investment industry. Today, the impact investment industry continues to grow and develop as the Rockefeller Foundation explores new areas in innovative finance and its relationship with sustainable development goals, particularly through the Zero Gap initiative.

A Vision Transformed

Following the conferences, the Monitor Institute, which had participated in the second Bellagio Center Conference in 2008, published A Design for Catalyzing an Emerging Industry in 2009. The Monitor Institute’s report captured and marketed the ideas of the Rockefeller Foundation and at least 45 of its partners interested in impact investing, including the Annie E. Casey Foundation, W.K. Kellogg Foundation, and the J.P. Morgan Chase Foundation (The
Rockefeller Foundation, 2014; Monitor Institute, 2009). The report outlined five priority initiatives, all of which were eventually accomplished by the Rockefeller Foundation and its collaborators.

1. Create Industry-Defining Funds for Specific Social or Environmental Issues

By 2012, the Rockefeller Foundation had united four specific funds towards specific social and environmental issues as well as towards the goal of building an impact investment industry. These included the Acumen Fund (2001) which focuses on health, housing, and water and energy in Africa, the Calvert Foundation (1988) which bolsters global community-based financial institutions, IGNIA (2008) which provides on venture capital in Latin America, and Root Capital (1999) which provides farmers with loans in Africa and the Americas (E.T. Jackson and Associates, 2012). Today, the Rockefeller Foundation continues to support various funds such as the United Nations Convention to Combat Desertification’s Land Degradation Neutrality Fund, which supports worldwide land management initiatives (The Rockefeller Foundation, 2017b).

2. Place Substantial Risk-Taking Capital into Catalytic Finance Structures

The Rockefeller Foundation was able to unlock a total of $6 billion in investor capital through an initial investment of $50 million, there is evidence to support the notion that the Rockefeller Foundation was successful in mobilizing risk-taking capital (The Rockefeller Foundation, 2014).

3. Set Industry Standards for Social Measurement

In the years following the Bellagio Conferences of 2007 and 2008, the Rockefeller Foundation through its partners established two main evaluative organizations. The first major evaluative organization is the Global Impact Investing Rating System (GIIN) which serves as a rating system similar to the Standard and Poor’s rating. The second is the Impact Reporting and Investment Standards (IRIS), which provides a quantitative pool of performance data for impact investments (E.T. Jackson and Associates, 2012; Roden and Brandenburg, 2014). Although GIIN and IRIS have established the beginnings of the necessary infrastructure, there is still room for improvement as the complicated methodologies for rating social impact are further understood. The main challenge of defining an evaluative system is the fact that social and environmental impact is often abstract and hard to quantitatively measure.

4. Lobby for Specific Policy or Regulatory Change

The Rockefeller Foundation utilized advisory services and advocacy to influence government policy in support of impact investing between 2008 and 2013 and continues
to do so today. Initially, the Rockefeller Foundation experienced success with Western institutions, most deeply influencing the governments of Canada, the United States, Australia, and the United Kingdom (E.T. Jackson and Associates, 2012). Moving forward, the Rockefeller Foundation hopes to bridge these experiences to countries of the developing world such as in Latin America and Southeast Asia.

5. Develop an Impact Investing Network

An impact investing network entitled the Global Impact Investing Network (GIIN) launched in 2009. The Rockefeller Foundation strategically did not brand the network with the Rockefeller name in order to enhance the role of participants. GIIN and the Rockefeller Foundation nevertheless sustain a close relationship, such that Program Related Investment investees must use GIIN’s IRIS standard and several members of the Rockefeller Foundation staff have served on GIIN’s Board (The Rockefeller Foundation, 2014).

Maintaining Ties

Originally, the impact investment initiative was scheduled to end in 2011. It was extended by the Board of Trustees of the Rockefeller Foundation throughout 2012 and then ultimately until 2013 (E.T. Jackson and Associates, 2012). In 2013, the Rockefeller Foundation formally closed its own impact investing initiative, but still maintained deep ties with the impact investment industry and movement (The Rockefeller Foundation, 2014). By this stage, the Rockefeller Foundation had achieved its goal of establishing a new marketplace and shifted its focus to continued support and involvement with the new marketplace’s leadership.

In order to retain an association and influence over the field, placing high executive Rockefeller Foundation personnel on the leadership boards of impact investment initiatives that had been established in this six year period was an important strategy. For instance, in 2011 Bugg-Levine officially left the Rockefeller Foundation to lead the Nonprofit Finance Fund, a non-profit that unlocks capital for mission-driven organization, but still served alongside Rodin on the GIIN Board (The Rockefeller Foundation, 2014). In these ways, the Rockefeller
Foundation could maintain its involvement while empowering the institutions it had helped create. In turn, these institutions could leverage the Rockefeller Foundation brand name in pursuing their missions. In 2014, Rodin worked in collaboration with Margot Brandenburg and published *The Power of Impact Investing: Putting Markets to Work for Profit and Global Good*, which summarizes and elaborates upon impact investing as a powerful instrument of change (Rodin and Brandenburg, 2014).

*The Shift to Innovative Finance*

In light of the official close of the impact investment initiative, the Rockefeller Foundation began a new innovative finance initiative in 2015. Innovative finance is the use of non-traditional techniques to direct capital for social purposes. This may include through private public partnership, insurance mechanism, or special funds (The Rockefeller Foundation, 2018). Impact investment is a subset of innovative finance.

The Zero Gap initiative is the Rockefeller Foundation’s largest and most recent innovative finance initiative. Under the leadership of Saadia Madsbjerg, the initiative aims to close the gap between social finance and the sustainable development goals outlined by the United Nations. Madsbjerg is a strategic and capable yet unorthodox hire. She previously served as vice president of the New York City Economic Development Corporation and associate principal of McKinsey & Company (The Rockefeller Foundation, 2018). Her presence shows the continued shift in the Rockefeller Foundation’s structure, which continues to embrace innovation and new strategies even in terms of recruitment.

Most recently, Rodin announced her decision to depart as President of the Rockefeller Foundation after twelve years of service in 2016 (The Rockefeller Foundation, 2016). Dr. Rajiv J.
Shah is Rodin’s successor and currently serves as the foundation’s president at the time of writing. As a former administrator of USAID and member of the Rockefeller Foundation Board of Trustees, Shah has extensive experience in private-public partnerships and is familiar with providing innovative solutions to developing communities worldwide (The Rockefeller Foundation, 2017a). It is hopeful that he will continue and expand upon the innovative finance and Zero Gap initiatives.

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Chapter 2: Marketplace Building, the Importance of Emergence Strategy

There are parts of Africa where clean tap water, electricity, and healthcare are not guaranteed, but surprisingly internet access is practically ever-present. Ashifi Gogo, a Ghana native and Dartmouth College graduate, recognized this discrepancy and was determined to fix it. Specifically, Gogo was concerned focused on the healthcare industry and how internet access could combat the counterfeit pharmaceutical trade in developing nations, such as his homeland of Ghana. Counterfeit pharmaceuticals continue to be a serious hazard for ill persons in developing regions of the world (Keaten, 2011). In luckier cases, an infected person who injects or consumes a counterfeit pharmaceutical will simply not be cured of their sickness because the medicine was fake but harmless. In more serious cases, counterfeit pharmaceuticals can contain dangerous ingredients that increase a patient’s resistance to the non-counterfeit pharmaceutical products, likelihood of complications, and risk of death. Around the time Gogo was designing an online product to address the concerns of the counterfeit pharmaceutical industry, approximately 30% of drugs sold in developing nations were counterfeit and 50% of some medicines in select developing countries, including Ghana, were fakes (Keaten, 2011).

In 2009, Gogo founded a social enterprise entitled Sproxil. Its main product is an app that enables users in developing countries to check if their purchased drug is counterfeit via scratch off panel codes on the medicine container. The application also provides users with hotlines to report counterfeit drugs operations to local authorities. In 2011, Acumen Fund (which is supported by the Rockefeller Foundation) invested $1.8 million in Gogo’s social enterprise (Keaten, 2011). As of 2017, Sproxil boasts over 50 million consumer engagements (Ukoh and Cielfeldt, 2017).
Gogo designed Sproxil with the counterfeit pharmaceutical trade in mind, but upon a closer examination it is clear that Sproxil touches upon a number of diverse issues, regions, and industries. Most obviously, Sproxil advances the healthcare systems of emerging markets by ensuring the safety and quality of pharmaceutical drugs. Sproxil technology also is reforming criminal justice systems by encouraging civilians to report the logistics of illegal counterfeit drug activity. Local law enforcement bodies therefore have a larger pool of eyewitness testimony to rely upon. Furthermore, even though the official Sproxil has not yet mentioned this, the data collected by Sproxil has potential to be used for big data analysis; the company has at least 50 million user experiences to contribute including information about the type of counterfeit drug, the time and location of sale, the amount the consumer paid, and more. Sproxil’s data, if made public, can help researchers and policy makers make more informed decisions.

Innovative finance solutions, including social enterprises like Gogo’s Sproxil, often have complex social implications (Rodin and Brandenburg, 2014). In other words, the areas of society impacted and the benefits brought forth by an innovative finance solution are often unanticipated, integrated, and/or numerous. Gogo designed Sproxil to target one problem, counterfeit pharmaceuticals, but in doing so engaged with several other issues like criminal justice and security (albeit in positive ways). The Rockefeller Foundation recognizes that innovative finance solutions are complex solutions to complex social and environmental issues. When promoting them, the foundation invests extensive effort in considering the overlapping variables and actors.

*Complex and Simple Solutions*

A simple solution is one that is straightforward, though it is not necessarily easy to achieve. A complex solution integrates more variables and unknowns (Rodin and Brandenburg,
2014). For example, litter maintenance along the shoreline of a beach town warrants a simple solution: remove the litter. Some town officials might consider employing state workers to clean the litter while others might consider investing in signposts that discourage residents from littering or imposing fines. Indeed, it may be difficult to reach a consensus on how to remove the litter from the beach, but all can agree that removing the litter will solve the problem. In contrast, a problem that warrants a complex solution is switching the energy sources of the same shoreline town from natural resources to green energy solutions. This switch would require consideration of many variables at play like the local infrastructure, economy, resident attitudes, and politics. Infrastructure would have to be remodeled to accommodate newer green energy technology. This might negatively impact the town’s property values. If there are any local employers or employees in a natural resource industry, like the oil or coal industry, a shift to green energy might cause them to face unemployment and thereby damage the local economy. Understanding this, local politicians might openly resist the adoption of green energy solutions, even if those solutions are better for the environment, because they know that doing so will help them win votes with residents whose economic conditions are threatened by the change. In short, a shift to green energy requires a complex solution because these interlocked social and environmental variables warrant consideration. Most innovative finance solutions are complex ones.

The Rockefeller Foundation itself does not usually implement innovative finance solutions, but rather focuses on empowering other institutions to pursue innovative finance. In turn, the Rockefeller Foundation provides these other institutions with resources in the form of finances, connections, and marketing through its own brand name association (The Rockefeller Foundation, 2014). Building the impact investment marketplace, however, was one problem
managed by the Rockefeller Foundation that required a complex solutions and relates to their involvement with innovative finance solutions. As overviewed in the previous chapter, a major reason the Rockefeller Foundation built the impact investment marketplace was to counter the constrains of government resources, especially after the 2008 and 2010 economic crashes, by mobilizing unlocked investor capital to solve impending social and environmental issues (Monitor Institute, 2009; Bugg-Levine and Emerson, 2011; Rodin and Brandenburg, 2014). Marketplace building, of course, is a complex task and so from the inception of the impact investment industry the Rockefeller Foundation leadership emphasized flexibility and innovation in addition to empowering partner organizations. All of these values are embodied in a management theory called emergent strategy. Rodin and her team adopted emergent strategy as the backbone of their marketplace building approach and guiding philosophy for complex solution design (The Rockefeller Foundation, 2014; Kania, et al., 2014).

**On Emergent Strategy**

Traditionally, strategy is conceived of as a blueprint of actions that once implemented should ideally achieve a set of goals, particularly in business. For someone that believes in the traditional concepts of strategy, the ideal strategy is one that follows a simple two-step process: plan and then execute. If the plan goes well, the business or proprietor achieves the desired results. Yet, in many types of businesses it is impossible to control every aspect of the organization, let alone volatile external variables that affect the results of a strategy. Hence many strategies fail despite the well-planned intentions of the leadership. In the latter half of the twentieth century, Henry Mintzberg of McGill University noted this inconsistency between the intended results and actual results of strategy implementation. He therefore continuously
dedicated himself to finding new ways of understanding strategy. His ideas had a profound impact on the implementation philosophy of the Rockefeller Foundation, especially in its initiatives related to social finance.

For Mintzberg, strategy was not a concrete set of steps to be followed, but instead “a pattern in a stream of decisions”, as explained in his 1985 paper Of Strategies, Deliberate and Emergent. Mintzberg concluded that organizations’ strategies operate on a continuum from deliberate to emerging (Mintzberg, and Waters, 1985). A pure deliberate strategy is realized exactly as intended whereas a pure emergent strategy is a consistent pattern of actions that develops without any intention. Many businesses strategies operate through a mixture of a deliberate strategy and emergent strategy wherein parts of corporate strategy are executed exactly as intended by the leadership and others parts of corporate strategy are untouched by leadership decision making. In founding the impact investment marketplace and eventually spearheading the innovative finance industry, the Rockefeller Foundation followed an emergent strategy entitled the Umbrella Strategy, in which the general boundaries and design of a system is set by the leader and other actors navigate within these boundaries (Mintzberg, and Waters, 1985). The Rockefeller Foundation served as the leader of the impact investment initiative along with some other major players and established the guidelines and standard practices of impact investment markets. The core allies and organization convened by the Rockefeller Foundation operate within this shared vision, but the specifics actions were not ultimately dictated by the Rockefeller Foundation, even if the Rockefeller Foundation occasionally served as in a consultant-like role. On the contrary, the Rockefeller Foundation invested extensive effort in empowering its allies. According to Dr. Zia Khan the Vice President for Initiatives and Strategy
at the Rockefeller Foundation, the foundation’s approach is emergent because its intended plans are always open to reform. In terms of impact investing and innovative finance, the Rockefeller Foundation is continuously searches for new tools and approaches rather than planning out one monolithic approach to follow for years on end. Once the Rockefeller Foundation ends its involvement with innovative finance, it is hoped that the co-creators empowered by the foundation continue the cycle of “sense and adapt” so core to emergent strategy (Khan, 2014).

There are three key elements to modern emergent strategy: co-creation, positive and negative attractors, and system fitness. Co-creation is the collaborative shaping of strategy and design by multiple partners as opposed to one institution independently shaping a scene. Positive and negative attractors are mechanisms that promote or dampen the momentum of a movement or strategy. System fitness is the ability of a system, in this case the impact investment marketplace, to adapt to new factors (Kania, et al., 2014; Khan, 2014). The Rockefeller Foundation established all three elements within the impact investment industry.

Co-creation

Since complex solutions are influenced by the intentions of a wide array of actors, including non-government organizations, corporations, and governments, it is most efficient to implement complex solutions via the joint effort of many organizations that practice open communication and continuously evolve their methodologies (Kania, et al., 2014). This process is called co-creation and is largely employed by the Rockefeller Foundation in its strategic philanthropy initiatives (Rodin and Brandenburg, 2014). In an interview from the spring of 2014, Rodin directly speaks about emergent strategy, the impact investment initiative, and the Bellagio Conference affirming that, “We co-created both the idea of impact investing, but also identified
together with other colleagues not at that meeting what the field would need in order to accelerate” (The Rockefeller Foundation, 2017).

From the first conversations to the fully functioning Zero Gap initiative, partnerships were the centerpiece of the Rockefeller Foundation’s innovative finance initiatives. In the evaluative report issued near the conclusion of the impact investment initiative the Rockefeller Foundation presents thirty key allies among seventy in total, many of which formed the institutions that are essential to impact investment industry and Zero Gap initiative today. The Rockefeller Foundation has also produced a list of participants in the Zero Gap initiative. The chart below highlights these core players (E.T. Jackson and Associates, 2012; The Rockefeller Foundation, 2016b).

*Table 1: Side by Side Comparison of the Original 30 Core Allies of Impact Investment and Highlighted Zero Gap Initiative Collaborators*

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<tr>
<th>Thirty Core Allies</th>
<th>Zero Gap Initiative Partners</th>
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<td>AAC</td>
<td>Africa GreenCo</td>
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<td>Acumen</td>
<td>African Risk Capacity</td>
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<tr>
<td>Agora Partnerships</td>
<td>African Risk Capacity</td>
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<td>ANDE</td>
<td>Art Earth Tech</td>
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<td>Business Partners International</td>
<td>BanQu</td>
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<td>B Lab</td>
<td>Blue Forest Conservation</td>
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<td>Calvert Foundation</td>
<td>Center for Global Development</td>
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<td>Citi Foundation</td>
<td>Climate Bonds Initiative</td>
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<td>Core Innovation</td>
<td>Climate Policy Initiative</td>
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<td>Dalberg</td>
<td>Eighteen East Capital</td>
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<td>Duke</td>
<td>Environmental Defense Fund</td>
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<td>E+Co</td>
<td>Glasgow Caledonian University (NYC)</td>
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<td>Equilibrium</td>
<td>Global Ethics</td>
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<td>GIIN</td>
<td>GlobalAgRisk</td>
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<td>Grassroots Business Fund</td>
<td>Habitat for Humanity</td>
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<td>Intellecap/cKinetics</td>
<td>Harvard University/Post Road Foundation</td>
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<td>IGNIA</td>
<td>IIX Foundation</td>
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<td>Investors’ Circle</td>
<td>Impact Shares</td>
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<td>J.P. Morgan</td>
<td>Innovative Finance Foundation</td>
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<td>Lundin</td>
<td>KKS Advisors</td>
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</table>
With support and guidance from the Rockefeller Foundation’s resources, these organizations were empowered to contribute to the field in a plethora of ways. Case study highlights of these collaborators will be explored the sections to follow. For now, note that the Rockefeller Foundation’s co-creators and partners are all from a very wide array of industry types. They include large banks and established global institutions and non-profits, but also universities, niche management funds, and corporations. The co-creators also cover a wide range of geographic areas. Social Finance UK and Quantified Ventures, for instance, focus on the United Kingdom and United States, respectively. Africa GreenCo and the Acumen Fund which focus on eastern nations such as Zambia, South Africa, India, and Pakistan among others. Moreover, partners like the Business Partners International and the University of Oxford support worldwide initiatives with resources provided by the Rockefeller Foundation (E.T. Jackson and Associates, 2012; The Rockefeller Foundation, 2016b). Although the Rockefeller Foundation only invested a mere $50 million near the start of Rodin’s term, they leveraged the power of co-creation to extend their global reach (The Rockefeller Foundation, 2016a).
In terms of co-creation specifically, the most important collaborator is the GIIN. The purpose of the GIIN is to catalyze collective action amongst impact investors, which is a critical need for the impact investment industry identified by Bugg-Levine (Bugg-Levine, 2011; E.T. Jackson and Associates, 2012). The GIIN provides networking opportunities, performance research, investor surveys, educational materials for asset owners, and advisory services. It is an important institutional authority on the impact investment field and serves as unifying force. The Rockefeller Foundation empowers GIIN to define its own missions and programs so that the GIIN can specialize functioning as the networking body of impact investment and the Rockefeller Foundation can specialize in building the innovative finance market. The Rockefeller Foundation is a primary funder, founding member, and asset owner of the GIIN. From an original 23 founding members in 2009, the GIIN today enjoys the membership of at least 360 institutions (E.T. Jackson and Associates, 2012; Global Impact Investing Network, 2018).

**Positive and Negative Attractors**

Controlling each step of a new initiative, especially an initiative as massive as building the innovative finance field, is challenging. Controlling how external factors respond to an initiative is perhaps impossible. The Rockefeller Foundation recognizes these limitations. Its leaders therefore focus on anticipating and influencing attractors, or key elements, that will impact the momentum of the field instead of forecasting or controlling them in detail (Khan, 2014; Kania, et al., 2014). In fundraising strategy, positive attractors guide a system towards the foundation leaders’ goals. Attractors can take the form of people, places, events, and ideas. Negative attractors dampen the potential of the founders’ goal being realized (Kania, et al., 2014).
By allocating authority and emphasis to expand upon an initial vision of the impact investment field and associated strategies, the Rockefeller Foundation grants the freedom of adaption. This is emergent strategy in its essence. Khan himself has stated that the among the basic Rockefeller Foundation innovation strategies a systems view is critical wherein the foundation acknowledges, “…the actors involved with a problematic situation, how they are influencing it, what are the barriers to change, and where there might be momentum that we could harness” (Khan, 2014). In other words, Khan here has explicitly stated how the Rockefeller Foundation actively seeks to harness the momentum of positive and negative attractors. For instance, 70% of the foundation’s capital during the first two years of impact investing was dedicated to its leading allies, like Acumen (Kania, et al. 2014). In this way, brand-name players not only became more familiar with innovative solutions, but also leveraged a greater scale of impact through their own reach, brand-names, and involvement in extensive networks.

More recently, the Zero Gap portfolio of the Rockefeller Foundation continuously searches for new finance innovations that help meet sustainable development goals (The Rockefeller Foundation, 2016b). The reliance on innovation naturally aligns with the “sense and adapt” emphasis emergent strategist use to influence attractors. The Rockefeller Foundation explicitly capitalizes on a collection of ideas from worldwide expertise that range from de-risking microfinance projects in the developing world to funding pay for success bonds that alleviate the impacts of climate change. The Zero Gap portfolio also attaches itself to the sustainable development goals of the UN, a major international actor with the power to generate substantial momentum as a positive attractors (Rodin and Madsbjerg, 2017; Murray and
Arrillaga-Andreessen, 2017). Although at the time of writing an official evaluation of the Zero Gap has yet to be released, the open ended Rockefeller Foundation process enables the foundation to locate and support the most successful of innovative finance designs.

**System Fitness**

Co-creation answers complex social and environmental problems by utilizing the multifaceted approaches of many institutions to address underlying and interlocked variables. Harnessing influence over positive and negative attractors serves to legitimatize and facilitate the goals of the foundation leaders. System fitness is the subsequent component of co-creation and attractors; it is ensuring the framework of the new marketplace. The Rockefeller Foundation ensured the self-serving system fitness of the innovative finance market by developing evaluative systems, building networking platforms, and advocating for policy change.

In terms of evaluative systems, the Rockefeller Foundation funded the development of both GIIRS and IRIS, as mentioned in the previous chapter. Between the years 2008 and 2011, a total of $4.9 million was allocated to B-Lab to develop GIIRS and in 2009 a $600,000 was allocated again to B-Lab for IRIS. A total of $4.545 million was likewise granted to the Rockefeller Philanthropy Advisors in support for IRIS and also GIIN (E.T. Jackson and Associates, 2012). The GIIRS system of evaluation involves a range of 50 to 120 questions distributed to the managers of the impact investment along with nuanced assessments and weights to assess their investments’ performance in four key areas: governance, workers, community, and environment (Rodin and Brandenburg, 2014). Major institutions including J.P. Morgan, UBS, Prudential, the W.K. Kellogg Foundation, and IGNIA accept and utilize the GIIRS system for companies and funds (Rodin and Brandenburg, 2014). Although the system is
continually improving, the increasingly widespread adoption of GIIRS is a core component of the innovative finance system success. It is a trustworthy ranking source that empowers investors to understand the performance potential of their investments.

IRIS is a database that provides information on innovative finance including industry terminology and industry standards. IRIS reports also include the latest trends in impact investment and innovative finance. The system functions with similarity to institutions like the Generally Accepted Accounting Principles (GAAP) or Financial Accounting Standards Board (FASB) (Rodin and Brandenburg, 2014). As of 2015, IRIS received reports from a total of 4,989 organizations located within 148 countries (Schiff and Murphy, 2015). Just as GIIRS intends to standardize the innovative finance asset rating system, IRIS intends to standardize data and practices. As a transparent and accredited resource, it unites actors in the impact investment community through its provision of reliable data and resources.

GIIN, which manages IRIS and was explored earlier in the Co-Creation section, can also be seen as an element of system fitness. GIIN provides a vital network and platform for parties interested in impact investment to share ideas and even make deals (Global Impact Investment Network, 2018; Murray and Arrillaga-Andreessen, 2017). Beyond this, the Rockefeller Foundation has also funded other industry platform initiatives to connect actors within the field and on more regional scales. One example is the Financial Inclusion Financing Facility through McKinsey & Company, which focuses on promoting financial inclusion in Africa through coordinating the investment efforts and technical expertise between philanthropists, governments, and development aid (The Rockefeller Foundation, 2016b; The Rockefeller Foundation, 2015).
In total, the McKinsey & Company initiative was given $550,000 in support (The Rockefeller Foundation, 2015).

Government agencies and their policies are another important point of system fitness. Supportive leaders in office and agreeable legislature can dramatically bolster an emerging marketplace. In the 2012 E.T. Jackson and Associates report on the Rockefeller Foundation innovative finance initiative, it was made clear that the timing of policy influence is essential. Nevertheless, as will be explored in section 5, the Rockefeller Foundation was able to initiate conversations and to establish official, public social finance platforms in select countries. Table 2 outlines the most important government initiatives achieved at this time (E.T. Jackson and Associates, 2012). In the 2017 GIIN Annual Impact Investor Survey noted that of the 209 surveyed representatives of impact investment, 60% have noted some or significant progress in government support for the market (Mudaliar, et al., 2017.).

Table 2 Policy Influence Achievements of the Rockefeller Foundation 2008-2012

<table>
<thead>
<tr>
<th>Country</th>
<th>Initiative (Year Founded)</th>
<th>Description/Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>Centre for Impact Investing (2011)</td>
<td>Founded at the MaRS research center in Toronto; received over $1 in support from the McConnell Family Foundation and Toronto Stock Exchange</td>
</tr>
<tr>
<td>Australia</td>
<td>Australia’s Department of Education Employment and Workplace Relations’ Social Enterprise Development (2011)</td>
<td>Inspired by the 2009 Monitor Report, which summarized the Bellagio Conference of 2008, the Australian government piloted social enterprise funds worth $20 million</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Big Society Capital (2011)</td>
<td>A fund of 600 million EUR to support third sector investments. Leadership was related to Impact Investment Initiative leaders.</td>
</tr>
<tr>
<td>United States</td>
<td>Office of Civic Participation (2009)</td>
<td>Organizes events alongside the Impact Investment Initiative and others to...</td>
</tr>
<tr>
<td>United States</td>
<td>U.S. Small Business Administration (2011-2016)</td>
<td>Funded $1 billion over five years in support of social enterprise; advised by the Rockefeller Foundation</td>
</tr>
</tbody>
</table>

References


Chapter 3: The Rockefeller Foundation’s Vehicles of Investment

The Rockefeller Foundation utilizes two main funding mechanisms to support the impact investment industry: grants and program-related investments (PRIs). The grants and PRIs distributed by the Rockefeller Foundation play a significant role in not only building evaluation structures for the impact investment industry, but also in building the industry’s vehicles of investment (Madsbjerg, 2017). This chapter will focus on vehicles of investment, whereas the next chapter will concern evaluation structures. The Rockefeller Foundation has distributed grants and PRIs to support the formation of modern vehicles of investment within the impact industry, including insurance programs, debt products, and SIBs (or pay for performance models) among many others (Rodin and Brandenburg, 2014; Rockefeller Foundation, 2016).

Funding Mechanisms of the Foundation

Grants are a common funding mechanism for foundations, but are also used by government institutions, businesses, and trusts. A grant involves the dispersion of non-repayable funds or other products to another party (Rodin and Brandenburg, 2014). The largest grant recipients of the impact investment initiative have been B Lab/GIIRS ($4.9 million), the Rockefeller Philanthropy Advisors ($4.5 million), and the Calvert Foundation, Inc. ($1.3 million) (E.T. Jackson and Associates, 2012). Data on the latest Zero Gap initiative grantees has yet to be released in an official report at the time of writing.

PRIs are another type of funding mechanism. PRIs are a type of investment for which the foundation expects a return, even if the amount of the return on investment is below that of the standard investment industry. According to the Internal Revenue Service (IRS), PRIs must fulfill
the following requirements:

1. The PRIs’ purpose must align with at least one of the foundation’s exempt purposes.
2. The foundation may not use the PRI for a primary purpose of generating income or gaining property.
3. The goals of the PRI may not include influencing legislation or political campaigns.

PRIs are relatively rare, especially because it is challenging to ascertain if an investment qualifies as a PRI (Internal Revenue Service, 2017). If a PRI is successfully approved, it may count towards the 5% annual distribution requirement such that the foundation gains favorable tax treatment (Arabella Advisors, 2013). Near the conclusion of the Rockefeller Foundation’s first impact investment initiative in 2013, less than 1% of all foundations invested in PRIs. Between 2000 and 2010, U.S. institutions invested an estimated $3.4 billion in PRI dollars. Approximately 60% of that sum came from institutions with over $200 million worth of assets, which implies that foundations with significant assets are more likely to experiment with PRIs (Arabella Advisors, 2013). According to the Stanford Social Innovation Review, 98% of all foundations in the U.S. possess total assets worth less than $100 million. It is not surprising therefore that the number of foundations which have successfully launched PRIs amounts to several hundred (Faella and Gifford, 2017).

These findings highlight the Rockefeller Foundation’s privilege in terms of its resources and brand name. It is among a select group of foundations with the means to support groundbreaking industry work with both grants and PRIs. According to latest data released by the Rockefeller Foundation, the majority of its impact investment work has been supported with grants, with only several millions of dollars in PRIs being distributed (E.T. Jackson and Associates, 2012; Arabella Advisors, 2013). Nevertheless, the Rockefeller Foundation’s PRI supported projects
have been successful. According to the Arabella Advisors’ latest Rockefeller Foundation Program-Related Investment Portfolio Report, which is the latest official report on the Rockefeller Foundation’s PRIs, the Rockefeller Foundation had made a total of $23.9 million PRI commitments between the early 1990s and the conclusion of the first impact investment initiative (Arabella Advisors, 2013). Of this sum designated for PRIs, which includes PRIs unrelated to impact investment, a total of $18.6 million (77%) has already been distributed, a total of $4.2 million in principal investments had been repaid, and a total of $959,000 in interest and $552,000 in distributions has been generated (Arabella Advisors, 2013).

According to the latest data available, the three main Rockefeller Foundation PRI recipients of the impact investment initiative are the Acumen Fund, Root Capital, and IGNIA. Acumen Fund has received a $3.6 million PRI that will last from 2009-2018, Root Capital has received a $2.6 million PRI that lasted from 2008-2010, and IGNIA Partners has received a $1 million PRI that will last from 2010-2020 (E.T. Jackson and Associates, 2012; Global Impact Investment Network, 2012). Most recently, in the spirit of the Zero Gap initiative and United Nation’s sustainable development goals, the Rockefeller Foundation enacted a $3 million PRI to Global Partnerships during the spring of 2016. Global Partnerships is a non-profit impact investor that provides finance solutions for social enterprises that seek to fill economic and social gaps in the rural poor regions of Latin America, the Caribbean, and sub-Saharan Africa (Kerszenbaum, 2016).

*Innovative Finance: Vehicles of Investment within the Industry*

*Early Vehicles of Investment*
Over the course of developing the impact investment marketplace and the innovative finance industry, the Rockefeller Foundation has concentrated effort into both standardizing pre-existing impact investment vehicles as well as catalyzing the adoption newer impact investment products. Social impact enterprises, funds, and real assets that incorporate ESG (environment, social, and governance) goals are examples of impact investment industry products that existed before the Bellagio Conferences of 2007 and 2008. Many of these impact investment industry products existed in fragmented market segments before the Rockefeller Foundation worked to unify the industry. One reason for this was that there were few to little global platforms for actors in the impact investment industry to convene. Another reason for this was a lack of standardized terminology, which made relevant institutions and products harder to identify. Below are three types of assets promoted by the Rockefeller Foundation during the early formation phases of the impact investment industry.

1. Social Impact Enterprises

Social impact enterprises, or simply social enterprises, provide market solutions to combat social and environmental problems. Their services or products may help improve quality of life in terms of health, energy, safety, or convenience and help keep business within the country in which they are founded. In some counties, social enterprises are required to provide employment opportunities to disadvantaged persons in society (Rodin and Brandenburg, 2014).

On a global scale, the Rockefeller Foundation supports research institutions, investment funds, and other partners that provide resources for social enterprises. Supporting industry co-creators is essential to the Rockefeller Foundation impact investment strategy, but the foundation has directly distributed grants to social enterprises in the past. By empowering key industry
institutions like GIIN, GIIRS, or IRIS, the Rockefeller Foundation capital is leveraged to empower social enterprises and makes a significant impact toward the growth of the field (The Rockefeller Foundation, 2016; E.T. Jackson and Associates, 2012).

One recent project that positioned the Rockefeller Foundation to promote the industry wide growth of social enterprise was the Innovations in Accelerating Impact Enterprise project. In collaboration with Monitor Deloitte, the Rockefeller Foundation selected five high-performance impact investment accelerator models to support throughout the United States, Sub-Saharan Africa, and Southeast Asia. In this way, the Rockefeller Foundation leveraged its capital because accelerators and incubators boost startup survival rates between 10% and 15% according to Cambridge University research. The five grantees chosen include the African Management Initiative, the Social Franchise Accelerator, Shujog, Unreasonable Institute, and Village Capital (Monitor Deloitte, 2015).

2. Portfolio Funds

The Rockefeller Foundation supports the growth of portfolio funds which incorporate social and environmental goals into the core of their investment strategies. Portfolio funds are one of the most convenient ways for an impact investor to direct his or her capital toward a cause that they find important. Just as the social and environmental mission of portfolio funds are diverse, so are the characteristics of the funds themselves including the:

- Social and environmental values of the investment firm managing the fund
- Geographical region, sectors, socioeconomic groups targeted by the fund
- Type of asset the fund invests in
- Level of financial return targeted by the fund (Rodin and Brandenburg, 2014).

The Rockefeller Foundation, in alignment with its values for innovation, constantly seeks new types of funds that could help support the impact investment industry. In total, the
Rockefeller Foundation in conjunction with Harvard University research estimates that the institutional asset owner industry harbors over $20 trillion worth of assets (Wood, et al., 2012). Directing portions of this capital toward ESG-minded funds could bring substantial benefits to communities around the world.

The Rockefeller Foundation is currently interested influencing legislature that merges innovative finance with pension funds and insurance schemes. Prior to the Zero Gap initiative, the Rockefeller Foundation supported funds such as the Acumen Fund, the Calvert Foundation, IGNIA, and Root Capital, all of which are institutions that provide investment funds in developing regions of the world. At that time, the Acumen Fund provided an expected rate of return of 6%, the Calvert Foundation provided 0-2%, IGNIA provided 25%, and Root Capital provided 2.5-3% (E.T. Jackson and Associates, 2012).

3. Real Assets

Real assets are a type of impact industry investment vehicle that include “tangible” assets, like affordable housing complexes, wind farms, and plots of naturally conserved areas (Rodin and Brandenburg, 2014). In terms of protecting real assets, the Rockefeller Foundation has a related initiative entitled 100 Resilient Cities. Understanding that 75% of the world’s population is projected to inhabit cities by the year 2050, the Resilient Cities initiative helps cities prepare for the pending social and economic shocks as a result of globalization and urbanization (Shah, 2017). Even though the Rockefeller Foundation’s resilience works sometimes overlaps with impact investment, it is classified separately because generating financial returns is not a primary objective of 100 Resilient Cities.
The Rockefeller Foundation supports real assets by contributing PRIs and grants to funds that support the development of real assets as impact investments. For instance, the Rockefeller Foundation has an extended history of supporting the New York City Acquisition Fund, which promotes real assets of the impact investment industry by providing loans to affordable housing developers with better terms than market rate loans. The Rockefeller Foundation committed a $5 million PRI to the New York City Acquisition Fund in 2005 and extended it by time of the Arabella Advisor’s Report (Arabella Advisors, 2013; Monitor Institute 2009). More recently, in April of 2018, the Rockefeller Foundation alongside the Chan Zuckerberg Initiative has launched a $10 million funding opportunity that will identify 80 organizations that expand economic opportunity for low-income Americans. A business plan that focuses on building neighborhoods, cities, and towns is one criterion for eligible candidates. The Rockefeller Foundation will announce the grantees in October of 2018 (The Rockefeller Foundation, 2018).

In terms of the Zero Gap initiative, the Rockefeller Foundation has focused on supporting environmentally friendly real assets. It has provided support for KOIS investor’s Better Shelter Leasing Mechanism, which supports humanitarian organizations and their higher quality assets such as shelters, sanitation infrastructure, and power. It has also supported the Sustainable Infrastructure Fund managed by Harvard University and the Post Foundation, which mobilizes capital to meet infrastructure needs in developing communities (The Rockefeller Foundation, 2016).

4. Social Impact Bonds/Pay for Performance Models

As mentioned in Chapter 1, social impact bonds, also known as PFS models, are a unique asset to the impact investment industry. They involve a public private partnership between
government institutions, investors, and service organization in which investors pay for a program needed by a government for the benefit of society or the environment and reap a financial return dependent on the success of the program. The Rockefeller Foundation was an early supporter of the first social impact bond launched by Social Finance UK in 2010 (Bridges Impact+, 2014; Murray and Arrillaga-Andreessen, 2017).

Since then, the Rockefeller Foundation has played a significant role in promoting the growth of a social impact bond ecosystem, especially in the United States. For instance, the Rockefeller Foundation supports the Social Impact Bond Technical Assistance Lab (SIB Lab) at the Harvard Kennedy School, which provides research and pro bono technical assistance to governments interested in employing PFS models. Alongside the Social Impact Bond Technical Assistance Lab (SIB Lab) at Harvard University, The Rockefeller Foundation has funded pay-for-success projects across the nation including projects in Connecticut, Colorado, Illinois, New York, Ohio, and South Carolina (The Rockefeller Foundation, 2013b).

Mitigating the risks of social impact bonds has also been a key role of the Rockefeller Foundation. Many investors are unfamiliar with the concept of pay for success, and so by providing guarantees the Rockefeller Foundation can increase investor confidence. In 2013, for instance, the Rockefeller Foundation contributed a $1.3 million first loss guarantee to the first New York State recidivism social impact bond (The Rockefeller Foundation, 2013a; Murray and Arrillaga-Andreessen, 2017). This was especially important in terms of easing risk-averse investors. In the words of former President Judith Rodin, “Philanthropy has a unique ability to take chances where others cannot, and we’re proud to use our risk capital to guarantee deals like this one” (The Rockefeller Foundation, 2013a).
In the 2015 Zero Gap Initiative, the Rockefeller Foundation has helped launch several social impact bonds that concern the preservation of the environment both within the U.S. and on a global scale. The themes of these social impact bonds align with the United Nation’s sustainable development goals. The Environmental Impact Bond, for instance, is a PFS model that bolsters eco-friendly infrastructure in the U.S. and the Forest Resilience Bond is a PFS model that protects the U.S. forest conservation areas (The Rockefeller Foundation, 2016). The Tropical Forest Finance Facility is an example of a PFS model supported by the Rockefeller Foundation with a global emphasis as it uses a PFS model to reward countries worldwide that protect their natural tropical forest (The Rockefeller Foundation, 2016).

Emerging Vehicles of Investment

Many of the impact investment industry assets available at the beginning of the foundation’s impact investment initiative were directly based on assets utilized by standard private investors. Social impact bonds are a notable exception because they are a new financial product specific to the impact investment industry. As the innovative finance industry evolves, the Rockefeller Foundation consistently seeks and supports new types of unique assets classes that align with the mission and the spirit of the impact investment industry and innovative finance. Some of the latest innovative finance solutions supported by the Rockefeller Foundation include green bonds, block chain initiatives, insurance-linked securities, and micro-levies.

1. Green Bonds

Green bonds are bonds, loans, and other similar securities wherein the proceeds are allocated to environmental projects designed to restore, rehabilitate, and conserve the
environment through eco-friendly infrastructure development (Bell and Creed, 2016). Green bonds help support the Paris Agreement of 2015 and are in accordance with the United Nations Framework Convention on Climate change. Just as the Rockefeller Foundation created impact investment industry evaluation criteria via GIIRS and IRIS, its leaders also arranged funding for the Climate Bond Standards, an organization that certifies eligible green bonds using scientific standards and criteria (see Chapter 4) (Bell and Creed, 2016).

Currently, the global bond market is worth $90 trillion. Of this total, $694 billion bonds align with climate change goals and a total of $118 billion bonds can be labeled as green bonds. The $118 billion sum includes self-labeled bonds and Climate Bond Standard certified bonds (Bell and Creed, 2016). The Green Securitization project in India alongside the Climate Bonds Initiative is an example of a recent Rockefeller Foundation green bond initiative. Although an official evaluation has yet to be released, the Green Securitization project was started in 2015 and mobilizes investor capital to developing countries through asset-backed green bonds. The proceeds help build small-scale solar projects that provide renewable energy resources (The Rockefeller Foundation, 2016).

2. BlockChain Initiatives

Blockchain is a twenty-first century technology that serves as a decentralized public data record of assets and transactions. Assets may include financial transactions, but also identification numbers, votes, health records, ownership records, royalty records, and much more. No central organization controls blockchain data, instead the data is stored across several networks, which helps ensure the system’s cyber security. Blockchain data is also
cryptographically linked such that it is auditable and digitally signed such that maximum security can be guaranteed (Crosby, et al., 2015).

In a similar way to its early bird involvement with social impact bonds, the Rockefeller Foundation has invested in key co-creators that utilize blockchain technology in creative ways to further the impact investment industry. The Blockchain Trust Accelerator (BTA) is one recipient of the Rockefeller Foundation grant in this regard. The BTA provides research and platforms for blockchain leaders to convene and form social impact solutions. The Rockefeller Foundation’s grant for BTA via New America is termed from August of 2017 to July of 2018; it will enable BTA to promote and educate key public players on the role of blockchain technology in solving social issues (The Rockefeller Foundation, 2017). The Rockefeller Foundation has provided support to more specific blockchain initiatives, like the Economic Identity for Refugees project with BanQu. By leveraging the security and auditability of blockchain technology, the Economic Identity for Refugees project helps ensure that displaced refugees can secure an economic identity (The Rockefeller Foundation, 2016).

3. Insurance-Linked Securities

Insurance-linked securities help protect vulnerable markets, societies, and environments by providing innovative insurance schemes which cover costs in ways that are unique from mainstream insurance companies. Many of the insurance-linked securities that the Rockefeller Foundation focuses on concern the environment (Rodin, 2015). In the African region, the Rockefeller Foundation is currently orchestrating the design of the Extreme Climate Facility (XCF), a multi-year insurance solution that provides payouts to African countries affected by grave weather conditions such as drought or flood. Donors provide “coupon payments” to XCF
and earn a return if no natural disaster occurs within devastating parameters. Otherwise, in the event of a natural disaster, the African countries receive insurance payments to help them implement adaption plans (The Rockefeller Foundation, 2015a). It is expected that $1 billion worth of catastrophe bonds will be issued by 2045 (Rodin, 2015).

Another environmentally focused insurance-linked security the Rockefeller Foundation is developing is entitled the Reef and Beach Resilience Insurance Fund (RBRIF). The RBRIF concerns the Meso-American coastal reef region and focuses on enhancing the reef’s resilience to natural disasters. Reefs are important to protect; they generate $375 billion via fishing, tourism, and other activities (The Rockefeller Foundation, 2015b). The RBRIF serves as a trust to local hotels and businesses along the coast. The fund conducts ongoing reef restoration with the fund’s proceeds. In return, should there be a natural catastrophe affect the reef, institutions that invested in the RBRIF receive payouts for uninsurable assets, like outdoor facilities. The RBRIF is especially attractive because of not only the reef’s monetary value and its role in serving as a barrier to inland flooding, but also because funding for reef maintenance and restoration is typically very limited (The Rockefeller Foundation, 2015b). Thus, the Rockefeller Foundation RBRIF exemplifies a way innovative finance can fill in the gaps of private and public institutions.

4. Micro-Levies

Since the UNITAID micro-levy on airline tickets, have existed long before the Rockefeller Foundation’s first Bellagio Conference in 2007 (Madsbjerg, 2015). A micro-levy collects funds to help alleviate social or environmental issues by placing a small tax on the service transactions of global industries. In the UNITAID example, a $1 levy was placed on all economy-class airline tickets and $40 bus tickets in nine different countries. The result was $2.5
billion generated to help provide 9.5 people with HIV testing, 750,000 cases of AIDS treatment, 1.5 million cases of tuberculosis treatment, and 350 million cases of malaria treatment (Madsbjerg, 2015).

As the Rockefeller Foundation continues to explore innovative finance solutions, it is also experimenting with new micro-levies in the same spirit as UNITAID. Although many of these projects are in the early stages, the issues Rockefeller Foundation’s sponsored micro-levies concern range from health to the environment to social development. For instance, through its Water Levy project with Global Ethics, the Rockefeller Foundation is designing a micro-levy on bottled water that funds water quality and other related hygiene projects (The Rockefeller Foundation, 2016). In its collaboration with the Innovative Finance Foundation, the Rockefeller Foundation is also implementing a project called UNITLIFE that provides an optional levy on French railway SNCF tickets. The proceeds of the UNITLIFE mirco-levy will be distributed towards projects that concern climate change and malnutrition (The Rockefeller Foundation, 2016).

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Chapter 4: Evaluating Impact

For off-grid communities across the globe, safe and reliable energy that can provide light is vital. Without a safe source light off-grid communities have no choice but to rely on hazardous alternatives, like kerosene lamps or diesel engines. If these unsafe light sources are not used, productivity can be hindered. Students in such communities are often confined to studying only in the daytime and businesses may have difficulty operating past sunset. Peace Corps alumni Sam Goldman learned the importance of safe, clean energy sources for off-grid communities first hand in Benin, Africa when his neighbor was burned by a kerosene lamp (Rodin and Brandenburg, 2014; d.light 2018). After recognizing the need for safe and durable light source alternatives, Goldman enrolled in Stanford University’s Entrepreneurial Design for Extreme Affordability class and met co-founder Ted Nozun. In 2006, the two entrepreneurs founded d.light, a social enterprise that provides solar powered solutions to the developing world’s off-grid communities (d.light, 2018).

At the time of writing, d.light has provided clean energy solutions to over 80 million people in 62 countries and has received funding from some of the Rockefeller Foundation’s most high profile partners, such as Acumen Fund (Roden and Brandenburg, 2014; d.light, 2018). Yet, questions still remain; how can investors identify and evaluate the categories for which d.light brings change? How should d.light’s impact in these categories be measured? And how can d.light’s performance be compared to similar impact investments?

For not just d.light, but for impact investments in general these questions are relevant and the answers to these questions can prove very challenging. Developing comprehensive measurement methodologies that can clearly report the exact social and environmental benefits
of an impact investment is complex but critical (So and Staskevicious, 2013; Rodin and Brandenburg, 2014; Reisman and Olazabal, 2015). Each unique type of impact investment furthermore is best evaluated with a specified measurement process, and this has been especially true as a myriad of new impact investment options have emerged with the Rockefeller Foundation’s Zero Gap initiative from insurance-linked securities to green debt products to blockchain initiatives (see Chapter 3). As the industry moves past early stage development, building standardized evaluation criteria is a core challenge undertaken by the Rockefeller Foundation (Reisman and Olazabal, 2015). This chapter will explore the strategies behind building evaluation criteria as well as the institutions of evaluation founded through the support and resources of the Rockefeller Foundation.

Strategies of Evaluating Impact

Given the breadth of the financial vehicles for impact investment, the ideal evaluative system must find a balance between generality and specificity. Models and tools used to assess the social return on investment (SROI) of an impact investment must be broad encompass the many different investment options while specified enough to consider a potential investment’s unique characteristics.

In Ivy So’s and Alina Staskevicious’ Harvard Business School Social Enterprise Initiative Report, the authors identify the four stages of impact investment measurement objectives. Although many impact investment managers do not measure at each stage of the impact investment cycle, measuring impact at each stage is important for understanding all dimensions of an impact investment’s results (So and Staskevicious, 2015). In fact, according to a 2017 GIIN report supported by the Rockefeller Foundation on the state of impact investment
industry, only approximately 20% of survey respondents measure the longevity of their impact investments’ results and a whopping 66% solely measure the positive impact of their investment and not the negative impacts (GIIN, 2017). Accordingly, the four stages of measurement objectives are relevant to the Rockefeller Foundation’s mission to build robust evaluation infrastructure and has been referenced by the foundation leaders in the past (Reisman and Olazabal, 2015). The four stages are as follows:

Table 1: Four Stages of Impact Investment Measurement Objectives

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<thead>
<tr>
<th>Stage</th>
<th>Time Period</th>
<th>Goal/Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimating Impact</td>
<td>Pre-Investment</td>
<td>Involves estimating the potential impact of a project so that shareholders can optimize their resource allocation.</td>
</tr>
<tr>
<td>Planning Impact</td>
<td>Shortly Post Investment</td>
<td>Involves the detailed design of a measurement plan, including measurement tools, data collection methodologies, timeframes, etc.</td>
</tr>
<tr>
<td>Monitoring Impact</td>
<td>During the Progress of the Investment Project</td>
<td>Sometimes performed on a continuous cycle throughout the life of an investment initiative, in this stage relevant parties continuously track the social impacts of the project and the development of these impacts</td>
</tr>
<tr>
<td>Evaluating Impact</td>
<td>Post-Investment</td>
<td>Measures the final impacts on the community that stem from the results of the impact investment initiative</td>
</tr>
</tbody>
</table>


With this background in mind, the next part of this chapter will focus on the evaluative infrastructure initiatives the Rockefeller Foundation has supported since the first impact investment initiative. Other evaluative infrastructure initiative supported by the Rockefeller Foundation’s co-creators will be mentioned as well.
B-Lab

Investment leverages resources to create opportunity, as do businesses. Although investment and business strategies have led to negative social and environmental impacts in the past, the Rockefeller Foundation continues to vie for business and investment as a potential force for the public good through its impact investment and innovative finance initiatives. Hence the Rockefeller Foundation was an early supporter of its co-creator called B Lab, a 501(c)3 certified Pennsylvania-based nonprofit, whose mission involves mobilizing business as a force for positive social and environmental impacts (Rodin and Brandenburg, 2014; Kassoy, et al., 2016). Founded in 2007, B Lab achieves its mission through three main ways:

1. Acting as the official certification authority for Certified B Corporations, a status that may only be achieved by corporations who meet rigorous standards of corporate social and environmental accountability
2. Building a worldwide community of benefit corporations, policy makers, foundations, and other leaders that support corporations which strive to meet social and environmental standards of performance
3. Promoting the growth of the impact investment industry through the development of a sound asset class rating system known as Global Impact Investment Rating Systems (GIIRS) Ratings and Analytics (Kassoy, et al., 2016)

The Rockefeller Foundation has contributed the most to B-Lab in terms of supporting the creation of the GIIRS Ratings and Analytics system. In total, the Rockefeller Foundation has given $4.9 million to B-Lab between the years 2008 and 2011 for the construction of GIIRS evaluation infrastructure (E.T. Jackson and Associates, 2012). As a follower of emergent strategy, the Rockefeller Foundation funded the GIIRS rating system, but the process is managed in detail by B Lab’s B Impact assessment and is available for both funds and companies (Rodin and Brandenburg, 2014; Buerkle, et al., 2018).
The Certified B Corporation system is also worth emphasizing as it helps investors identify credible institutions focused on bringing forth social and environmental change. Even though the Rockefeller Foundation did not build it, the foundation recognizes its importance in the impact investment world. The B Corp movement is the name of B Lab’s worldwide mission to inspire the creation of more Certified B Corporations. B Lab aims to shift business culture in a direction that incorporates goals for the public good into its strategy. According to the latest publication from B-Lab founders, a total of 1,700 Certified B Corporations exist in 50 countries and span across 30 industries (Kassoy, et al. 2016).

GIIRS

In similarity to the S&P credit rating system, GIIRS ranks enterprises and funds on their social and environmental performance so that investors can compare impact investment assets and have greater confidence that their invested capital will lead to change. Launched in 2011, companies and funds can obtain their GIIRS rating by applying to the B Impact Assessment (B Analytics, 2018; Rodin and Brandenburg, 2014; Buerkle, et al., 2018). Approximately 40,000 users in 57 countries across 176 industries have partaken in the B Impact Assessment (Kassoy, et al., 2016; Burkle, et al., 2018).

The overall process of obtaining a GIIRS rating, or becoming B Corp Certified, follows two stages: a weighted survey and a specified questionnaire. First, the weighted survey determines the applicant company’s or fund’s Impact Model Rating score, Impact Operations Rating, and their overall score from these two measurements (B Analytics, 2018). The Impact

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1 Note that this number is less than that of the number Certified B Corporations because while the B Lab Assessment is accessible to all interested companies and funds, the official B Corp certification is difficult to obtain.
Model Rating score is translated into a color based rating and the Impact Operations Rating is translated into a five star based rating. A company’s mission, industry, geography may affected the weight of each performance areas. For instance, a company like d.light that focuses on improving the light energy resources may have their environmental score weighted more heavily (Rodin and Brandenburg, 2014; Burkle, et al, 2018).

Table 2: Sample Impact Model Rating Scoring Table

<table>
<thead>
<tr>
<th>Model Rating</th>
<th>Community</th>
<th>Environment</th>
<th>Workers</th>
<th>Governance</th>
<th>Consumers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bronze</td>
<td>0 to 9.9</td>
<td>0 to 9.9</td>
<td>0 to 9.9</td>
<td>0 to 2.5</td>
<td>0 to 9.9</td>
<td>0 to 19.9</td>
</tr>
<tr>
<td>Silver</td>
<td>10 to 14.9</td>
<td>10 to 14.9</td>
<td>10 to 14.9</td>
<td>10 to 29.9</td>
<td>20 to 29.9</td>
<td></td>
</tr>
<tr>
<td>Gold</td>
<td>15 to 24.9</td>
<td>15 to 24.9</td>
<td>15 to 24.9</td>
<td>7.5 to 9.9</td>
<td>30 to 44.9</td>
<td>30 to 49.9</td>
</tr>
<tr>
<td>Platinum</td>
<td>25+</td>
<td>25+</td>
<td>25+</td>
<td>10</td>
<td>45+</td>
<td>45+</td>
</tr>
</tbody>
</table>

Figure 2. Table of Sample Impact Model Rating Scoring. Adapted from “Company Ratings” by B Analytics, 2015. Retrieved April 20, 2018.

Table 3: Sample Impact Operations Rating Scoring Table

<table>
<thead>
<tr>
<th>Impact Area Rating</th>
<th>Community</th>
<th>Environment</th>
<th>Workers</th>
<th>Governance</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>★</td>
<td>0 to 9.9</td>
<td>0 to 4.9</td>
<td>0 to 9.9</td>
<td>0 to 3.5</td>
<td>0 to 39.9</td>
</tr>
<tr>
<td>★★</td>
<td>10 to 14.9</td>
<td>5 to 7.9</td>
<td>10 to 14.9</td>
<td>4 to 5.9</td>
<td>40 to 49.9</td>
</tr>
<tr>
<td>★★★</td>
<td>15 to 19.9</td>
<td>8 to 14.9</td>
<td>20 to 24.9</td>
<td>6 to 7.49</td>
<td>50 to 59.9</td>
</tr>
<tr>
<td>★★★★</td>
<td>20 to 24.9</td>
<td>15 to 19.9</td>
<td>25 to 29.9</td>
<td>7.5 to 8.9</td>
<td>60 to 69.9</td>
</tr>
<tr>
<td>★★★★★</td>
<td>25+</td>
<td>20+</td>
<td>30+</td>
<td>9+</td>
<td>70+</td>
</tr>
</tbody>
</table>

Figure 3. Table of Sample Impact Operations Rating Scoring. Adapted from “Company Ratings” by B Analytics, 2015. Retrieved April 20, 2018.

If a company or fund scores a minimum of 80 points on the survey, then they may advance to the next stage, which is the questionnaire stage. The questionnaire enables B Lab to validate the survey data and perform a more nuanced assessment of the applicant. In this stage, B Lab may obtain sensitive financial and operational information about the company or the fund. Similarly, a score of 80 or more on the questionnaire enables the company or fund to become a
Certified B Corp (Rodin and Brandenburg, 2014; Burkle, et al., 2018). A company must undergo a re-certification process every 2 years. Ben & Jerry’s Ice Cream, Kickstarter, LIFT Economy, and RSG Social Finance are all examples of companies and funds that have undergone the B Impact Assessment process and have achieved Certified B Corp status (Burkle, et al., 2018).

GIIRS ratings offer two unique contributions to the impact investment field. In receiving their GIIRS rating, companies and funds can discern areas they need to improve in order to enhance their contributions to society and the environment. For instance, a company that focuses on marketable recycling solutions may find it scores well in its environmental rating, but may also learn it has to improve its workers rating, that is the degree of its fair treatment towards workers. GIIRS ratings also enable shareholders and interested parties to ascertain how well their company or fund is performing in comparison with others. By building a community of socially and environmentally conscientious businesses and investors, B Lab alongside the Rockefeller Foundation enable companies and funds to learn from one another and access the resources they need to continue to improve.

IRIS

Impact Reporting and Investment Standards (IRIS) is the second major component of early impact investment evaluative infrastructure supported by the Rockefeller Foundation. Founded in 2009, IRIS is global database that provides standardized reporting metrics and definitions for impact investments and innovative finance products (Reisman and Olazabal, 2016; Murray and Arrillaga-Andreessen, 2017; IRIS, 2013). Its function in the impact investment industry is comparable to that of the Financial Accounting Standards Board (FASB) or Generally Accepted Accounting Principles (GAAP) in the accounting world. The Rockefeller Foundation
has allocated a total of $4.545 million to the development of IRIS through GIIN between 2009 and 2014 (E.T. Jackson and Associates, 2012).

IRIS metrics are divisible by a multitude of categories, but two of the main IRIS metric categories are section and sector. The five core sections of IRIS metrics include organization description, product description, financial performance, operational impact, and product impact. The ten sectors recognized by IRIS metrics include agriculture, education, energy, environment, financial services, land conservation, health, housing/community facilities, water, and cross-sector (IRIS, 2016). Companies and funds that seek to use IRIS metrics in assessing their social and environmental impact may chose performance metrics from multiple categories according to their own needs and that of their shareholders. The B Impact Assessment and GIIRS utilize IRIS metrics in order to determine the Impact Model Rating and Impact Operations Ratings for its applicants in each performance area (IRIS, n.d.). As of writing, IRIS currently offers over 550 unique quantitative and qualitative metrics (IRIS, 2016). Although the Rockefeller Foundation and co-creator GIIN designed IRIS such that it is not an official data management or reporting framework tool, IRIS enables company, funds, and investor peers to compare the standards of their social and environmental returns with one another. IRIS may be used with other performance measurement tools like B Lab or ImpactBase (an online directory of impact investment vehicles supported by GIIN) in order to achieve goals related to data analytics, reporting, certification, and more (IRIS, 2013; Reisman and Olazabal, 2016).

Innovative Finance Initiative Developments

As the impact investment industry develops and the Rockefeller Foundation prioritizes the development of evaluative infrastructure, evaluation methods, metrics, and resources should
not only adapt to changes in the impact investment industry, but also seek to address current industry wide measurement challenges. Evaluative infrastructure that is transferable, encompassing, standardized, and facilitates more companies and funds to measure their social and environmental returns are particularly valued. Below are some of the Rockefeller Foundation’s most recent evaluative infrastructure developments since the Zero Gap initiative.

Impact Toolkit

Fragmented metrics and measurement practices are one challenge that lowers investor confidence. Even with standards available like GIIN and IRIS, it is challenging to provide a unified evaluation of the myriad of impact investment options available. The Rockefeller Foundation therefore co-created the Impact Toolkit, a resource that directs investors and entrepreneurs to resources specified for their measurement and management needs (Impact Toolkit, n.d.). Through its “explore” and “customize” functions, Impact Toolkit users can find resources to help manage their impact investments and can create customized impact investment toolkits. These toolkits are “fit-for-purpose” such that they accustomed to the unique needs each interested party. Resources can be filtered by theme, geography, beneficiary, and type. Due to its novelty, the Impact Toolkit at the time of writing is in its Beta Version and is continuously looking for contributions so that it may aggregate its resource data (Impact Toolkit, n.d.)

Carbon Yield Methodology

Given the United Nation’s Sustainable Development Goals and its key role in the Rockefeller Foundation’s most recent innovative finance Zero Gap initiative, evaluative methodologies that produce reliable and accurate environmental indicators are essential for increasing investor confidence. The Rockefeller Foundation in collaboration with Lion’s Head Global Partners, ISS Ethix Climate Solutions, and Affirmative Investment Management
accordingly produced the Carbon Yield Methodology in 2017 for the Green Bond market. Green Bonds are debt instruments that unlock capital flows to tackle climate change (Rockefeller Foundation, et al., 2017). For investors interested in Green Bond, information regarding their actual impact on the environment can be scattered and complex. The Carbon Yield Methodology simplifies the transparency of the annual carbon equivalent abatement potential of Green Bonds (Rockefeller Foundation, et al., 2017).

The Carbon Yield Methodology is presented specifically as a unit of avoided greenhouse gas (GHG) emissions. It relates the number of carbon dioxide equivalents avoided per year per unit of capital invested such that:

\[(CY) = \frac{tCO_2e/\text{year}}{\$1000}\]

Figure 4. Unit Equation of the Carbon Yield Methodology. Adapted from “Carbon Yield Methodology: Assessing the Climate Mitigation Impact of Green Bonds” by the Rockefeller Foundation, et al.. Retrieved April 20, 2018.

The exact nuances and technicalities of the methodology are publically available for investors, entrepreneurs, and other interested parties (Rockefeller Foundation, 2017). While other industry standards like the Green Bond Principles and Climate Bond Standards give the industry voluntary guidelines, the Carbon Yield Methodology fills in the measurement gap of the growing number of carbon focused impact investments by providing a universal quantitative indicator.

Moving forward, the Rockefeller Foundation and its partners aim to create similar indicators for water and energy (Rockefeller Foundation, 2017; Rockefeller Foundation, et al., 2017).

Additional Mentions

Beyond the direct evaluative initiatives supported by the Rockefeller Foundation, it is likewise important to note that an entire community of organizations is working towards creating tools and infrastructure to help produce impact investment evaluation methodologies and metrics (Olazabal, et al., 2018). For instance, GIIN, which was originally founded with Rockefeller
Foundation resources, recently launched Navigating Impact (Olazabal, et al., 2018; GIIN, n.d.). The Navigating Impact resource helps investors find approaches, strategies, metrics, and other resources based on impact investment themes. Currently available themes include affordable housing, clean energy access, and smallholder agriculture whereas themes such as financial inclusion, gender lens, and health are being developed. The Rockefeller Foundation is not an official financial supporter of Navigating Impact, but it does promote and encourage its development (GIIN, n.d.; Olazabal, et al., 2018).

The Impact Management Project is another initiative that aims to standardize and unify evaluative practice in the impact investment industry. The Impact Management project is a collaborative between over 700 organizations worldwide who seek to ascertain the fundamental practices of impact measurement and management (Olazabal, et al., 2018; Impact Management Project, 2018c). Participants of the Impact Management Project are guided by a series of universal intentions and constraints as they set both their impact and financial goals. Intentions include contributing to solutions, benefiting the society and the environmental, and avoiding any further harm to the planet (Impact Management Project, 2018b). The project also outlines five key dimensions of impact management: what, how much, who, contribution, and risk (Impact Management Project, 2018c). The Impact Management project is currently in its 2018 Phase 2 wherein practical application is emphasized over theoretical conceptualization. Following a collaborative approach, the Impact Management Project will incorporate the fundamental dimensions and testing practical applications with partners like B Lab, Aspen Network, TONIIC, and the GIIN (Impact Management Project, 2018a). Although the Rockefeller Foundation is not
directly mentioned, it is involved both directly and indirectly with the organizations affected by the Impact Management Project.

Beyond this, more and more established institutions with long histories are leveraging their resources in support of impact investment (Olazabal, et al., 2018). In 2012, the World Economic Forum launched the Future of Sustainable and Impact Investing project. The project’s first phase from 2012 to 2015 focused on building thought leadership. The current phase 2 from 2016 focuses on mobilizing investors, governments, and enterprises to strategic convening, collaboration, and learning opportunities (Brown, n.d.). Likewise, in 2016, the Organization of Economic Cooperation and Development (OECD) launched the Data Working Group on Impact Investment. The purpose of this OECD project is to a publically available database of impact investment indicators, information, and metrics that is comparable on a global scale (Olazabal, et al., 2018; OECD, n.d.). As impact investment moves its way into mainstream investment alternatives, one can expect an increased amount of innovation in the burgeoning field.

References


Rockefeller Foundation, Lion’s Head Global Partners, ISS Ethix Climate Solutions, and


Chapter 5: Opportunities and Challenges of the Impact Investment Industry

Despite the outstanding developments that have emerged over the past ten years within the impact investing industry, there are still many more milestones until the industry achieves full maturity. Since the beginning, the Rockefeller Foundation along with its co-creators in the form of partner foundations, institutions, non-profits, government bodies, investors, and stakeholders have actively sought to address the challenges and opportunities that are critical to the industry’s growth (Bouri, et al., 2018; Reisman and Olazabal, 2016; E.T. Jackson and Associates, 2012). In a 2009 report commissioned by the Rockefeller Foundation and executed by Monitor Institute along with select supporters, four distinct phases of the industry were identified each with its own challenges and opportunities:

1. **Uncoordinated Innovation**: includes uncoordinated entrepreneurial endeavors and policy pioneers and competition concentrated at the top of the market.

2. **Marketplace Building**: includes the beginnings of centralized infrastructure, centers of activity, and higher volume of activity

3. **Capturing the Value of the Marketplace**: includes the emergence of mainstream players, supported volume of marketplace activity continues to grow, and specialization

4. **Maturity**: includes a steadier state of growth and potential consolidation (Bouri, et al., 2018)

The impact investment industry is currently in the third phase of development, that is **Capturing the Value of the Marketplace**. Centralized infrastructure that can handle a large volume of transactions already exists in a variety of forms including independent organizations like GIIN and B-Lab, government sponsored organizations like Big Society Capital, or branches of major institutions like J.P. Morgan Social Finance (Rodin and Brandenburg, 2014; Big Society Capital, 2016; E.T Jackson and Associates, 2012). Once the major challenges that block the market players from entering mainstream businesses and consumer awareness are overcome,
then the industry can begin to obtain market maturity (Bouri, et al., 2018). This chapter will therefore focus on outlining the Rockefeller Foundation’s and its co-creators’ projections and actions to address the key challenge areas of impact investment and innovative finance.

Current Status of Impact Investors and the Industry

Before delving into the specifics of challenges, it helpful to have a basic overview of the industry’s current trends. In the past decade, the impact investment industry has increasingly generated more interest from investors and institutions as well as a larger global presence. The Rockefeller Foundation played a major role in establishing its global presence. According to Google data sets, within the span of just ten years from 2007 to 2017 the number of news articles that acknowledge the term “impact investment” jumped from nearly 0 to nearly 9,000 (Bouri, et al., 2018). The foundation’s Bellagio Conferences of 2007 and 2008 marked the first instances of brand-name banks dedicating specialized services to impact investment (Rodin and Brandenburg, 2014). Subsequently, by working with co-creators recruited from the convention and subsequent events, the Rockefeller Foundation focused on Marketplace Building throughout the mid-2010s and effectively supported the formation of core networks, regulatory and evaluative institutions, and funds that have reached large sizes, even with over $100 million in assets (Bouri, et al., 2018; Mudaliar, et al. 2017a).

Within the last three years, traditional and large-scale managers have been showcasing their increased support for impact investment. The Rockefeller Foundation has often played an advisory, directing, or otherwise supportive role in leading many of the modern impact investment initiatives worldwide. For instance, in the year 2015, the OECD launched the Building Evidence Base program which involves a series of multilateral global conventions on
impact standards. The United Nations also launched 17 sustainable development goals in 2015, which are integrated into the Rockefeller Foundation’s Zero Gap Initiative. Likewise, in 2016 the World Economic Forum launched *Accelerating Impact Measurement and Management Effort* and brought together multiple major stakeholders to discuss the barriers and solutions within the impact investment industry (Bouri, et al., 2018). The Rockefeller Foundation has collaborated with or helped advise all these institutions with representatives or research with its specialty knowledge on impact investment. Now that the industry has gained momentum following the Rockefeller Foundation’s initial leveraging of capital, there an increased number of institutions are prepared to provide further the impact investment market space.

Accompanying this industry growth is the need for analysis that ascertains how impact investment managers and stakeholders are performing. The Rockefeller Foundation works alongside its co-creators to issue reports that capture this information. According to a 2015 IRIS report which gathered data from 445 impact organizations worldwide and was sponsored by the Rockefeller Foundation, the most popular impact objectives include income/productivity growth (38.4%), agricultural productivity (38.2%), community development (32.8%), capacity building (31%), and access to energy (20.4%) (Schiff and Murphy, 2015). This coincides with a later 2017 report by GIIN entitled *The State of Impact Measurement and Practice*, which featured multiple surveys given to 169 different impact organizations. In a survey with 124 impact investment organizations respondents, the most important impact investment themes were indicated as decent work and economic growth (59%), good health and well-being (43%), quality education (38%), affordable and clean energy (38%), and no poverty (31%) (Mudaliar, et
In other words, both projects overlap such that they imply that economic advancement and energy are general areas many investors find worthy of investment, though impact organizations aim to make a lasting difference in a multitude of varied areas.

Although it was made clear in earlier chapters that a breadth of innovative finance vehicles is increasingly available, many investors limit their investments to a few common asset classes. This may be due to a lack of industry cohesion, a lack of asset availability, a lack of education on new vehicles of impact investment, or even a result of the fact that many of the newer investment vehicles are still very new and are in pilot stages. According to GIIN, the most popular asset classes include private equity, private debt, equity-like debt and real assets followed by public equity and debt, pay for performance instruments, and other uncategorized classes (Mudaliar and Bass, 2017a; Mudaliar, et al., 2017b). Financial rates of return can vary widely depending on the firm’s mission and strategy. For instance, in the GIIN Perspectives: Evidence on the Financial Performance of Impact Investments research report, a survey of 71 global respondents indicated that returns from private equity investments alone can range from as high 22.1% to as low as -15% with an average annual return of approximately 6% (Mudaliar and Bass, 2017a). Geographical region, fund size, and market conditions can thus play major roles in determining financial returns on impact investments. Also, it is important to note that not all impact investment organizations aim for market rate returns. Sometimes targeting below market rate returns enables the impact investment to generate a specific impact or serve as a bridge philanthropy and investment (Schiff and Murphy, 2015; Mudaliar and Bass, 2017a).

\[^2\text{Note that these percentages may add to a sum greater than 100\% as those organization that were surveyed may have more than one impact investment theme that aligns with their goals.}\]
Hence sometimes market rate returns on impact investments can be competitive and other times below the standard market rate.

With this context in mind, impact investment organizations have clear goals, but still face major obstacles not as prevalent in the mainstream finance industry because the market place is still developing. In the *The State of Impact Measurement and Practice* report, a survey with 167 respondents indicated challenges of the industry they find most critical. Necessary market developments that were deemed as “very important” to the impact investment organizations included transparency (76%), commonly defined principles (58%), consideration of financial risk (53%), and standardization (53%). In contrast, 65% of survey participants deemed third party audits as either “somewhat important” or “not important” and only 66% deemed term sheets with impact incentives as “somewhat important” or “not important” (Mudaliar, et al., 2017b). Data challenges is also another major barrier for impact investment organizations. Of the total 155 to 167 respondents, 43% identified collecting quality data as a significant challenge and 32% identified interpreting data across a portfolio as significant challenge (Mudaliar, et al., 2017b). On the other hand, understanding impact strategy and convincing internal decision makers to support management and measurement strategies was regarded as an insignificant challenge by 10% and 9% of survey respondents respectively (Mudaliar, et al., 2017b). Themes reflecting the ideas of these GIIN respondents will be apparent throughout the rest of the chapter. The remainder of the chapter specifically focuses on four major challenges of the industry that need

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3 The reason the number of respondents varied is that not every question on the *Internal Challenges in Implementing IMM* survey was relevant for each organization.
enhancement, namely industry principles, infrastructure, evaluation, and the intermediary and regulatory environments.

**Challenge 1: Forming Impact Investment Industry Principles**

Segmentation is a major issue in the impact investment market space. Many of the Rockefeller Foundation’s contributions to the impact investment industry can be interpreted as attempts at unification and synchronization among industry stakeholders. Coining the term impact investment, establishing networks through GIIN, and standard forums of evaluation and metrics through B-Lab, GIIRS, and IRIS all played a role in centralizing the impact investment industry (E.T. Jackson and Associates, 2012; Rodin and Brandenburg, 2014; Bouri, et al., 2018). Yet, before impact investment can become mainstream, it will still need further development of its identity and its principles (Bouri, et al., 2018).

Impact investments are currently defined by their “intentionality” to perform good, but impact as a concept is met with minimal enforcement or cultural pressure. The idea of intentionality is vague, and so the Rockefeller Foundation recognizes a need in the industry for more specific impact investment practices and guidelines. A survey in the *The State of Impact Measurement and Practice* report of 100 impact investment organizations revealed that 32% of respondents do not have explicit incentives to motivate their employees to achieve impact targets. Instead, 71% of respondents stated that teams are simply intrinsically motivated by impact. Only 6% tie a portion of compensation with investment performance and only 9% face management changes if targets are not met (Mudaliar, et al., 2017b). While a 100 sample size of organizations does not represent the entire industry, it is common knowledge that many impact investors and stakeholders agree on the benefits of common principles of impact. These may take the form of
principles of accountability, standard measurement practices, and standard reporting procedures (Bouri, et al., 2018). However, only a small minority of impact investment stakeholders call for formal certification. Most industry players rather advocate for ‘process standards’ that investors could follow to demonstrate their identity with the industry and their trustworthiness (Bouri, et al., 2018).

Impact investment organizations, institutional bodies, governments, and foundations have all attempted to set principles that would guide the industry. While it is important that these organizations take the key steps to form the industry identity, the amount of standards produced between different organizations worldwide can be perplexing to those who are attempting to navigate the industry. Impact Management Project (see Chapter 4) is one such organization uniquely dedicated to standardized principles and practices for the industry. The World Economic Forum’s 2015 *Accelerating Impact Measurement and Management*, of which the Rockefeller Foundation is a lead member, is another example of an international organization’s project that also aims to synthesize evidence, facilitate learning, promote resource allocation, and most relevantly establish conventions and norms for the industry (World Economic Forum, 2017). Additionally, governments have attempted to synthesize the industry in the areas under their management. For instance, the Australian government outlined the following six principles of impact investment with an emphasis on government involvement: the government as a market enabler and developer, value for money, robust outcomes-based measurement and evaluation, fair sharing of risk and return, outcomes that align with the Australian Government’s policy priorities, and co-design (The Australian Treasury, n.d.). As principles and guidelines for impact investment practices are globally produced, there needs to be a higher level of concerted effort
among the trend setting institutions. Even if principles were separated by country, it would be helpful to have sets of different principles operating among different regions of the world or across different industries of impact investment organizations. Although this might not be achieved until the *Maturity* phase, a set of standard practices that are agreed upon universally, or at least agreed upon on a region-by-region basis, will help eliminate confusion and risk within the industry. With less confusion and risk, the industry will have more aptitude for growth and become increasingly attractive to potential investors. Through its key decision-making positions on the programs of many institutions with the ability to set industry wide standards, the Rockefeller Foundation can be expected to empower other co-creators in facilitating the development of industry impact principles.

**Challenge 2: Fortifying Industry Infrastructure**

Since the completion of the *Marketplace Building* phase of development in approximately the mid 2010s, industry infrastructure has already been in place for the impact investment industry. This includes products, terminology, policies, tools for navigating the industry, standard processes, and more (McGrath, 2017). The challenge lies in the fact that much of the current infrastructure is not widely accessed nor universally accepted. In order for the impact investment industry to enter mainstream markets, its leaders need to fortify its infrastructure in terms of centralization, cohesiveness, and accessibility.

Impact investment products are one aspect of the impact investment industry’s infrastructure that could benefit from fortification, specifically in terms of accessibility and breadth. Currently, most investors rely on equity, debt, real assets, and occasionally social impact bonds to reach their impact goals, but there is a plethora of other financial vehicles that could
also help unlock impact (Mudaliar and Bass, 2017a; Madsbjerg, 2017). By leveraging capital to support the rise of innovative finance mechanisms worldwide that align with United Nations sustainable development goals, the Rockefeller Foundation’s Zero Gap Initiative is meeting the needs of investors who demand a wider range and increased accessibility to different impact asset classes (Madsbjerg, 2017). In supporting the development of new impact investment vehicles, it is critical that the Rockefeller Foundation supports asset classes which overcome common challenges in the industry, such as lack of exit opportunities, high transaction costs, risk assessment trade off, and capital management (Barnett and Faisal, 2016). Doing so will attract more impact investors and open up wider ranges of risk/return options that are suitable for different types of investors (Wilson, 2014). Otherwise, asset classes with high returns but too much risk or asset classes with low returns but little risk will deter investors and cause them to turn to the mainstream financial market.

It may also be helpful to fortify asset industry infrastructure by focusing on the unique investor types. For instance, an increasing number of institutional asset owners are interested in impact investment; the source of fund managers’ impact investment capital volumes increased from endowments by 28% per year and from pensions and insurance companies by 24% per year (Bouri, et al., 2018). Despite this, there is a dearth of options for institutional asset owners often due to strict requirements concerning the institutional quality of assets (Bouri, et al., 2018; Barnett and Faisal, 2016). Thus, when sponsoring new impact investment products, it is important to keep in mind the different branches of impact investors, especially those in untapped markets like retail investors and brand name institutional asset owners. By designing
products for specific investment firms, the Rockefeller Foundation could leverage unique target market participants.

Low market visibility is another infrastructure challenge that concerns the impact investment industry (Barnett and Faisal, 2016). Many investors would like to see their capital yield positive social returns, but the complexity of the industry disables them from effectively navigating it. There is thus a need to educate and guide those interested in impact investment with a set of cohesive tools that meet the specific needs of different investors and organizations (Barnett and Faisal, 2016; Bouri, et al., 2018; Wilson, 2014). In fact, a Barclays report indicated that even though 50% of clients are interested in impact investing only 9% engaged due to lack the lack of parameters and intel available (Barnett and Faisal, 2016). The Rockefeller Foundation continues to work to fill in knowledge gaps. Both the GIIN and IRIS release regular reports that outline impact investment information and statistics. The foundation also supports initiatives that convene and education industry players, such as that of the World Economic Forum (World Economic Forum, 2017). Moreover, GIIN’s Navigating Impact project (explored in Chapter 4) is a helpful tool in development at the time of writing. Navigating Impact is a free source that explicitly outlines investment themes and outcomes so that investors interested in impact investments can aim for impact results that align with their values (IRIS, 2013). Without tools like this, the loss of capital from investors who simply do not have the resources to enter into the industry would be a loss of potential capital much too large to ignore. Supporting tools that unlock the capital of would-be impact investors and directing them to appropriate areas of impact could fill this gap.
In relation to low market visibility, infrastructure of the impact investment regarding transparency is still developing and is highly fragmented. Like market visibility, increased transparency could help investors, policy makers, and other stakeholders learn valuable information about the industry’s performance, especially through data and statistics. The Rockefeller Foundation support of GIIRS and B-Lab is one example of making data about the industry more public by providing a standard rating system for different investment vehicles (Rodin and Brandenburg, 2014; Buerkle, et al., 2018). Nevertheless, in a survey from The State of Impact Measurement and Practice report with 169 respondents, it was revealed that only 41% publicize data on their performances. The majority (69%) only produce data results for stakeholders and key investors (Mudaliar, et al., 2017b). Reporting and measuring information about an organization or an investment is costly. Therefore, even though resources for standardizing and reporting metrics like IRIS exist, many impact investment organizations and investors do not utilize these resources (Wilson, 2014). At the same time, the vast majority of investment organizations state that transparency in impact data and results is among the highest priority in terms of progressing impact measurement and management (Mudaliar, et al., 2017b). Centralized systems that bolster transparency by collecting information from as many institutions as possible could help solve this infrastructure challenge. Although it might take years to develop, a real-time computer software solution that enables investors and stakeholders to monitor real-time data on impact investment akin to the financial industry’s Bloomberg Terminal could help provide information needed.

*Challenge 3: Enhancing the Evaluation Process*
As of writing there are few formal requirements for impact investment organizations to measure and manage the impact of their investment. According to the *State of Impact Measurement and Management Practice* survey of 169 respondents, 78% believe a very important reason to manage and measure impact is to proactively report to stakeholders, but only 21% believe client demand or pressure from changing cultural norms is an important reason (Mudaliar, et al., 2017b). This suggests that measurement is motivated internally rather than externally; only 44% of survey respondents were audited by a third-party source and this source varied from private auditing to GIIRS ratings to certification (Mudaliar, et al., 2017b). As impact investment evolves, more measurement sources are not necessarily an indicator of disunity, rather they imply that a larger breadth of impact types are being evaluated. Even so the industry is still saturated with non-standardized and unregulated measurement processes, which if left unchecked could harm the industry’s development (Reisman and Olazabal, 2016; So and Staskevicius, 2015). There needs to be a reliable way to evaluate the impact (both long and short term) of different investments.

Building robust evaluative institutions is challenging but not impossible. It could help solve fragmentation in auditing and metric reporting (Rodin and Brandenburg, 2014). As the field advances, the Rockefeller Foundation and the organizations it has funded have outlined key ways in which the industry’s evaluative infrastructure can improve. One way is through the standardization of industry performance metrics (Bouri, et al., 2018). The aspects of standardization are already being explored by organizations like the Rockefeller Foundation’s grantees B Lab and IRIS, but also by the Navigating Impact and Impact Management project among others. Creating terms and practices that are accepted on a worldwide scale will help
remove some of the confusion regarding this emerging industry (Bouri, et al., 2018; Reisman and Olazabal, 2016). Vague terminology in contrast can provide misleading information to investors, especially when interpreting the extent of impact.

In similarity to this, new models for evaluation that are flexible enough to uniquely fit the different aspects of the industry are important to define as well. The Rockefeller Foundation values evidenced based results and data driven decisions and has worked with co-creators to understand the barriers of evaluative data (Reisman and Olazabal, 2016). In just 2015, for example, the foundation hosted the Social Capital Markets (SOCAP) Conference to engage industry leaders on the current state of measurement. That same year, the foundation also held a conference at the Centre for Development Impact (CDI) and convened multiple industry players to discuss the evaluation process, including investors, analysts, and evaluators (Reisman and Olazabal, 2016). It would likewise be important to design incentives for entrepreneurs and investors managing impact investments to report their measured impact, as many impact investment stakeholders may believe there is a low value in reporting measurement, may lack the funds for robust measurement, or may be exhausted after the impact investment’s implementation (So and Straskevicius, 2015). Financial incentives that link impact achievements with financial awards can be very helpful in this case (So and Straskevicius, 2015). Cross-over work with other social sector actors may also reveal pathways for robust measurement practices (Olazabal and Reisman, 2016). Cultivating a culture that perceives impact returns in a similar light to financial returns rather than as a marketing term could also help facilitate change.

A final way the Rockefeller Foundation has helped address the challenge of the evaluation processes of impact organizations is by recognizing the fact that measurement processes need to
change as the industry develops. GIIRS and IRIS were important for the early stage developments of the industry, but as more unique impact assets become available new options for measurement must become available (Olazabal and Reisman, 2016). Already, the Rockefeller Foundation is developing more options such as through their Carbon Yield Methodology project (see Chapter 4) (Rockefeller Foundation, et al., 2017). As the industry moves forward one can expect the Rockefeller Foundation to support a more diverse range of measurement methodologies and especially those methodologies that lead toward industry wide standardization for specific impact types.

**Challenge 4: Strengthening the Intermediaries and Regulatory Environment**

One of the largest barriers to the impact investment industry is a lack of quality deals and capital, which in turn indicates a larger problem of a lack of incentives among intermediaries to support the risks of impact investing (McGrath, 2017; Wilson, 2014). Intermediaries promote market growth by supporting market functions and activity that can provide liquidity, efficiency, capital, and other connective functions. Some common forms of intermediaries include banks, brokers, dealers, and exchanges (Wilson, 2014). Without properly functioning intermediaries, the growth of the impact investment industry will be stunted.

The Rockefeller Foundation acknowledges the importance of building intermediaries, especially in terms of market expertise. Since the early years of their impact investment initiative, the Rockefeller Foundation has identified and supported key intermediaries. The largest of the Rockefeller Foundation’s supported intermediaries is GIIN, the most well connected and resourceful impact investment network that has a worldwide reach. Other leaders the Rockefeller Foundation has identified that have emerged globally include funds like Blue Orchard or Sarona
Asset Management, smaller firms like Social Finance and Lion’s Head, and larger financial institutions with impact investment departments like J.P. Morgan Social Finance and Barclays UK (E.T. Jackson and Associates, 2012). Outside of the Rockefeller Foundation, governments have also played a role in sponsoring intermediaries that are dedicated to impact investment expertise such as Norfund in Norway, FMO in the Netherlands, and the Dutch Central Bank’s Sustainable Finance Platform (E.T. Jackson and Associates, 2012; Bouri, et al., 2018). Although its impact investment initiative ended in 2013, the Rockefeller Foundation continues to co-create with many of these early intermediary leaders in its latest innovative finance initiatives (Rockefeller Foundation, n.d.). As many of these intermediaries are headquartered in global north western countries, it implies that the impact investment industries of other regions in the world may be in need of local and more sophisticated intermediaries in order to facilitate their market growth.

Forming an impact investment intermediary is expensive. The majority of impact investment intermediaries must rely on donations or high transactions fees to remain operating (Wilson, 2014). Government regulation can play a role in alleviating some of the burdens faced by impact investment intermediaries. In the United Kingdom, for instance, the country of the first social impact bond, the establishment government sponsored institutions helped close the gap between impact and capital and today the United Kingdom’s model is often imitated by other countries (McGrath, 2017; Wilson, 2014). In 2012, the United Kingdom government sponsored Big Society Capital, a wholesale organization that focused on developing market intermediaries. From its inception until 2016, Big Society Capital signed a total of €893 million alongside 104 co-investors in areas of housing (29%), education employment and training (16%),
citizenship and communities (13%), arts/heritage/sports/faith (14%), physical health (8%), mental health (6%), families/friends/relationships (6%), income (4%), and environment (2%) (Big Society Capital, 2016). Big Society Capital has also been able to expand the retail market by placing qualified charity bonds on the London Stock Exchange (McGrath, 2017). In this way, the organization is an example of how governments can facilitate market growth in ways that reap returns without giving out donations. Throughout the world, other countries consider Big Society Capital as the first impact investment wholesaler and many leaders in the field are looking to form an organization that imitate its functions locally.

Beyond wholesale organizations, governments can also help facilitate market growth in a number of ways. This includes forming public social stock exchanges, serving as a purchaser or guarantor in pay for success and other impact projects, and altering legal structures such that they recognize new dimensions of impact investment (Wilson, 2014; McGrath, 2017; Barnett and Faisal, 2016). If government do not set up impact investment legal structures, impact investment organizations may find themselves burdened by unfit regulatory requirements or taxes schemes intended for solely for-profit ventures rather than taxes designed with impact returns in mind. Something as feasible as a charitable tax reduction, for example, dedicated to impact investment investments could help mitigate the financial risks and concerns of potential investors (McGrath, 2017). The Rockefeller Foundation can thus be expected to continue to leverage private public partnerships in order to balance the supply and demand sides of the emerging impact investment industry.

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World Economic Forum.
Chapter 6: Rockefeller Foundation Innovative Finance Initiatives in China

The Rockefeller Foundation and Innovative Investment in China

Like in many countries, the impact investment sector of China is still in its infancy (Rodin and Brandenburg, 2014). The Rockefeller Foundation has a history of involvement in China dating as far back as the early 1900s, but in the most recent decade it has not emerged as an impact investment leader within the region. Most of the impact organizations that have emerged within China mainly consist of Chinese institutions (Rodin and Brandenburg, 2014; Shanghai University of Finance and Economics Social Enterprise Research Center [ESERC], et al., 2013; China Development Research Foundation, et al., 2016). From a historical perspective, perhaps the most recognized contribution of the Rockefeller Foundation to China is its support in the establishment of the China Medical Board in 1914 and the subsequent Peking Union Medical College in 1917 (The Rockefeller Foundation, n.d.). The Rockefeller Foundation currently continues involvement in China through a broad range of projects, grants, and other initiatives, such as the 100 Resilient Cities project or grants targeting the development of green energy solutions in southern China (The Rockefeller Foundation, 2017). However, the foundation has yet to fully unlock the Chinese market in its innovative finance and impact investment initiatives. As the impact investment industry and the socio-political movement for an environmentally friendly society continues to emerge and develop within China, the Rockefeller Foundation has further opportunity to align its own innovative finance goals with that of the Middle Kingdom. In particular, the foundation’s Zero Gap sustainable development goals pertaining to green development are highly relevant.
As of writing, there is currently little available literature on the relationship between China’s impact investment sector and the Rockefeller Foundation. There is evidence demonstrating the emergent Chinese impact investment industry as well as evidence detailing the extent of the Rockefeller Foundation’s in the global impact investment arena. The rest of this chapter will introduce the Chinese impact investment environment with an emphasis on potential areas and opportunities for co-creation with the Rockefeller Foundation.

*The State of Innovative Finance and Impact Investment in China*

Impact investment is a very new concept in the China, as it is to many other countries (ESERC, et al., 2013; Zhou, 2017; China Development Research Foundation, et al., 2016). Chinese investors tend to favor commercially focused investments and often approach philanthropy branded financial products with skepticism, more so than in other markets like the United Kingdom and the United States. More of this skepticism will be explored later in the cultural barriers segment of the *Opportunities and Challenges in China* section of the chapter. Nevertheless, over the past half-decade early pioneers have been introducing and branding impact investment for the Chinese market and have been doing so with gradual success (Zhang, 2017; Zhang, et al., 2012). China was first formally introduced to impact investment during the late 2000s. The first annual Chinese Social Investment Forum was subsequently hosted in 2012 with over 200 attendees and by 2016 a total of 1,000 interested stakeholders attended the event (Zhang, 2017; Zhou, 2017). Several dozen Chinese funds operate for the sole purpose of impact investment, including the China Impact Fund, You Cheng Foundation, and Tsing Capital (see Table 1) (Zhang, et al, 2012; China Development Research Foundation; Zhang, 2017). First tier city governments have also recognized the importance of mobilizing capital for social good and
have started experimenting with incubators and impact venture capital. The Shanghai municipal
government’s Shanghai Community Venture Philanthropy Fund is one example of this (ESERC,
et al., 2013). If impact investment is appropriately integrated into the culture of Chinese
investors, then it is possible to capitalize on these early signs of market growth. Given the
Rockefeller Foundation’s experience in market place building, the foundation has an opportunity
to play a role in bolstering the leadership and expertise of the emerging China impact investment
scene.

The Potential of China

China has experienced high growth over the last three decades, and as a result, hundreds
of millions of its citizens have been lifted out of poverty. The People’s Republic of China’s
(PRC’s) current 2016-2020 13th Five Year Plan (FYP) period features decisive policy to harness
China’s growth as a pivotal turning point and thereby build a moderately prosperous society. The
13th FYP specifically focuses on five key areas, all of which have potential to relate to impact
investment: innovation led growth, spatial development, green development, inclusive
development, and financial reform (China Development Research Foundation, et al., 2016;
Agilietta and Bai, 2016). Although China relies on many tools to realize its 13th FYP goals,
impact investment can be one tool to bolster China’s efforts to achieve “moderate prosperity” as
well as lift 50 million more citizens out of poverty and enable over 100 million people to achieve
urban status (China Development Research Foundation, et al., 2016; Agiletta and Bai, 2016).
Additionally, since the Rockefeller Foundation’s Zero Gap Initiative goals incorporate the UN
17 Sustainable Development Goals, the foundation’s innovative finance initiatives align with that
of China’s needs (The Rockefeller Foundation, 2018). Sustainable Development Goals like
reduced inequalities, climate action, and decent work and economic growth directly relate with the PRC’s inclusive development and green development initiatives.

During these early stages, inequality and green development are the two areas for which impact investment has the greatest potential to excel in China. Since the 1979 Chinese economic reform period spearheaded by Deng Xiaoping, the Chinese economy has enjoyed unprecedented economic growth rates, but has likewise suffered from growing income inequality. In a joint paper published by researchers from the University of Michigan and Beijing University, it is estimated that China’s Gini Coefficient rose from approximately 0.30 to over 0.5 between the years 1965 and 2014, which far surpasses the paper’s estimate of the U.S. Gini Coefficient of 0.45 in 2012 (see Figure 1) (Xie and Zhou, 2014). According to the study, rural-urban regional disparities is the main culprit behind the rise in income inequality within China (Xie and Zhou, 2014). Impact investments that target marginalized populations and inequality therefore have potential to promote inclusive development in China.

Meanwhile, green development is also a major emphasis in modern Chinese politics and society. With the on-going urbanization and industrialization of China, critical environmental concerns have arisen, including concerns in the areas of air pollution, water pollution, waste management, and clean energy. Green development was therefore first introduced as a priority to the PRC in 2012 to combat rising environment and health concerns (Zhang, et al., 2012; China Development Research Foundation, et al., 2016). In a report published by the China Impact Fund and New Ventures China in collaboration with Dao Ventures Founding Director Tao Zhang, it is estimated that small to medium enterprises (SMEs) have the biggest potential to serve as green impact investments in China at the present time; it is in fact estimated that in general around 25,000 companies may be appropriate for impact investment (Zhang, et al., 2012). As for the twelve most well-known impact investment organizations that are already established within China, half (50%) of the institutions place environmental concerns at the heart of their mission. To demonstrate this, the table detailing the known impact organizations from a report produced by China Impact Fund and New Ventures China is featured below and has been modified to highlight which known organizations incorporate environmental goals into their mission:

<table>
<thead>
<tr>
<th>Organization</th>
<th>Overview</th>
<th>Location</th>
<th>Environmentally Focused</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Impact Fund/New Ventures China</td>
<td>Focuses on supporting environmental &quot;missing middle&quot; companies in China</td>
<td>China</td>
<td>YES</td>
</tr>
<tr>
<td>Schoenfeld Foundation</td>
<td>Supports innovative, for-profit solutions to social and environmental challenges through investment and giving</td>
<td>Mainland China, Hong Kong, US</td>
<td>YES</td>
</tr>
<tr>
<td>LGT Philanthropy</td>
<td>Offers grants, soft loans,</td>
<td>Global, including China</td>
<td></td>
</tr>
</tbody>
</table>

4 Note that China Impact Fund is no longer active, but its owner Dao Ventures remains active to date (Zhou, 2017)
and equity investment to social enterprises

SOW Asia | Supports early-stage growth of social businesses that create self-sustained positive impacts | Greater China, Southeast Asia

Venture Avenue | Provides capability enhancement and social tracking and evaluation for social ventures, NGOs, and investors | Shanghai, China

Lanshan Capital | Focuses on agriculture, environment, services for BoP and social industry infrastructure | Beijing, China

Avantage Ventures | Asian-based social investment company that invests in profitable Asian companies that make social and environmental impacts | Mainland China, Hong Kong, Southeast Asia

Synergy Social Ventures | Non-profit that supports Asian early stage ventures | Hong Kong, Asia

E+Co | Makes clean energy investments in developing countries with presence in Yunnan, China | Yunnan, China

Tsing Capital | China-focused cleantech venture capital | Beijing, China

Small Enterprise Assistance Fund (SEAF) | A provider of risk capital and capacity building assistance to SMEs | Sichuan, Head office in D.C.

**Table 1.** Adapted from *Creating the Chinese Dream: A practitioner’s guide to impact investing in China’s green SMEs*, by Zhang, T., Ge, Y., and Zhao, R., 2012, China Impact Fund and New Ventures China.

In the most recent years, Chinese economic growth is normalizing. GDP has slowed down from 10.4% growth in 2010 to 6.9% growth in 2015 and public revenue has decline from 21.3% in 2015 to 8.4% in 2010 (China Development Research Foundation, et al., 2016). In order to sustain the 13th FYP goals and the subsequent goals that follow, additional capital beyond government revenues will be useful. Impact investment has great potential to play a role in unlocking the necessary capital to reap social and environment returns as it supplements
government funds with the capital from China’s high-income, impact-minded citizens and organizations.

*Opportunities and Challenges in China*

The challenges facing the Chinese environment mirror that of other early stage impact investment markets. In Chapter 5, the four stages of impact investment market place development were introduced: Uncoordinated Innovation, Marketplace Building, Capturing the Value of the Marketplace, and Maturity (Bouri, et al., 2018). China is currently in a state of Uncoordinated Innovation, as evidenced by the fact that early pioneers have emerged but there has yet to be centralized infrastructure and activity as well as higher volumes of impact investment. If the Rockefeller Foundation was to enter the Chinese market, these barriers would be of vital importance to consider. An impact investment initiative that is not sensitive to these barriers is likely to fail.

Cultural differences between China and the West is one of the most important barriers of China’s impact investment industry success. Impact investment in its nature of helping others supports values of traditional Chinese culture, especially through embedded values like Ren (仁), or humaneness (Zhang, 2017). On the other hand, however, intertwined business and social good is sometimes met with skepticism among Chinese investors, especially after incidents like the “Guo Mei Mei” scandal and the 1.5 billion RMB Sino-Africa Hope Project Scandal (ESERC, et al., 2013). If impact investment is to be introduced in China, many leading experts accordingly believe that it must be branded as a sector that is separate from philanthropy, which contrasts the U.S. impact investment market wherein impact investment is considered a subset of philanthropy (Zhang, et al., 2012). Should the Rockefeller Foundation launch a Zero Gap initiative project in
China, it might be best to not only consider branding the investment in a way that is sensitive to Chinese investors’ cultural skepticisms, but also to empower organizations that are associated with a new Sino-styled impact investment sector to take leading roles rather than those organizations associated with the philanthropy sector.

A lack of centralized industry infrastructure is another challenge that impedes the development of the Chinese impact investment industry. Independent funds have attempted to establish centralized infrastructure, but the industry infrastructure remains very fragmented. The need for centralized industry infrastructure is interlocked with another challenge: policy that aligns with impact goals and yet does not directly bolster an impact investment industry (Zhang, et al., 2012; Zhou, 2017). The China Development Bank (CDB)’s projects, for instance, can be seen as public impact projects even if they are not branded as such because this state-owned enterprise (SOE) supports many impact-oriented projects, including development businesses that deal with urbanization and affordable housing, credits and loans to mining areas, and forest zone preservation (China Development Research Foundation, et al., 2016). If China can leverage the fundamental policies and components in place such that they directly relate with impact investment, it might be possible to attract more private capital that can be used to generate impact. The Rockefeller Foundation in involvement with China must be aware of the government initiatives that resemble impact investment and sensitive to the relationship between public and private unique to the Chinese thought and nation.

Cultural barriers and a lack of centralized industry infrastructure point to an even deeper challenge within the Chinese system: a lack of motivation to pursue impact investment. Most Chinese investors are unfamiliar with impact investment, but even more importantly most
Chinese investors lack encouragement to generate social and environmental returns alongside their financial returns because there are no clear incentives (Zhang, et al., 2012; ESERC, et al., 2013; Zhou, 2017). Leading countries in impact investment often provide a financial incentive for impact investment organizations or products, like the United Kingdom where special tax incentives are provided to impact organizations alongside consolidated government resources (Zhou, 2017). Thus, one of the biggest challenges the Rockefeller Foundation may face in entering the Chinese market would be motivation. The Chinese market needs incentives as well as educational resources on impact investment before more investors are willing to bet their capital on its success.

How exactly does the Rockefeller Foundation fit?

The Rockefeller Foundation can help support the development of impact investment and innovative finance in China, and thereby support the global pursuit of the UN Sustainable Development Goals, by leveraging its vast resources, networks, and industry infrastructure to orchestrate co-creation within the China context. If Chinese demands for impact investment capital are met, the Rockefeller Foundation has potential to play a role in the social impact market of China, a market with demand sized revenues totaling $44 billion (China Development Research Foundation, et al., 2016). The Chinese market will need to expand first, however. Right now, the assets of China’s impact investment market are narrow, most often they are equity or debt social enterprise products (Zhou, 2017). Three identified ways the Rockefeller Foundation could most immediately help this emerging market is by supporting a synchronized certification process, standard metrics for evaluating impact, and diverse asset ranges (Zhang, et al., 2012; Zhou, 2017; China Development Research Foundation, et al., 2016). These market components
could either be global standards or produced domestically by China, but they need to exist for the impact investment to function. The Rockefeller Foundation’s decade of global experience attests its potential to orchestrate co-creation and coordinate expertise that can meet the challenges in the Chinese impact investment market space and bring it beyond the first stage of market development and into maturity.

First, in terms of certification, there have been efforts within China to produce standardized certification for various components of the impact investment industry. Yet, in these early stages none of China’s certification products or procedures are nationally enforced nor are they as globally recognized as the certifications supported by the Rockefeller Foundation, such as those through B-Lab. One example of a Chinese certification standard is the 2015 *CCF Certification Methods for Social Enterprises (for Trial Implementation)*, which was jointly produced in 2015 by the Center for Civil Society Studies at Peking University, Shenzhen International Commonweal Institute, the Narada Foundation, the CCF Development Center and the Social Enterprise Research Center. In a similar spirit of the B Corp Certified organizations, the *CCF Certification* certifies social enterprises based on their organizational goals, income sources, profit distributions, structure, and registration and has qualified 39 Chinese enterprises since 2016 (China Development Research Foundation, et al., 2016). The Rockefeller Foundation’s resources could help expand upon the existing certification infrastructure in China by leveraging its resources in a way that would be similar to how the foundation expanded upon B-Lab’s methodologies with strategic support and capital leveraging. There might also be room for co-creation between the organizations the Rockefeller Foundation worked with and emerging Chinese institutions of certification.
The Rockefeller Foundation might also consider building connections with key international organizations that are local to the Pacific Asia region, have a relationship with China, and promote impact investment. One such example is the Asian Development Bank (ADB), for which China is the second largest borrower (Asian Development Bank, 2018). The Rockefeller Foundation already has cooperated with the ADB across Asia through its 100 Resilient Initiatives and Urban Climate Change Resilience Trust Fund, including projects in the countries of the Philippines, Vietnam, India, Indonesia, Bangladesh, and Pakistan (Asian Development Bank, 2013; Asian Development Bank, 2015). Since 1986, the ADB has committed $34.84 billion sovereign loans to China and, more specifically, in 2017 the ADB committed $2.1 billion for 13 loans and $14.05 million for 27 technical assistance projects (Asian Development Bank, 2018). In China, the ADB has a history of investing in projects reminiscent of impact investment, including a $1.3 billion dollar project to improve air quality in Beijing, a $250 million dollar loan for education and training in Guangxi, and a $100 million dollar loan to support long-term elderly care in Hebei (Asian Development Bank, 2018). In the past decade, the ADB has researched and experimented with the potential of impact investment in the greater Asia region and found that in a survey of 34 individual investors with income ranges of $50,000 USD to $1 million USD and 31 institutional investors within Asia there was indication of a high interest in impact investment (Asian Development Bank, 2011). Even if the ADB’s report on impact investment is from 2011, the Asian Development Bank’s commitment to researching impact investment alongside the rise of social enterprise in China and the current push for greater development impact by the PRC implies that it is likely that the rising interest of impact investment can apply to China as well, and that this interest can spread if it is marketed.
properly. By forming relationships with locally focused international organizations like the ADB that have a long history of business with China, the Rockefeller Foundation could leverage key relationships and play a role in co-creating impact investment solutions tailored to the Chinese market.

Evaluation criteria is another major industry for which the Rockefeller Foundation’s collaboration has potential to be very beneficial (Zhang, et al., 2012; China Development Research Foundation, et al., 2016; Zhou, 2017). China currently lacks clear, government-supported impact metrics that encompass a variety of impact investments and funds. This is partly because diverse innovative financial vehicles are not yet as common in China. As a result, many independent impact organizations either self-report their results or rely on a set of standards put forth by other leading impact organizations (ESERC, et al., 2013; China Development Research Foundation, et al., 2016). Tsing Capital, for instance, uses a systematic methodology to report the social and environmental performance of its portfolio holdings, including statistics on corporate management, pollution, compliance, and best practices (ESERC, et al., 2013). The Beijing-based Lanshan Fund meanwhile employs a two-pronged evaluative metric that measures the quality of life index and the scope of each investment (ESERC, et al., 2013). While these metrics put forth by Chinese impact organizations are critical to the development a healthy impact investment sector, the definitions of competent performance can still vary from institution to institution, leaving potential investors confused or even discouraged. A more consolidated approach would therefore be an advantage. The Rockefeller Foundation’s IRIS and GIIRS metrics could potentially play a large role in China, and in turn help the Rockefeller Foundation further its global reach. New Ventures China and China Impact Fund
(when it was operating) utilize(d) IRIS and GIIRS metrics to rate their portfolio, but New Ventures is global institution and China is just one branch (IRIS, n.d.a; IRIS, n.d.b). Given the default unfamiliarity and skepticism of modern Chinese investors towards impact investment, it will be key for the nation to develop its own set of impact investment standards that can be used locally, or at least borrow from a set of global standards like that of the Rockefeller Foundation. Even if Chinese leaders opt for domestically produced standardized performance metrics, the Rockefeller Foundation and especially its GIIN may a play a role in propelling their standards’ global recognition so that international capital may also be attracted.

The Rockefeller Foundation also has potential to broaden the currently narrow concepts of impact investment in China through international collaboration. This is particularly true for the sector of green impact investment. In 2015 the People’s Bank of China (PBC) introduced the green bond market to China, and soon after the Shanghai Stock Exchange implemented a green bond express channel (China Development Research Foundation, et al., 2016). The following year in 2016, the Chinese government produced the Guidance of Constructing Green Finance System to regulate and nourish green finance within China (Zhou, 2017). These initiatives were not published under the official context of impact investment, but they still represent important steps within China for not only achieving a green society, but also potentially for building government regulation of unique impact initiatives. The Chinese green bond market coincides with the Rockefeller Foundation’s Carbon Yield project, a system that ranks green bond impact (see Chapter 3 and Chapter 5). While there may or may not be room for collaboration in terms of green bonds between China and the Rockefeller Foundation, perhaps there is room for the Rockefeller Foundation to help facilitate the development of varied green innovative finance
initiatives in China, especially considering the extensive reach of its Zero Gap portfolio (The Rockefeller Foundation, 2018). As Chinese investors adjust to social enterprise equity, green bonds, and other early stage impact investment products, there will be room for more emerging environmentally focused investment vehicles. The Rockefeller Foundation has already begun to explore these unique green products in the form of insurance plans, micro-levies, social impact bonds, and more in different pockets across the globe (The Rockefeller Foundation, 2018). In China, there is plenty of opportunity for the best of these products to prosper.

Conclusion

The Rockefeller Foundation’s global reach and expertise in the co-creation of impact investment markets has great potential to excel in China only if the cultural and political barriers are overcome. China boasts one of the world’s largest market spaces, and as evidenced by the goals of the 13th FYP, is ripe for development and impact. Although it may be the case that Chinese leaders prefer to produce impact investment market components, the Rockefeller Foundation can leverage its resources and connections to help China move beyond the first market development stage of uncoordinated innovation. The Rockefeller Foundation has already historically proved its own capability to function in China, such as through its initiatives to bolster Chinese medical education. In this first half of the new millennia, there is plenty of reason why the Rockefeller Foundation can attempt to help China’s development efforts in this new space once again.

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