IMPACT INVESTING: WHO ARE WE SERVING?

A case of mismatch between supply and demand

Dadeldhura farmers show their produce, Nepal. Photo: Jisu Mok/Oxfam

This report from Oxfam and Sumerian Partners questions some of the assumptions around impact investment and highlights the experience of enterprises contributing to poverty reduction so that they might be better served by the field. It argues that the sector risks being discredited due to rising, unrealistic expectations about financial returns.

Discussion Papers

This discussion paper has been written to contribute to public debate and to invite feedback on development and humanitarian policy issues. It is a 'work in progress' document based on research and does not necessarily reflect Oxfam and Sumerian Partners policy positions. The views and recommendations expressed are those of the author and not necessarily those of Oxfam and Sumerian Partners.

For more information, or to comment on this paper, email Mara.Bolis@Oxfam.org or ESahan@oxfam.org.uk

SUMERIAN PARTNERS

www.oxfam.org OXFAM

Abstract

Most articles written about impact investing reflect the experience of investors (or, supply of capital side) allocating capital to achieve blended social and financial returns.[1] The views, experiences, and needs of the downstream enterprises (demand for capital side) working with or otherwise benefiting people living in poverty are not broadly represented in the literature. As such, the field is evolving with a one-sided view of what is possible, resting heavily on investor needs, not enterprise realities. The mainstreaming narrative seeks to promote and validate the prospect of competitive financial returns with full impact. The enterprises we have worked with have great potential to contribute to poverty reduction but are unlikely to deliver returns of this magnitude. There are multiple perils connected to this trend but most important, from our perspective, is the effect of compromising impact investing's contribution to poverty alleviation. Our objective in writing this report is to question some of the assumptions embedded in the prevailing literature and to elevate the experience of enterprises contributing to poverty reduction so that they might be better served by the field. We do so with a concern that the sector risks being discredited due to rising, unrealistic expectations about financial returns.

Oxfam has for many decades been interested in enterprise development and fostering an ecosystem that supports enterprises. As a co-founder of now commercially thriving social enterprises such as Café Direct and market-based models such as Fairtrade, Oxfam has tried to leverage the potential of entrepreneurs and markets to bring economic opportunities to communities around the world. Oxfam continues to challenge itself and others to adopt the most effective market-based approaches while retaining a focus on the people that those interested in social enterprise and impact investing hope to benefit. Today, Oxfam has several programs that focus on poverty-reducing enterprises that engage traditionally marginalized populations through investment and investment-like approaches. These programs include a focus on access to finance but recognize the need to structure finance differently so that it realizes the full potential of those enterprises to make a sustainable contribution to poverty reduction. This paper challenges everyone involved in impact investing, including Oxfam itself, to ensure that impact investing remains primarily focused on achieving impact.

The founders of Sumerian Partners all have long histories of supporting start-up and growing businesses in both developed countries and emerging economies. This includes experience as entrepreneurs, as well as acting as asset managers and deploying philanthropic capital. Chris West was the former director of Shell Foundation, a charity that has a long track record of catalyzing and scaling-up social enterprises in ways that are both impactful and financially viable. Sumerian Partners advises and manages philanthropic capital on behalf of families, foundations, and asset managers to maximize their impact.

CONTENTS

.

SUMMARY

For decades, there was one financial tool for use in combating poverty: a 100 percent loss-making grant[2] made typically to non-profit organizations. Starting with innovations such as microfinance and, in the US, program-related investments, the field has evolved to encompass new capital vehicles and innovative business models. The non-profit and for-profit binary condition has also evolved to reveal a much more heterogeneous universe of actors and instruments actively engaged in combating poverty. The financial instruments supporting this movement away from a grants-based approach broadly fall under the term of 'impact investing'. However, in the quest to attract capital, we feel that the field has lost its focus on the primacy of the mission. The predominant focus in the literature is on financial return expectations, in particular the quest to prove that market rate returns are achievable in impact investing.[3] However, most enterprises making meaningful contributions to poverty alleviation lack the ability to deliver commercial rates of return. The field has evolved to meet the needs of the investors, and insufficient attention has been paid to the realities and needs of the enterprises themselves. There is a real risk of mission drift as funds—pressured by the lack of deals that can deliver high returns and full impact in a limited time frame—sacrifice intentionality, which is essential to impact investment.

It is time to flip the narrative. Let's not ask, 'How does this enterprise fit into my portfolio?' and instead ask, 'What kind of skills, support and funding does this enterprise need to be successful, and am I in a position to provide it?' (Andrea Armeni, Transform Finance).[4] More robust data and increased transparency could help create a more realistic understanding of the limitations and capabilities of the field.

Financial return targets do not reflect enterprise performance

From our experience, most enterprises in the Global South that have a real impact on people living in poverty can generate average net income in the low single digits. These enterprises carry not only the risks faced by all emerging market companies of economic and political instability, infrastructure challenges and commodity price shocks, but must also face the added challenge of adapting and refining business models to engage people living in poverty, who typically have previously either lacked access to the product or service being offered or have had it provided for free. By contrast, most impact investors target double-digit net returns. The Global Impact Investing Network (GIIN) reported that 84 percent of respondents were targeting risk-adjusted market rate returns or close to market rate returns.[5] For a fund manager to generate a net 10 percent to 15 percent US$ portfolio return, then assuming typical costs and losses, they must seek individual transaction returns of 20 percent to 25 percent or more. We know few impactful enterprises capable of achieving this.

Fund structures are not designed to meet the needs of most enterprises

Most enterprises making a meaningful difference for people living in poverty take 7 to 10 years to come close to financial break-even, as they constantly need to adapt their products, services and business processes to meet their impact and revenue goals.[6] Even once these enterprises mature, they remain fragile and susceptible to internal changes (e.g., loss of key staff), as well as external shocks (e.g., weather-related for those in climate-sensitive zones). These enterprises, therefore, want and need patient (i.e., greater than 10-year) capital with return expectations reflective of the costs and risks they face in achieving positive social change.[7] By contrast, most impact investors have adopted 10-year closed-end funds modelled on private equity.[8] Irrespective of the financial return targets, these fund structures do not match the low and slow financial growth characteristics of most impactful enterprises. The scarcity of reported positive cash exits realized to date by impact investors reinforces our view that there is a mismatch between financial structure and market performance.

The need for user-centered products supported by smart subsidy and patient capital

Enterprises that contribute to poverty alleviation are often making a slow ascent from grant funding to more sustainable forms of capital. For these enterprises, smart subsidy[9] and patient capital approaches are often more financially efficient options to traditional grants, at a minimum, and can create bridges across 'the valley of death' (illustrated in Figure 1) to other forms of investment. Impact investors report this same problem as a lack of investment-ready pipeline. Notable examples of enterprises that have achieved significant impact and scale (such as d.light and MKopa) have typically benefitted from millions of dollars of such support over many years prior to securing—and often alongside—investment capital. This mirrors the development of microfinance and mobile money. At the moment, most enterprises are offered a binary choice between grant funding that seeks impact with no financial return, or commercial investments that seek a net return *on* capital. We urgently need to progress to more patient capital models that seek to maximize impact while accepting varying levels of return *of* capital. Without such support we suspect most promising social enterprises will fail to meet their impact potential or become financially viable.

Lack of robust data is compounded by sales hype

Given the blended return objectives of impact investing, we are disappointed by the disproportionate focus on proving the case around financial returns. In contrast, there is limited reporting of impact achieved. Transparent reporting of impact provides the basis for learning about how enterprise-led solutions can help combat poverty, and to ensure that successful approaches can be replicated. Most publications have instead focused on assessing financial returns associated with impact investing. Arguably the most comprehensive of these is the report by Cambridge Associates and the GIIN[10] which states that 'market rate returns are attainable in impact investing'. However, this same report included no commentary on the associated impacts achieved, relied significantly on the performance of funds focused on the theme of financial inclusion (which, at least for microfinance, has depended on decades of subsidies), and draws its conclusion from a small pool of funds that were targeting market rate returns. Yet, reports such as this play an important role in influencing the views of investors and serves to reinforce a common narrative that is amplified and echoed in the press and in secondary research. It is critical that reports are more balanced and representative of the breadth of experience and the existence of tensions between impact and returns. Failing to do so will result in cheerleading that raises unrealistic expectations and harms the field more broadly.

Intentionality to achieve impact is getting sidelined

Key to impact investing is *the intention* to generate a measurable, socially or environmentally beneficial impact that contributes to poverty reduction while generating a financial return. While many businesses generate positive social impacts, these are typically a consequence of decisions taken primarily on financial grounds, and do not therefore fulfil the 'intentionality' requirements that would classify them as impact investment. In the struggle to find investment-ready impactful enterprises, funds are re-branding investments as impact investing, when previously they would have been considered mainstream investments—albeit ones with strong environmental, social and governance (ESG) performance. Instead, the field should get better at identifying mechanisms at enterprise level that can lock in the prioritization of social impact and funds should demonstrate clear intentionality and employ business processes, (e.g., defining impact strategies, setting impact targets akin to financial hurdle rates, measuring and analyzing the data) that put impact at the center of their work.

Impact investment arose out of a desire by investors to preserve capital while making positive impact. In doing so, it was able to reach enterprises and have impacts that financial markets were not able to serve. Newer entrants are instead chasing higher returns while hoping to preserve impact. This paper argues that this risks discrediting the sector through generating unrealistic expectations about financial returns from impact investments. This may lead both to capital being drawn away from (or not attracted to) vital investments that deliver low or zero returns, and also to the wider perception of *failure* of the sector if expectations of high returns and high impact are not met.

Recommendations

Oxfam and Sumerian Partners propose six recommendations to resolve the challenges highlighted in this paper:

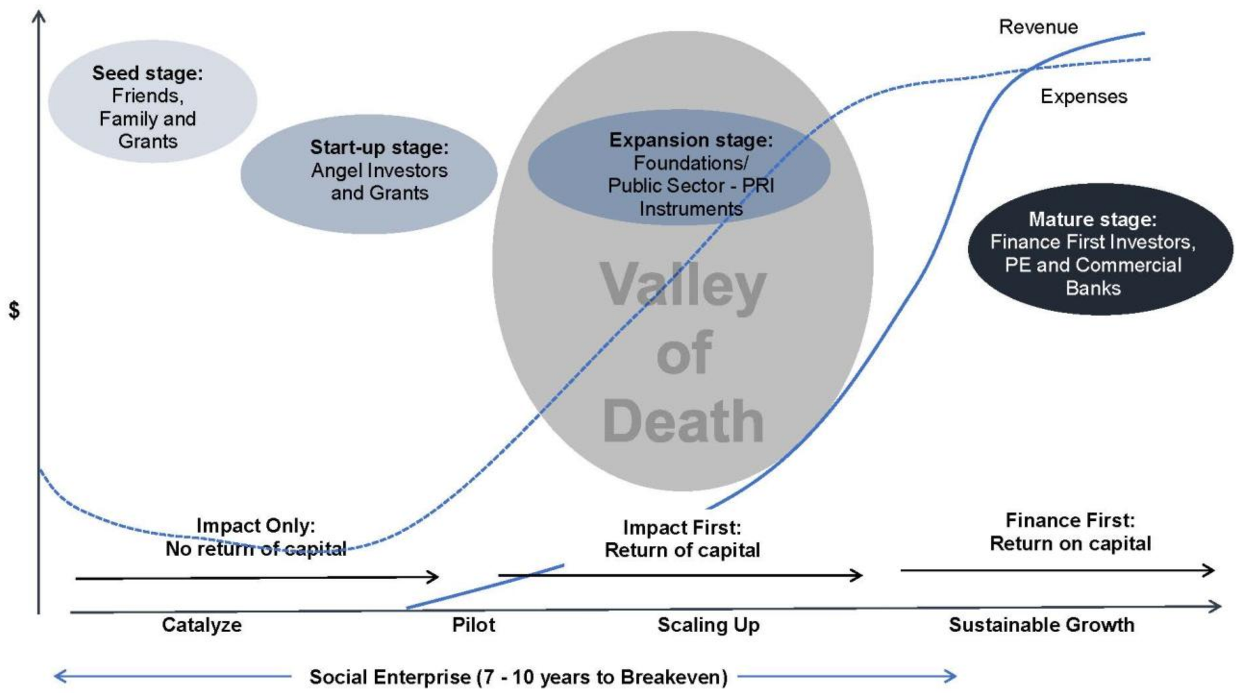
1. A shift of approach in the market is needed; from one wherein we tailor funds around the needs of investors to instead developing products that serve the needs of enterprises seeking to combat poverty. Specifically, a wider adoption of alternative fund structures is needed—such as permanent capital vehicles and evergreen funds—and new financial tools that reflect the predominantly 'low and slow-returns' of most enterprises prioritizing social impact;
2. Greater transparency is needed around reporting both the impact and financial returns (gross and net) achieved by impact investors;
3. Donors and philanthropists need to deploy smart subsidy and patient capital (return *of* capital) to support enterprises capable of making a meaningful contribution to poverty reduction, and to support hybrid financing models alongside impact investors seeking a net return on capital;
4. More independent research is needed to understand the enterprise-level experience and analyze which structures, approaches, and incentives best assist enterprises to maintain an intentionality to optimize impact;
5. We call on impact investors to agree to a voluntary code of practice that enshrines the intentionality to behave and take decisions in ways that have a primary focus on achieving impact;
6. Impact investors should adopt incentives for optimizing, measuring, and reporting impact as well as achieving financial return targets.

1 IMPACT INVESTING HAS BOTH PROMISE AND POWER

Alongside investment that seeks a return *on* capital, we need more smart subsidy and patient capital that seeks to maximize impact, but will accept a return *of* capital. This is precisely where donors and philanthropists are ideally and uniquely positioned to deliver the power of impact investing as they can support promising early stage, impact-driven enterprises with a diversity of ‘impact-first’ financial instruments (such as program-related investments, repayable/convertible grants, guarantees, soft loans), either alongside or as a bridge to finance first investors.

A well-documented barrier for most small enterprises in developing countries is what has been deemed the ‘valley of death’ or the ‘missing middle’ (illustrated in Figure 1). Small enterprises are often too big for microfinance and informal sources of finance, but too small or risky for commercial banks and private equity investors.[11] Impact investors have a critical role to play in the expansion stage before the enterprise can reasonably take on commercial finance.

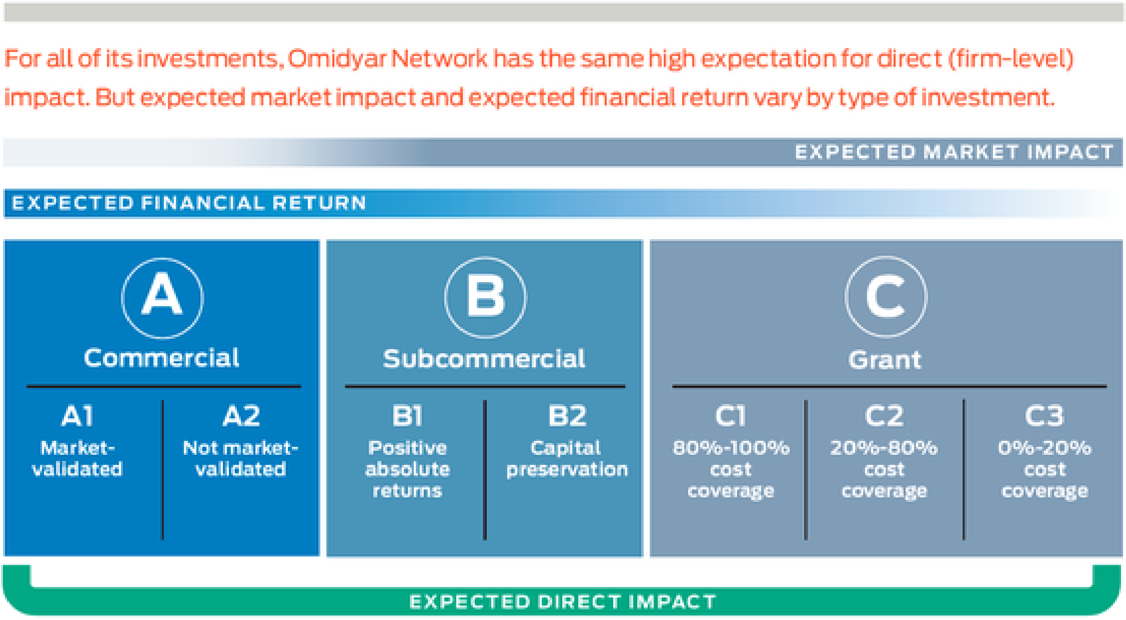
Figure1: Growth stages of enterprises, from start-up to sustainable growth



One might ask why grant funds are necessary in impact investing if, as various publications argue, impact and profit are inherently aligned.[12] The extent to which profit and impact are complementary or in tension is fundamentally different for different individual enterprises and markets. It is our view that they are more often in tension than not. Furthermore, the realities of the investment market and the extent to which capital allocation, prestige, and attention are skewed to the largest and most profitable segments of the impact investment market, leaving behind many promising enterprises.

There have been some attempts at providing a sophisticated segmentation of the impact investment spectrum. Omidyar Network, in particular, takes up this challenge in ‘Across the Returns Continuum,’ providing a more subtle and holistic understanding of the space.[13] However, to understand the spectrum fully, more research is needed to fully explore the relationship between financial return and impact, and far more transparency and detail are needed when it comes to financial data.

Figure 2: The Returns Continuum Framework



Source: Omidyar Network (2017).

Impact investing is in danger of failing to play the role that is needed from it. The following five sections of this paper set out concerns that pose major threats to its ongoing effectiveness.

Impact investing and public aid

Oxfam is engaged in an active debate about how to minimize social risks and maximize social impact associated with private development finance.[14] This debate is linked to the impact investing space, as bilateral and multilateral aid donors engage directly in impact investing as donors and as investors. Bringing impact investors together with aid practitioners in conversation about the risks and opportunities around private funding of development goals would benefit both communities. The following areas are ripe for consideration, and Oxfam will be publishing a paper on public aid and private sector in 2017:

- Linking impact investment to sustainable development objectives (including the SDGs);
- Application of aid effectiveness principles (e.g., transparency, local ownership);
- Application of human rights due diligence and remedy mechanisms as articulated by the UN Guiding Principles on Business and Human Rights; and
- Demonstrating additionality of impact investment (both financial and developmental, ex ante and ex post).

2 FINANCIAL RETURN TARGETS DO NOT REFLECT ENTERPRISE PERFORMANCE

> *'Those of us actively allocating capital to fragile enterprises in developing markets recognize that those people who promise comfortable market-rate returns while solving global poverty are the equivalent of diet gurus promising that one can lose weight while eating limitless amounts of chocolate cake.' (Greg Neichin and Diane Isenberg, in Next Billion* [15]

The GIIN has reported that impact assets under management grew to US$35.5bn in 2015 from $25.4bn in 2013 with more than 80 percent of this capital seeking market rate or close to market rate returns.[16] Oxfam and Sumerian reviewed evidence on whether impact investments in both the UK and emerging economies were achieving these goals, with a primary focus on emerging economies.

Evidence from the UK

Social investment,[17] while arguably distinct from impact investing, is aligned with impact investing in terms of its overall goals (e.g., catalyzing finance to enable positive social change). The independent research and data analysis available in the social investment field provides useful insights. The 2015 study by EngagedX is the first systematic analysis of a robust data set on financial returns to a specific subset of the social investment market in the UK: those investments prioritizing providing capital to social purpose organizations rather than optimizing financial returns.[18] The study found annualized total returns equating to -0.77 percent and some funds targeting untested approaches incurred much greater losses. Boston Consulting Group (BCG) research on the UK's Futurebuilder Funds, which provided loan financing and grants to third-sector organizations in England, shows similar results. Futurebuilder invested £145m in loans and grants into in 369 organizations. The 20 percent of loans either paid down or written off resulted in a negative internal rate of return of -3 percent.[19]

It would be a mistake to see these outcomes as disappointing. Instead, in terms of financial sustainability, this is a huge improvement over the provision of grant capital. 'Given the pioneering nature of the fund, the fact that it was targeting organizations that were unused to accepting loan finance and that the period included a major financial shock, this performance is unarguably more positive than might otherwise be expected.'[20]

Evidence from emerging economies

In analyzing financial performance of emerging market impact investing funds, data and research gaps make it very difficult to tell a coherent story. We found that the field lacks comparable, detailed, and accurate data on financial performance at the fund level or indeed on the enterprise level. An analysis of a report detailing the return potential of the space, prepared for the Danish Ministry of Foreign Affairs, illustrates some of the measurement challenges. Funds in the study's sample appear to have achieved an 'acceptable level of financial performance.' The evidence for this finding is provided through a survey of existing investment vehicles, such as Regmifa, which reported median return on equity of 8.4 percent, Grassroots Business Fund (GBF), which recorded a current yield of 7.2 percent in 2014, and FMO government funds, which were characterized as achieving 'generally good financial results.' However, these results deserve more examination.

- Regmifa is a microfinance fund. The fact that a fund in this highly developed and sector that has already achieved scale is able to deliver strong returns should not be ignored, but it is also not strongly comparable to funds and enterprises profiled in this paper.
- GBF's reported 7.2 percent yield is a calculation of annual income (interest + dividends + fees) over the net value of the investment portfolio. This metric is helpful, but it does not include costs, nor does it recognize that 20 percent of GBF is funded by grants. It is impossible to make strong statements about the availability risk-adjusted returns unless the data enables comparison of net returns at the portfolio level.
- The statement on FMO government funds provides no data to back up the performance assertions at all.

Meanwhile, reports of performance at the enterprise level reflect outcomes that could not easily support commercial-rate returns. For example, the 2012 Monitor Group report 'From Blueprint to Scale,' states that Acumen Fund reported that its portfolio companies had an average profit after-tax of minus 20 percent. Its eight most profitable investee companies had an average profit of just 6 percent.[21] The Lemelson Foundation report 'Catalyzing Capital for Invention: Spotlight on India' states that 'India's impact-capital providers commonly cite financial return targets of around 20 percent, which fall within the range of commercial rate returns. Businesses developing products for poor populations are likely to follow more modest growth and profitability trajectories because the products and services are targeted at low- and very low-income consumers, and the objective is to build scalable business models on low-margin financial parameters.'[22]

Take the example of cooperative Kawa Maber, located in northeastern Democratic Republic of Congo, where infrastructure, whether in the form of Internet or functioning roads, ranges from poor to nonexistent.[23] Extortion is a constant challenge, and the threat of ethnic and political violence or a catastrophic weather event is ever-present. The business does not even have a formal address. Despite these challenges, Root Capital underwrote a loan to Kawa Maber. Where formerly these farmers were forced to sell their coffee at cut-rate prices to middlemen in the region, as a cooperative with ties to European buyers farmers now benefit from bargaining power that comes with selling at scale. An investment in Kawa Maber could not be supported by a fund targeting market-rate returns. Yet, Kawa Maber is revenue generating and creates abundant impact. Without the creativity of Root Capital and the investors and donors that support it, Kawa Maber would likely fall into the 'valley of death'.

There is a major disconnect. As one emerging market impact investment fund manager, who is achieving 6 percent net IRR told us: "A lot of people are coming in saying, 'I want full impact and full return, and want it in 7 years!' In that case, I tell them to go and show me anyone who is doing that, as it doesn't exist. But that is their expectation." Recent high-profile announcements feed this perception, such as TPG's Rise Fund.[24] The limited information available suggests that the fund will follow a well-worn path into such sectors as healthcare and clean energy in the US and financial services, housing, or telecoms in emerging economies—tapping into already proven, profitable, and scalable sectors that benefit from the rising spending power of the expanding middle classes. This is rather different than attempting to provide capital in hard-to-reach markets to serve the poorest people and support pioneering new products, services, or business models. There is a risk that overly ambitious return expectations will distort the enterprises themselves as investors pressure enterprises to increase financial returns at the expense of people living in poverty.

Root Capital is one of very few fund managers to state loudly and in public that financial returns and social impact are sometimes in tension:

> *'What we can categorically say, based on 15 years of experience, data from our loan portfolio and the approaches we've developed for measuring impact, is that there is a tradeoff between financial return and some types of impact in our work.'*[25] *(Willy Foote, CEO of Root Capital)*

3 FUND STRUCTURES ARE NOT DESIGNED TO MEET THE NEEDS OF MOST ENTERPRISES

> *'[F]or those with the flexibility and fiduciary responsibility to pursue direct impact in truly marginalized and underserved regions and communities, it's necessary to grapple with the reality that these contexts often require concessionary rates of return, an appetite for a range of risks (geopolitical, currency, security, etc.), as well as a need for creative structures and patient timelines.'*
> *(Greg Neichin and Diane Isenberg, in Next Billion*[26]*)*

Our experience leads us to conclude that most impactful enterprises want and need patient (greater than 10-year) capital with return expectations reflective of the additional costs and risks they face in their quest to generate meaningful positive social returns. For example, in 2007 Shell Foundation launched a long-term partnership that led to the formation of Envirofit, a global clean cook stoves business. Shell Foundation's multi-year investment allowed Envirofit the time to mature, going through a complete restructuring from a business-to-consumer, to a business-to-business model, and growing to the point that Envirofit has sold over a million stoves across 40 countries. Envirofit attracted external capital in 2013 after six years of Shell Foundation grant funding. The quote from the Mulago Foundation's Kevin Starr writing in the Stanford Social Innovation Review (SSIR)[27] puts our experience into context perfectly: 'A businessman in Africa told me that Coca-Cola lost money there for 12 years. In other words, it required over a decade for one of the most competent companies on Earth to break even on the sale of a mildly addictive sugary drink that is absurdly cheap to make. Imagine what it takes when you're focused on impact.'

It is important to respond to demand from large investors for socially responsible and impactful investment products and funds. But one of the key functions of impact investors is to find impactful enterprises that are not ready or suited to commercial investment and to match them with both philanthropic and/or investment capital so they can still reach their potential.

And yet, most impact investments are based on a 10-year, closed-end fund model. One solution to this problem is for the development of more creative longer-term structures (e.g., over 15 years), like evergreen funds and permanent capital vehicles. Bridges Ventures, a UK-based impact investment fund, in announcing its new evergreen fund, illustrated the importance of new fund structures. 'In most funds announced for social ventures to date, fund managers need to exit their investment to get their money back (plus any additional proceeds). Bridges says it chose this new structure because mission-led ventures often have long-term social goals, so they need access to long-term capital and support[28].'

Of course, funds can only provide financing that is aligned to enterprise needs if asset owners and other capital providers are willing to provide the money. The most damaging impact of excessive focus on market-rate returns for impact investments may be the setting of unrealistic expectations among large asset owners. Market forces dictate that the sector (in the absence of countervailing measures) will tailor its offerings to meet the needs of the largest providers of capital. This is already in evidence. It is important to respond to demand from large investors for socially responsible and impactful investment products and funds. But one of the key functions of impact investors is to find impactful enterprises that are not ready or suited to commercial investment and to match them with both philanthropic and investment capital so they can still reach their potential.

4 THE NEED FOR USER-CENTERED PRODUCTS SUPPORTED BY SMART SUBSIDY AND PATIENT CAPITAL

> *'If a company is building a water distribution system in Kenya or local food hub in North Carolina, why would they be funded using the same investment terms that were used to fund Snapchat, Instagram or Uber? When was the last time you saw an artisan sourcing project IPO or get acquired by Google?' (Aner Ben-Ami, Transform Finance Blog)*[29]

Enterprises prioritizing social impact operate differently from 'conventional' businesses and as such they need financial partners that will behave differently from conventional financial service providers.

Enterprises prioritizing social impact operate differently from conventional businesses and, as such, they need financial partners that will behave differently from conventional financial service providers. Adapting financing to the 'user experience' of the enterprise will be critical if this new cadre of businesses is to thrive. This was the perspective taken by Oxfam in its Enterprise Development Programme (EDP). EDP offers enterprises a flexible mix of tools, including loans, repayable grants, subsidy and training support to strengthen early-stage rural agricultural enterprises that fall in the missing middle gap between microfinance and commercial lending. For development projects focusing on small and medium sized business development, EDP signifies an important break from the traditional grants-only model. By participating in EDP, enterprises have the opportunity to improve their skills in financial management and administration and, when ready, pivot towards more sustainable funding. EDP loans are usually conferred through local financial institutions with a partial guarantee from Oxfam, which enables the supported enterprises to develop a credit history with the bank so that eventually they can seek a loan independent of Oxfam's support.

Similarly, Root Capital adapts its product offerings to the needs and capabilities of its client base. Rural agricultural enterprises often lack physical collateral required by most commercial banks in the emerging markets. As such, Root Capital practices cash flow-based lending against purchase orders and orients repayments around harvest or production cycles. Oxfam's Women in Small Enterprise Fund in Guatemala provides a 50 percent guarantee on loans issued by its cooperative bank partner to women-run small businesses. The guarantee increases the eligibility of women borrowers, who have access to significantly fewer assets for collateral than their male counterparts. These product innovations demonstrate a user-centric approach wherein the financing solution is tailored around the client's needs.

These three models start with a diagnosis of the challenge faced by rural agricultural and women-run enterprises and adapt their product offerings accordingly. All three are funded through a mix of investment or repayable grants and subsidies. Although they represent a departure from traditional aid, initiatives such as these are often dismissed as falling outside the scope of *real* impact investing. If you believe the goal of impact investing is to achieve market rate returns, these initiatives are outside the scope. However, if the goal of impact investing is to create more sustainable finance that is fit-for-purpose for traditionally marginalized enterprises—while providing those enterprises with much needed support to grow and recouping some or all of your costs—these initiatives are arguably outperforming standard benchmarks.

The growth of impact investing will depend on subsidies and patient capital that focuses on fostering impact-driven enterprises. Root Capital's loan officer in DRC and Uganda, Richard Tugume, describes its cross-subsidy model in a recent article in SSIR. 'Each year, I try to make five or six big loans to large, well-established businesses. These loans provide revenue to Root Capital, and the businesses meet our social and environmental criteria: They purchase crops from local farmers and often provide services like agronomic training and farm inputs. Then, in the rest of my portfolio, I make much smaller loans to earlier-stage businesses that have a harder time getting loans but show potential for growth.'[30] Root Capital's loans will generate a positive but below-market return, largely so that they can also fund more marginalized cooperatives that don't have access to funding and may well produce negative financial return and require a subsidy. Despite the added cost of underwriting and supporting cooperatives in high-risk locations, Root Capital justifies the support from an impact perspective, given the clear societal benefits of a cooperatives that only provided safe and reliable market access for its farmer members but provide many ancillary benefits as well (e.g., clean water and electricity). Root Capital's own revenue is further supported by philanthropic capital, which ensures a capital structure that is at once sustainable and protected from the inevitable risks implicit in lending in markets subject to considerable uncertainty.

Root Capital employs a rigorous analysis to justify this allocation of subsidy. Root Capital uses an 'impact/return hurdle rate' to evaluate, for prospective loans that are not expected to be profitable, whether the loan's expected impact justifies its expected cost. At the portfolio level, Root Capital has created a new approach to calculate the 'efficient impact frontier' for impact investments—that is, the set of optimal loan portfolios that offer the greatest total impact for any given level of aggregate risk-adjusted financial return. This supports decisions to construct a portfolio of investments that are all efficient across different areas of the spectrum of social impact and financial return (or subsidy)[31] and allows its donors and investors to 'distinguish between merely poor financial performance from intentional lower financial performance when combined with the intentional creation of social impact.'[32]

The need for patient capital is well documented. Shell Foundation stated it takes 6 to 10 years and between $5m to $20m for pioneering social enterprises to achieve impact and net positive cashflow. To put this into perspective for two social enterprises that are frequently referred to as success stories, both d.light and MKopa each received over $8m in smart subsidy from Shell Foundation prior to and in parallel with these impactful enterprises securing debt and equity investment

The need for patient capital is well documented. Shell Foundation stated it takes six to 10 years and between $5 million to $20 million for pioneering social enterprises to achieve impact and net positive cash flow.[33] To put this into perspective for two social enterprises that are frequently referred to as success stories, both d.light and MKopa each received more than $8 million in smart subsidy from Shell Foundation prior to, and in parallel with, these impactful enterprises securing debt and equity investment.[34] Similarly, patient capital can allow smaller enterprises to thrive over the longer term. The ability to stay committed to the enterprise over the long term, through the tough times, is the key to patient capital. Alongside investment that seeks a return *on* capital, we need more smart subsidy and patient capital that seeks to maximize impact but will accept a return *of* capital. This is precisely where donors and philanthropists have a key role to play as they can support promising, impact-driven enterprises with a diversity of user-centric, impact-first financial products.

5 LACK OF ROBUST DATA IS COMPOUNDED BY SALES HYPE

> *"'Impact Investing inches from niche to mainstream,' reads the headline of an upbeat Economist article to mark the start of 2017. The Economist joins a long list of publications and institutions announcing that impact investing has arrived. And, of course, if impact investing is going mainstream it's because there are more and more proof points showing that you can 'do well by doing good.' The water's fine and anyone can join in without fear of giving up financial returns." (Aner Ben-Ami, Candide Group Blog)* [35]

There is a mismatch in expectations between what investors want and what most impact-led enterprises can deliver, caused in part by lack of robust data and objective analysis. Most research on the field to date has focused on assessing the level of financial return associated with impact investing with little exploration of the impact side of the equation. Arguably the most comprehensive of these reports is 'Introducing the Impact Investment Benchmark' by Cambridge Associates and GIIN.[36] This report states that, 'In aggregate, impact investment funds launched between 1998 and 2004—those that are largely realized—have outperformed funds in a comparative universe of conventional private investment funds' and draws the conclusion that 'market rate returns are attainable in impact investing.' This conclusion is drawn despite the fact that the report included no data or commentary on the associated impacts achieved. Instead, the report uses a self-reported intention to generate social impact as the only impact-related inclusion criteria for inclusion in the benchmark. Impact measurement is challenging and aggregating data across a variety of strategies and geographies would be complex, however, '[t]he message coming from the benchmark as it is currently stands is that good intentions are enough, while good returns are great.' [37]

The assertion about return potential in the Cambridge Associates and GIIN report was drawn from an analysis of only 51 funds, all of which targeted net 15 percent or greater financial returns. The study sample's weighting towards the financial inclusion sector was said to reflect 'the historically strong appetite for microfinance funds among impact investors.' Microfinance is an established asset class that benefitted from an estimated US$20 billion in subsidy and patient capital from multiple donors over 20 years.[38] This long history of subsidization underpins much of the positive financial returns now being achieved. Furthermore, almost 70 percent of the fund data included in the benchmark are based on unrealized returns (36 funds out of 51 are from Vintage year 2005 to 2010). An unrealized gain is a profit that exists on paper, resulting from an investment. It is a profitable position that has yet to be sold in return for cash. Based on experience in the venture capital market, valuations of unrealized investments very often are inflated.[39] In essence, the report's findings, drawn from a small pool of funds that targeted market-rate returns—most of which are based on unrealized gains and none of which demonstrated proof of impact—has now established a benchmark that market rate returns are possible in impact investing. Reports such as this play an important role in influencing the views of investors and serve to reinforce a common narrative that is amplified and echoed in the press and in secondary research. They shift the goal posts for the field as a whole. The previously cited report commissioned by the Danish Ministry of Foreign Affairs report surveying impact investing and innovative finance for sustainable development includes a dedicated section on financial returns that cites the Cambridge Associates and GIIN Report as follows.[40]

Reports such as this play an important role in influencing the views of investors and serve to reinforce a common narrative that is amplified and echoed in the press and in secondary research. They shift the goal posts for the field as a whole.

'[A] study on the financial performance of impact investment funds by GIIN and Cambridge Associates established that impact investment funds have outperformed funds in a comparative universe of conventional, private investment funds. The results also show that emerging market impact investment funds have returned 9.1 percent to investors (9.7 percent for those focused on Africa) versus 4.8 percent for developed market impact investment funds.' [41]

It would be unfair to say definitively that these interpretations of the GIIIN and Cambridge Associates report are incorrect. Yet, in summarizing the research findings, this study by the Danish Ministry of Foreign Affairs omits vital caveats, such as the fact that the only funds examined were market-rate return seeking or that the report carried no analysis of impact performance. Reports such as theses amplify the GIIN and Cambridge Associates report's headline conclusion that market-rate returns are attainable in impact investing when, in reality, it would be more realistic to say that the data do not rule out the possibility of market-rate returns among a particular sub-set of impact investments (which are most attractive to market return-seeking investors).

The GIIN 2016 Annual Investor Survey reported that the one of the biggest challenges to the growth of the field was 'a lack of high-quality investment opportunities (fund or direct) with track record.' In our view, the issue is less about a lack of deal flow and more likely a function of unrealistic expectations encouraged by the lure of 'full impact and full return.' As noted by respondents in the DFID Impact Programme's 'Survey of the Impact Investing Market 2014' report, if pressure on financial returns were to be reduced, a wider selection of potential businesses—including early stage firms—should be available for investment.[42]

The issue is less about a lack of deal flow and more likely a function of unrealistic expectations encouraged by the lure of 'full impact and full return''

There are clear opportunities for new research that could better inform expectations of both financial performance and impact. For example, our review of available research finds that the following information is not commonly accessible:

- **Net returns at fund portfolio level**. This is vital to understand performance once all costs have been factored in, if possible, including grant funding for technical assistance or cross-subsidizing from donors or investors who forgo their share of profits.
- **Research focusing on impact funds and enterprises targeting below-market returns**. Research and analytics organizations are focused quite narrowly on the segment targeting market returns. This research would help support and grow the investor base seeking blended returns and capital preservation. DFID's Impact Programme's 'Survey of the impact investment markets 2014'[43] makes a strong start in surfacing the merits of lower return strategies, which tend to disproportionately support businesses that are innovative, early stage, and reach people living in poverty. Omidyar's 'Returns Continuum Framework'[44] provides a tool for understanding different return strategies and highlights the strength of those lower financial return opportunities that deliver high levels of market impact.
- **Comparable financial and impact data**. Very few organizations have datasets that include detailed information on both financial performance and impact performance, sufficient, for example, to compare financial performance against impact approach, enterprise type, etc. This is partly due to the difficulty of standardizing impact metrics and the cost of collecting data. However, organizations such as Root Capital have demonstrated that it can be done.[45]
- **Research exploring the tension between financial performance and impact performance**. In a related point, research examining the relationship between financial and impact performance in an aggregate sense has the potential to help clarify the areas where investors with different approaches and objectives might want to focus their capital and effort. The only systematic examination of the relationship between financial performance and social performance found in our

review of the research comes from a team of academics in Brazil (Lazzarini, et al, 2014).[46] They construct an analytical framework of different types of impact investments according to whether financial and social goals are naturally aligned as *complements*, or when seeking greater profits might undermine social performance and so they are *substitutes*. The authors go on to distinguish *finance-first*, *balanced*, and *impact-first* investors—not only on the tension or complementarity of financial and social returns, but also on the time horizon for profits, and the need to use innovative financing approaches.[47]

- **User experience**. There is little research exploring the demand side of the financing equation; more understanding of enterprise financial needs would improve outcomes for the field.

Researchers, analysts, and funds are producing innovative and interesting work based on the data that is available. But a pattern has emerged in industry-oriented publications of presenting findings and conclusions with a level of certainty and generalization that is not justified by the data. This enthusiasm risks harming both the reputation of impact investment and the effective development of a sector that is still very much in its infancy. It is especially marked in reports covering the broad landscape of impact investing and those aimed at reaching mainstream audiences.

Jess Daggers and Alex Nicholls at SBS (Oxford) published in 2016 an analysis of trend and opportunities in social impact investment research.[48] They found a 'nascent field of research in which there was considerable interest and potential, but currently no substantial core of ideas, theory, or data.' The limited number of academic contributions until now is described as 'scattered and disparate,' and these are clearly not sufficient to balance the assessments from organizations with a direct interest in the investment sector.

6 INTENTIONALITY TO ACHIEVE IMPACT IS GETTING SIDELINED

> *'Not all businesses that have an impact should be classified as impact investments. The mobile phone, for example, has had a positive impact on the lives of billions of people. But investments in Nokia and Samsung products are not impact investments. The clean tech and biotech products (such as Tesla and biotech companies fighting tuberculosis) aren't either. Otherwise, theoretically any legitimate business could claim it was 'an impact company.' (Kim Tan, SSIR)* [49]

Every enterprise has the potential to create a positive impact, yet those funded by impact investing should be uniquely impact-driven. The GIIN's definition of impact investing refers to investments made into companies, organizations and funds with *the intention* to generate a measurable, socially or environmentally beneficial impact alongside a financial return.[50] Intentionality is the critical point, and for Oxfam and Sumerian, this is predominantly about tackling poverty. While socially responsible investing is to be encouraged, we would not categorize efforts to 'do no harm' or to apply an impact filter to existing investments as equivalent to impact investments that prioritize positive impact. Impact investing fills a unique role in the market, channelling investors and targeting enterprises that carry the intention to generate positive impact. This impact is not merely incidental for the investor and the entrepreneur, but is the primary driver.

There appears to be a growing tendency to re-brand a broad range of emerging market investing as 'impact investing,' which dilutes and obscures the intentionality to achieve impact as well as financial returns. This tendency is likely tied to the drive to attract mainstream investors, particularly institutional investors.[51] We believe, as others have observed, that this can lead to ‘mission drift as those investors require strong financial returns and larger deal sizes.’ [52]

There appears to be a growing tendency to re-brand a broad range of emerging market investing as ‘impact investing’, which dilutes and obscures the intentionality to achieve impact as well as financial returns. This tendency is likely tied to the drive to attract mainstream investors, particularly institutional investors . We believe, as others have observed, that this can lead to ‘mission drift as those investors require strong financial returns and larger deal sizes’.

Kim Tan and Brian Griffiths take up the re-branding issue in their 2016 book, *Social Impact Investing: New Agenda in Fighting Poverty*. They argue that not every business that has an impact is an impact investment, as the intention to do good does not drive the business. They give such examples as mobile phone companies or infrastructure companies whose products have benefitted the lives of billions of people but are not impact investments. They do not produce products primarily intended for the use or benefit of poor communities, even if they do eventually reach some people living in poverty. Nor are their operations primarily located close to, or within, poor communities to serve or employ those people.

Another example is TPG’s investment in Apollo Tower, a cell phone tower company in Myanmar that, according to supporters, developed impact because cellphone access was significantly increased and ‘helped to increase transparency in a country known for tight control of its information, helping the nation take steps toward democracy.’ [53] It should not be assumed that an investment in a cell tower, or a wind farm, or any other enterprise in the Global South is inherently socially positive. Rather, it should be incumbent upon the fund to demonstrate how these enterprises are intentionally structured to optimize impact and benefit poor and marginalized groups, rather than only providing implied, incidental or indirect benefits. They should be able to show what difference the fund’s provision of capital and support and engagement has made. Any self-identifying impact investor should be able to demonstrate a clear intentionality to achieve impact.

As illustrated in the figure below from Bridges Ventures and Skopos Impact Fund publication, ‘More than Measurement: A Practitioner’s Journey to Impact Management,’[54] an impact investment process should include: establishing goals for the positive change the fund seeks to enable; identifying indicators to measure that the changing is taking place; identifying impact strategies; setting impact targets (akin to financial hurdle rates);; measuring and analyzing the data; and making sure that the findings are integrated into the investment process going forward.

Figure 3: The Impact Management Approach

Source: Bridges Ventures and Skopos Impact Fund (2016)

Impact investors should also commit to business process adaptations. These include: ensuring that an assessment of potential impact is core to all investment decision-making; supporting investee partners' efforts to maximize impact, ideally co-developing impact indicators; enabling an open dialogue with investee partners, especially in managing situations where impact and profit may be at odds; and ensuring that any exits are managed in ways that avoid unintended or adverse impact. As noted by Kevin Starr[55] in SSIR, impact investors distinguish themselves through three steps:

1. Commit to impact. You make a commitment to put impact first in your funding calculus and hold yourself accountable to it.
2. Learn what that means. You do what it takes to get a working understanding of what impact is and how to measure it.
3. Fund for impact. You actually put in place mechanisms and a methodology to ensure that impact drives your decisions.

We are not naïve in assuming that this is easy. Gathering good impact information and managing against it can be a challenge for both funds as well as downstream enterprises. The Oxfam's Small Enterprise Impact Investing Fund (SEIIF), launched in 2012 to finance small enterprises seeking to reduce poverty in developing and emerging economies, originally selected an extensive set of indicators that investees would be required to collect and report as a condition of investment. In SEIIF's case, investees are financial intermediaries who themselves need to collect this data from enterprises to which they lend money. As SEIIF's 2012-2014 impact report notes, 'Since inception, there has been tension between SEIIF's desire to collect data that demonstrates impact, and the delays this causes with respect to investment deal negotiations and closings, as well as the diversion of the SEIFF's scarce resources to set up systems for measuring impact.' Most investee companies saw impact reporting as a cost rather than a strategic enabler. Investee companies didn't have technical or human resources to meet their measurement requirements and the data sometimes suffered. This tension caused SEIFF to redesign its impact measurement process. This involved conversations with investees to identify the most meaningful, easy-to-collect and internally relevant indicators for investees. SEIIF's experience shows the importance of committing to impact measurement despite challenges and highlights the need to strike a balance between a robust impact methodology and an achievable standard for investees.

At the enterprise level, intentionality is also critical. There has been an insufficient examination of the underlying business models and firm characteristics that best drive impact. For all firms, commercial decisions—such as prices charged to consumers, wages paid to workers, prices paid to farmers and making investments that create jobs—must all be weighed against diverse commercial and social objectives. Such decisions to increase impact can be constrained by pressures to pay interest or dividends to investors.

Financing enterprises that prioritize positive social impacts at key moments (while retaining commercial viability) is at the heart of the intentionality of impact investing. Take Furaha, the Root Capital funded coffee cooperative in eastern DRC, which not only provides farmers with a route to a safe and reliable market but also access to clean water and electricity.[56] If Furaha was a profit maximizing firm, it could choose to forfeit these investments in its farmer members to instead distribute returns to its investors. Enterprises such as Furaha that give greater power to stakeholders such as workers, farmers, consumers, and communities are intentional about prioritizing positive social impact.

One focus for intentional impact would be an enterprise's commitment to the empowerment of women. Research shows the clear outsized impact of investing in women, often called the 'gender dividend,' [57] resulting in positive increases in per capita GNP as measures of gender equality increase. Research shows that women reinvest

90 percent of their income into their families,[58] compared to only 30 percent to 40 percent for men. Enterprises that commit to women's empowerment goals as part of their business strategy should be prioritized by impact investors, as they will accelerate their poverty alleviation. As put by former UN Secretary General Kofi Annan, 'Gender equality is more than a goal in itself. It is a precondition for meeting the challenge of reducing poverty, promoting sustainable development and building good governance.'[59] This is why organizations such as Oxfam and Root Capital have made such a dedicated effort to supporting enterprises that include women in a meaningful way.

There is a range of enterprise structures available for impact investors to support (both ownership and governance models, as well as legal forms).[60] Yet, further research is required as to which structures, approaches, and incentives are most effective in ensuring enterprises maintain an intentionality to optimize impact.

7 CONCLUSION

This paper does not make a pejorative value judgment. It tries to reflect an abiding sense that the reality of investing in hard-to-reach enterprises primarily for the purposes of fostering local poverty reduction and development seems to have very little to do with the appearance of the sector we see represented in the majority of industry reports assessing the impact investment sector as a whole. Many of the people who originally established the ideas underpinning impact investment and venture philanthropy expected a space where capital could be preserved while making impact, rather than one in which returns are made while preserving impact. Many of these stakeholders believe that there are substantial sectors where getting back 95 percent of capital while generating a clear positive impact represents excellent performance.

It is this feeling which drives a concern in some quarters that there is a real risk of the sector becoming discredited. The risk is not driven by poor management or performance, as such. It is driven by a trend of rising and in many eyes unrealistic expectations about financial returns from impact investments. This may lead both to capital being drawn away from (or not attracted to) vital investments that deliver low or zero returns, and also to the wider perception of failure of the sector if the availability of more data (as funds and enterprises mature) shows success rates and financial returns far below those that are being promised and now expected.

As discussed above, there is a strong case for differentiating far more clearly and carefully between the objectives and characteristics both of investee enterprises (demand side), and investors (supply side). We must look in the mirror and ask ourselves honestly, 'Who are we serving?' This should involve an honest assessment of the degree to which each player is looking to prioritize the generation of social returns and is willing and even expecting to make lower risk-adjusted returns in order to do so. This concession may not always be necessary, but it will certainly be necessary at some times. This should systematically be addressed.

Michael Etzel, a manager at Bridgespan Group, echoes this sentiment in a recent article for the SSIR:

> *'The time is right for philanthropists to become more active impact investors. Whereas, private investors may focus on finding businesses that can provide market-rate returns, philanthropy would do well to build its capacity to invest in the many sustainable enterprises that may never achieve outsized financial results but are capable of achieving some returns and significant social impact.'* [61]

The way forward for impact investing can be bright. It has the potential to adapt to meet the needs of impact-driven enterprises around the world. As articulated in the summary, we've identified six ways this can be achieved: (1) place an increased focus on the enterprise, versus the investor; (2) exhibit greater transparency around financial return as well as impact; (3) deploy smart subsidy and patient capital (particularly from public bodies and development finance institutions); (4) research best structures and approaches to maintain enterprise intentionality; (5) establish a voluntary code of practice to embrace good practices that make impact central to operations; and (6) implement incentives to maximize, measure, and report impact. We encourage a focus on all six from across the impact investment sector. The purpose of our report is *not* to undermine the objectives of impact investing. But unless we start to understand the nature and capabilities of enterprises targeted by impact investors, and become more transparent about assessing actual performance to date, we are concerned that a mismatch will emerge between the hype and the actual results. It would be a tragedy if impact investors missed the opportunity to have a meaningful impact on people living in poverty simply because they were only focused on one side of the story.

NOTES

1 A recent review by the Said Business School, 'The Landscape of Social Impact Investment Research,' revealed that 80 percent of the existing literature on 'social investment' was published by practitioners in the space, with 88 percent of reports aimed at investors specifically and with much of it with a stated objective of 'growing the market.'

2 This statement leaves aside the tax benefits that accrue to donors to non-profit organizations in some jurisdictions.

3 See such articles as 'New Study: Impact Investors Don't Have To Sacrifice Financial Returns,' Forbes, June 26, 2015.

4 Andrea Armeni, personal communication, February 13, 2017

5 GIIN and Cambridge Associates, 'Introducing the Benchmark,' June 2015

6 'Enterprise Solutions to Scale,' Shell Foundation, 2010

7 Patient capital has been defined as 'equity or debt whose providers aim to capture benefits specific to long-term investments and who maintain their investment even in the face of adverse short-term conditions for the firm.' See Richard Deeg, Iain Hardie; 'What is patient capital and who supplies it?' Socioecon Rev 2016; 14 (4): 627-645. doi: 10.1093/ser/mww025.

8 According to the ImpactBase database, 65 percent of funds are listed as 'Private equity/ Venture Capital,' and experience leads us to expect they follow the 10 year + 1 + 1 time horizon.

9 For examples of effective use of smart subsidy, see Michael McCrelass, 'Towards an Efficient Impact Frontier,' SSIR, Winter 2017

10 'Introducing the Impact Investing Benchmark,' Cambridge Associates & GIIN, 2015

11 https://www.hks.harvard.edu/centers/cid/programs/entrepreneurial-finance-lab-research-initiative/the-missing-middle

12 See, for example, 'Impact Investing – The Performance Realities,' by Anna Snider, Merrill Lynch, 2015.

13 Matt Bannick, Paula Goldman, Michael Kubzansky and Yasemin Saltuk, 'Across the Returns Continuum,' SSIR, Winter 2017

14 See https://www.oxfam.org/en/research/delivering-sustainable-development-principled-approach-public-private-finance

15 Greg Neichin and Diane Isenberg, 'Sorry, 'Feel Good' Investors: Deep Impact Requires Concessions,' NextBillion, January 19, 2017, http://nextbillion.net/sorry-feel-good-investors-deep-impact-requires-concessions/

16 The 2016 GIIN survey

17 According to Big Society Capital, social investment is defined as 'Social impact investment is the provision of finance to organizations addressing social needs with the explicit expectation of a measurable social, as well as financial, return.'

18 'The Social Investment Market through a Data Lens,' EngagedX, 2015.

19 http://www.sibgroup.org.uk/sites/default/files/files/Management%20and%20Performance%20of%20the%20Futurebuilders-England%20Fund.pdf

20 Ibid.

21 'From Blueprint to Scale: the Case for Philanthropy in Impact Investing,' Monitor Group, 2012

22 http://www.lemelson.org/sites/default/files/documents/CatalyzingCapitalforInvention.pdf

23 Drawn from https://blog.rootcapital.org/back-roads-to-boardrooms/northeast-congo-underdog-steps-into-the-ring

24 https://www.nytimes.com/2016/09/13/business/dealbook/tpg-social-impact-fund.html?_r=0

25 Maximising Impact – At a Cost, by Willy Foote, http://blog.rootcapital.org/back-roads-to-boardrooms/maximizing-impact-at-a-cost .

26 http://nextbillion.net/sorry-feel-good-investors-deep-impact-requires-concessions/

27 K. Starr (2012) 'The Trouble with Impact Investing,' SSIR.

28 Pioneers Post, 'Evergreen investment now available from Bridges Ventures,' Dec 6, 2016

29 http://transformfinance.org/blog/2015/7/26/square-peg-round-hole-innovating-finance-for-social-enterprises

30 https://ssir.org/articles/entry/toward_the_efficient_impact_frontier

31 Nilima Achwal, May 2016, 'The Dangerous Promise of Impact Investing,'conversation with Felix Oldenburg, published online in NextBillion.

32 Social Investment Research Council and EngagedX, _'The_Social_Investment_Market_Through_a_Data_Lens', June 2015

33 Shell Foundation, Reg Charity No. 1080999, Accelerating Access to Energy, 2014

34 Ibid.

35 http://www.pi-investments.com/blog/2017/1/24/winning-the-battles-losing-the-war

36 Introducing the Impact Investing Benchmark, Cambridge Associates & GIIN, 2015

37 B. Struewer and R. Tews 'Counterpoint: 'Market-Rate' Funds Should be Benchmarked to Impact, Too'

Impact Alpha, October 26, 2015

38 'From Blueprint to Scale: the Case for Philanthropy in Impact Investing,' Monitor Group, 2012

39 See EW Kaufman Foundations 2012 report, ' 'We have met the enemy and he is us,' Lessons from Twenty Years of the Kauffman Foundation's Investments in Venture Capital Funds and The Triumph of Hope over Experience'

40 Denmark MOFA (E.T. Jackson & Associates and Social Impact Markets) (January 2016), 'Better Knowledge, Stronger Impact: Lessons from Impact Investing and Innovative Finance for Sustainable Development.'

41 Denmark MOFA, 2016, page 40.

42 The Impact Program, 'Survey of the Impact Investment Market 2014'

43 https://thegiin.org/knowledge/publication/survey-of-the-impact-investment-markets-2014

44 https://ssir.org/articles/entry/across_the_returns_continuum

45 A notable exception can be found in Root Capital's 'Toward the Efficient Impact Frontier' published in SSIR's Winter 2017 edition

46 'The Best of Both Worlds? Impact Investors and Their Role in the Financial versus Social Performance Debate,' University of St. Gallen, Law & Economics Working Paper No. 2015-06, 38 Pages, last revised: 18 Aug 2015, by Sergio Lazzarini, Sandro Cabral, Luciana Carvalho de Mesquita Ferreira, Leandro Simoes Pongeluppe, and Angelica Rotondaro, August 2014.

47 Ibid.

48 Jess Daggers and Alex Nicholls (March 2016), 'The Landscape of Social Impact Investment Research: Trends and Opportunities,' SBS, Oxford.

49 Kim Tan, 'Impact Investing: Time for New Terminology?' SSIR, Oct 1, 2014

50 https://thegiin.org/impact-investing

51 *Financial Times*, 'Impact investing goes mainstream,' May 28, 2014

52 Survey of the Impact Investment Markets 2014

53 D. Bank (2016) 'Billionaires' Ball: Deconstructing TPG's $2 billion RISE Fund,' Impact Alpha, December 21, 2016

54 http://bridgesventures.com/wp-content/uploads/2016/12/Bridges-Skopos-More-than-Measurement-screen-view.pdf

55 https://ssir.org/articles/entry/the_pink_hats_were_awesome._now_lets_deliver

56 M. McCreless (2016) 'Toward the Efficient Impact Frontier,' SSIR, December 2016

57 World Economic Forum reports that across 134 countries, greater gender equality correlates positively with per capita gross national product; cited in 'The Gender Dividend: A Business Case for Gender Equality.' See more at: http://www.unwomen.org/en/digital-library/publications/2011/12/the-gender-dividend-a-business-case-for-gender-equality#sthash.wIvYgUd4.dpuf

58 Nike Foundation (2009) , 'The Girl Effect: Not Just about Girls: Engaging Men and Boys is Key to Girls' Ability to Achieve their Full Potential'

59 IMF, 'Catalyst for Change: Empowering women and Tackling Income Inequality' October 2015

60 http://www.enterprise-development.org/wp-content/uploads/Does-business-structure-influence-social-impact-OxfamDCED-Briefing-Note.pdf

61 https://ssir.org/articles/entry/philanthropys_new_frontierimpact_investing

About the authors

This discussion paper was written by Mara Bolis (Oxfam), Chris West (Sumerian Partners), Erinch Sahan (Oxfam), Robert Nash (consultant), and Isabelle Irani (Sumerian Partners) and is a joint initiative of Oxfam and Sumerian Partners.

Chris West was the former Director of Shell Foundation (www.shellfoundation.org), an independent charity that has a track record of catalyzing and scaling up social enterprises and sharing lessons learned (Reference: SF reports – 'Enterprise Solutions to Scale', 2010 and 'Accelerating Access to Energy', 2014)

Published by Oxfam GB for Oxfam International and Sumerian Partners under ISBN 978-0-85598-945-3 in April 2017.
Oxfam GB, Oxfam House, John Smith Drive, Cowley, Oxford, OX4 2JY, UK.

Citation: M. Bolis, C. West, E. Sahan, R. Nash and I. Irani (2017). *Impact Investing: Who are we serving? A case of mismatch between supply and demand*. Oxfam and Sumerian Partners. DOI: 10.21201/2017.9453

OXFAM

Oxfam is an international confederation of 20 organizations networked together in more than 90 countries, as part of a global movement for change, to build a future free from the injustice of poverty. Please write to any of the agencies for further information, or visit www.oxfam.org.

Sumerian Partners

Sumerian Partners advises and manages philanthropic capital on behalf of families, foundations, corporates and asset managers. www.sumerianpartners.com