

# Welcome to IMPACT INVESTMENT

## CLASS 1

### Introduction to Impact Investment

Course instructor:  
**Antonio Miguel**

# PETERBOROUGH SOCIAL IMPACT BOND

## BREAKTHROUGH IN IMPACT INVESTMENT

RECONVICTION RATE  
WITHIN 1 YEAR

**63%**

AVERAGE NUMBER OF  
PREVIOUS OFFENCES

**43**

AVERAGE NUMBER OF  
PREVIOUS CUSTODIAL  
SENTENCES

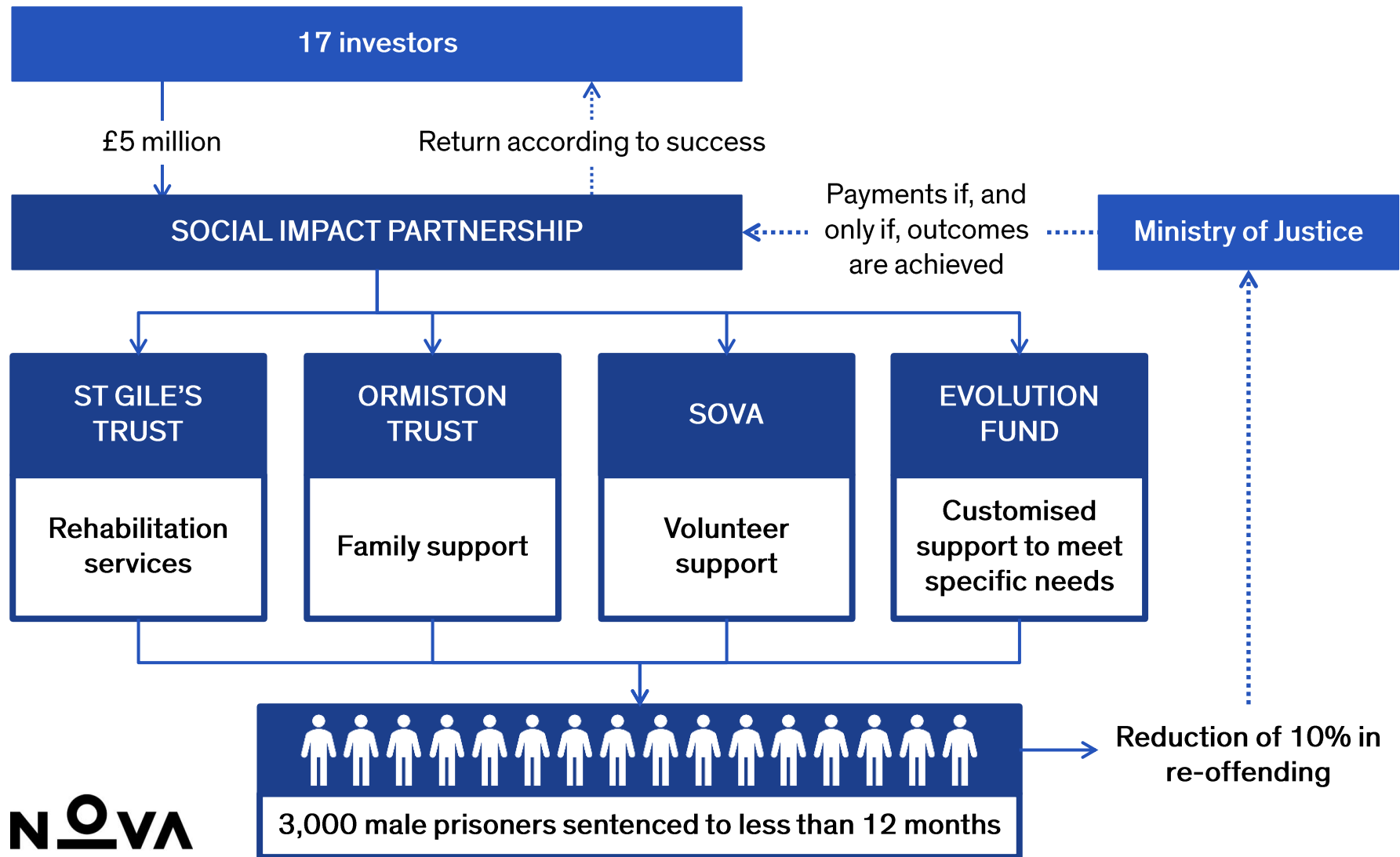
**7**

PETERBOROUGH SOCIAL IMPACT BOND  
**BREAKTHROUGH IN IMPACT INVESTMENT**

**Can a new financial product help solve this problem?**

# PETERBOROUGH SOCIAL IMPACT BOND

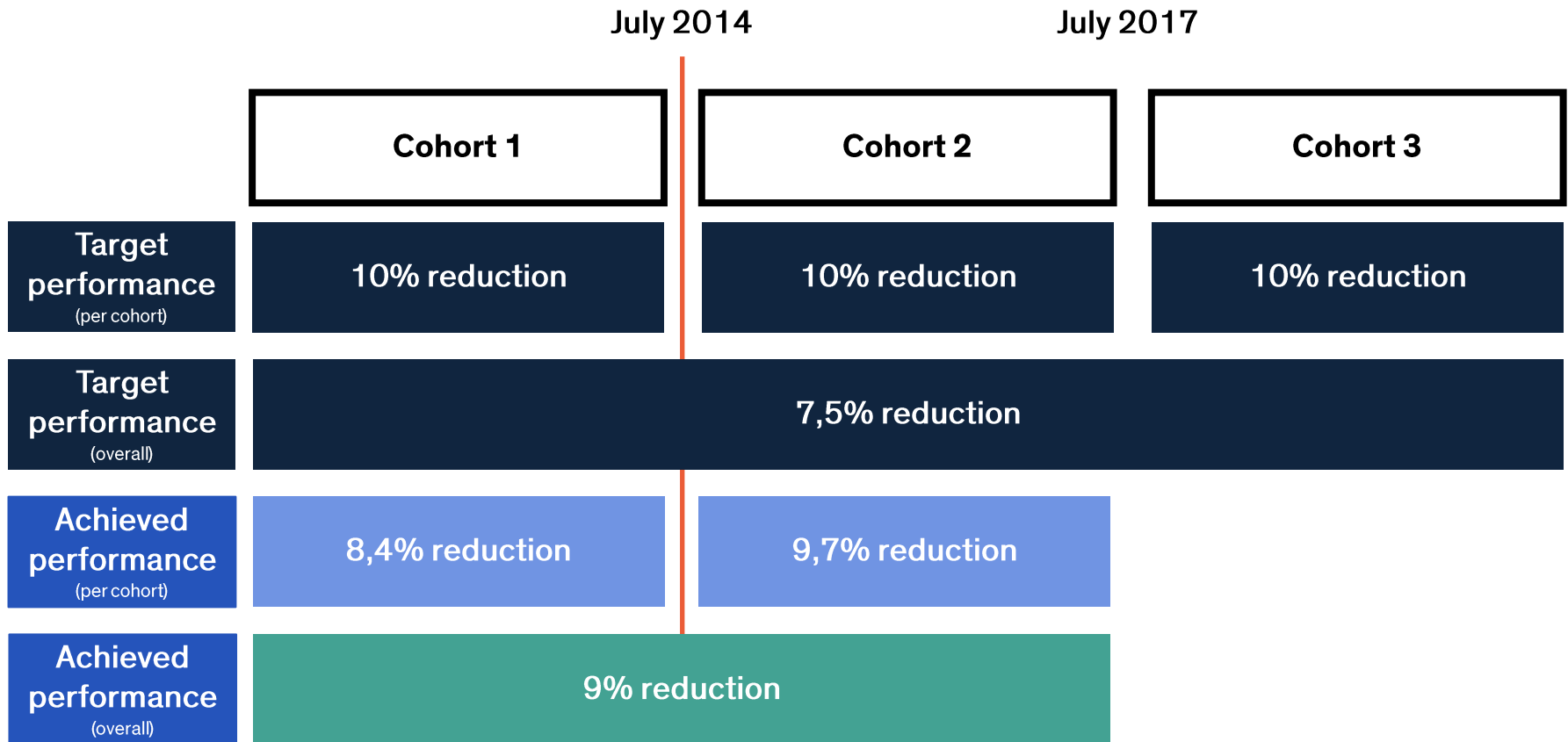
## BREAKTHROUGH IN IMPACT INVESTMENT





# PETERBOROUGH SOCIAL IMPACT BOND

## BREAKTHROUGH IN IMPACT INVESTMENT



**Government decides to roll out  
intervention nationally**

# IMPACT INVESTMENT

## THE BIG PICTURE

### The invisible hand of markets

# The invisible heart of markets

*"I want to use our G8 presidency to push this agenda forward. We will work with other G8 nations to grow the social investment market and increase investment, allowing the best social innovations to spread and help tackle our shared social and economic challenges."*

David Cameron Prime Minister, UK  
World Economic Forum, Davos 2013

*"It is urgent that governments throughout the world commit themselves to developing an international framework capable of promoting a market of high impact investments and thus to combating an economy which excludes and discards."*

Pope Francis, June 2014

# IMPACT INVESTMENT

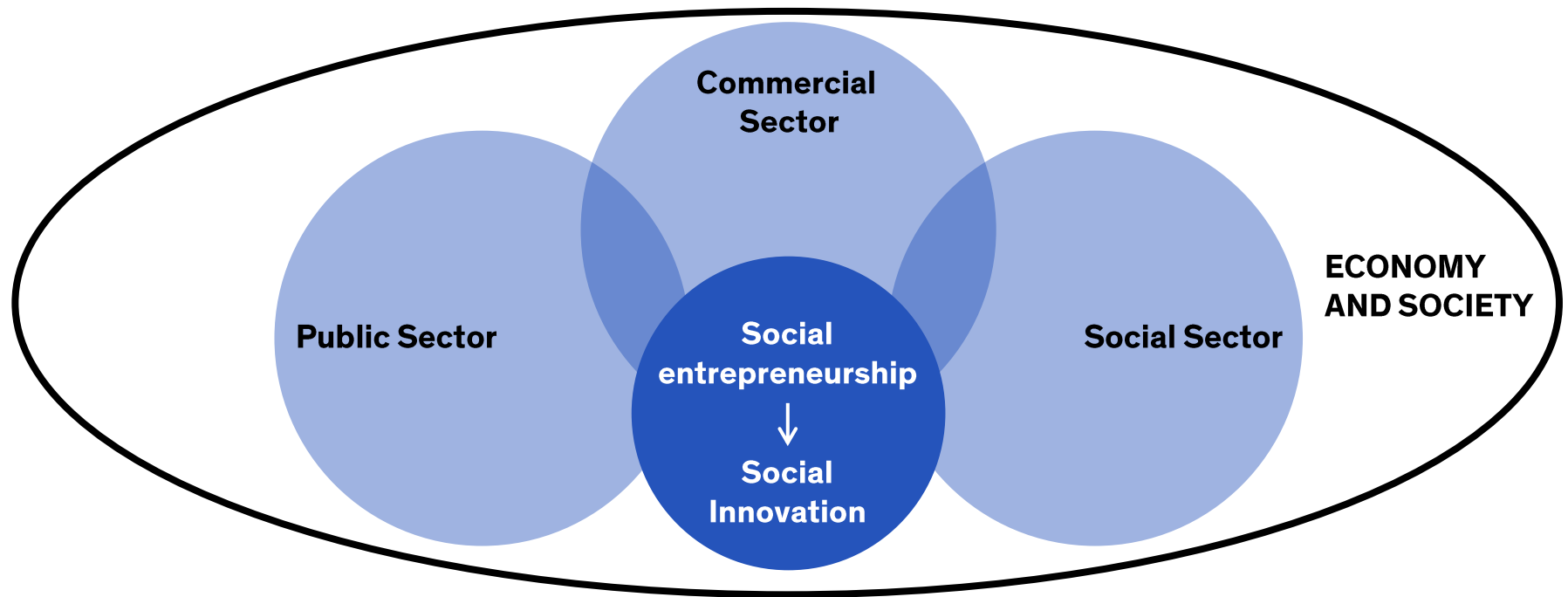
## THE BIG PICTURE

- > Increasing social problems
- > Decreasing public budgets
- > Social and economic costs of social issues
- > The age of impact entrepreneurship
- > **Shifting from outputs to outcomes**

# IMPACT INVESTMENT

## CONVERGENCE ECONOMY

**The increasing collaboration between the private, public and social sector is fostering the growth of the social innovation and social entrepreneurship sector** – this emerging sector is the source of many of the systemic changes, partnerships and innovation in the past decade.



# IMPACT INVESTMENT

## DEFINING KEY CONCEPTS

**SOCIAL ENTREPRENEURSHIP:** the process of developing and implementing sustainable solutions for neglected problems of society. This process can take place in different organisational contexts (e.g. a third sector organisation, a company, a public institution, or through a new organisation). Social entrepreneurship has some core principles that include **prioritising the delivery of value to society, a focus on innovation with regard to established rules and solutions, the pursuit of sustainability principles in the designed solution and the commitment to empower the main participants in the value chain.** Social entrepreneurship is thus different from, both the traditional approach to charity and the models of commercial entrepreneurship. The financing of social entrepreneurs and their innovations is one of the main focuses in the area of social investment.

**SOCIAL INNOVATION:** a distinct solution to a social problem with proven positive and superior impact to existing solutions, taking into account the opportunity cost of the resources used. A social innovation should, ideally, be simple in conception, replicable for other contexts and based on cheap and abundant resources or on highly scalable resources and business models. **Social innovation is thus the successful outcome of the process of social entrepreneurship. Given the difficulty in codifying and replicating social innovations, social investment has a focus on financing the dissemination of social innovations.**

# IMPACT INVESTMENT

## DEFINING KEY CONCEPTS

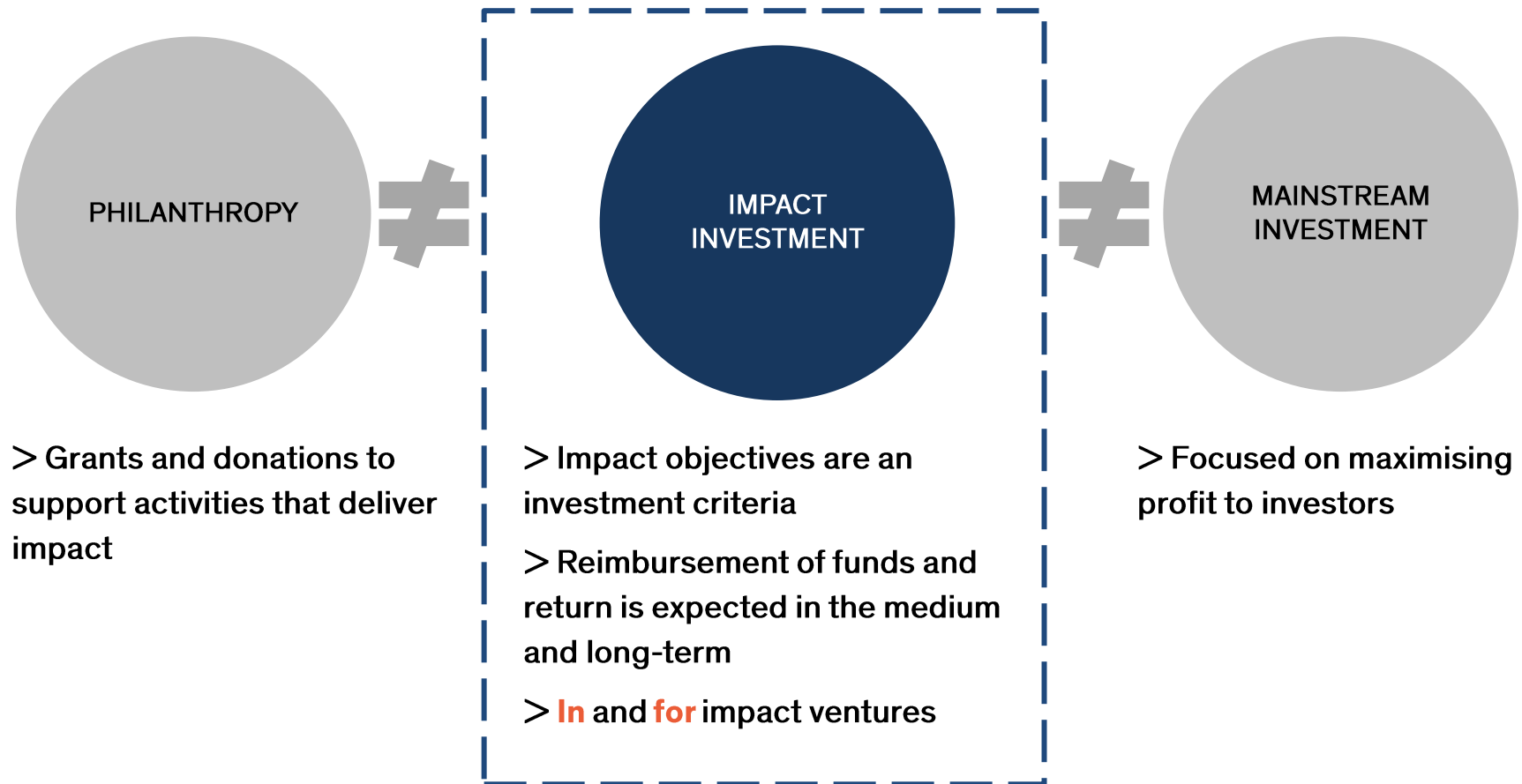
**IMPACT INVESTMENTS** are those that **intentionally target specific social objectives along with a financial return and measure the achievement of both.**

**There are different profiles among social investors:**

- **Those that prioritise profit**, in return for the achievement of a minimum expected level of impact.
- **Those that prioritise impact**, in return for a minimum expected level of financial return.
- **Those that don't believe in the trade off** between profit maximisation and impact and invest in areas where financial return and impact are highly correlated (e.g., ***lock step model***)

# IMPACT INVESTMENT

## WHY IT IS DIFFERENT



Traditional philanthropy and mainstream investment mechanisms are fundamental. Impact investment is a new, hybrid way, that improves access of social organisations to finance.

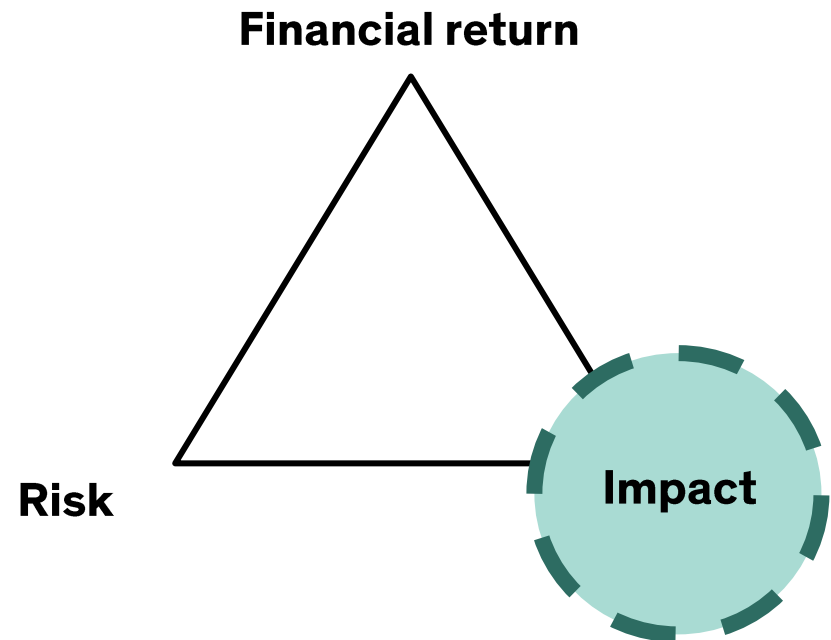
# IMPACT INVESTMENT

## A NEW VARIABLE IN THE INVESTMENT DECISION

**Impact investment brings a new criteria onto the investment process: impact/value creation to society.**

The correlation and link between variables does not need to be negative: **financial return and impact are not mutually exclusive.**

There is a fine balance between these variables that is achieved by aligning the incentives and interests from investors, investees and other relevant stakeholders.





# IMPACT INVESTMENT

## MATTHEW EFFECT IN THE SOCIAL SECTOR

IMPACT INVESTMENT	
<u>FOR</u> impact ventures	<u>IN</u> impact ventures
<ul style="list-style-type: none"><li>• Funding available for a specific project or initiative (project-based)</li><li>• Support available for a specific service provision</li></ul>	<ul style="list-style-type: none"><li>• Development capital for impact ventures</li><li>• Financial support to expand activities, scale business models, diversify services</li></ul>
E.g.: Funding an innovative service delivery model (navigator model) that supports homeless individuals back into housing	E.g.: Funding human resources, IT infrastructure in order to support the growth and expansion of social organisation.

# IMPACT INVESTMENT

## WHY IT IS AN ECONOMIC OPPORTUNITY

### #1 Global Problems Equal Global Opportunity



The 17 UN SDGs can be estimated to cost the global economy in excess of \$10T

### #2 Improved Employee Quality



74% of Millennials want a job where they feel their work matters

### #3 Increased Customer Engagement



66% of consumers will pay more for products from sustainable brands

### #4 Reduced Cost of Capital



Millennials will inherit \$31T by 2020 with 84% including ESG factors in investment decisions



# Welcome to **IMPACT INVESTMENT**

## **CLASS 2**

**The impact investment market infrastructure**

Course instructor:  
Antonio Miguel

# **CLASS 2: BUILDING A MARKET INFRASTRUCTURE FOR IMPACT INVESTMENT /// LEARNING OUTCOMES**

## **STUDENTS SHOULD BE ABLE TO:**

**#1 ARTICULATE AND DESCRIBE KEY CONCEPTS SUCH AS IMPACT INVESTMENT, SOCIAL ENTREPRENEURSHIP AND SOCIAL INNOVATION.**

**#2 IDENTIFY AND EXPLAIN THE VARIOUS FAILURES IN THE IMPACT INVESTMENT MARKET, AND ILLUSTRATE WITH EXAMPLES.**

**#3 IDENTIFY AND EXPLAIN THE 7 ELEMENTS OF THE IMPACT INVESTMENT MARKET INFRASTRUCTURE.**

**#4 PRESENT AT LEAST 1 LIVE EXAMPLE RELATED TO EACH OF THE 7 ELEMENTS OF THE IMPACT INVESTMENT MARKET INFRASTRUCTURE.**

**#5 DESCRIBING THE 3 MAIN ROLES THAT GOVERNMENT CAN PLAY IN THIS MARKET, AND ILLUSTRATE WITH EXAMPLES.**

# IMPACT INVESTMENT

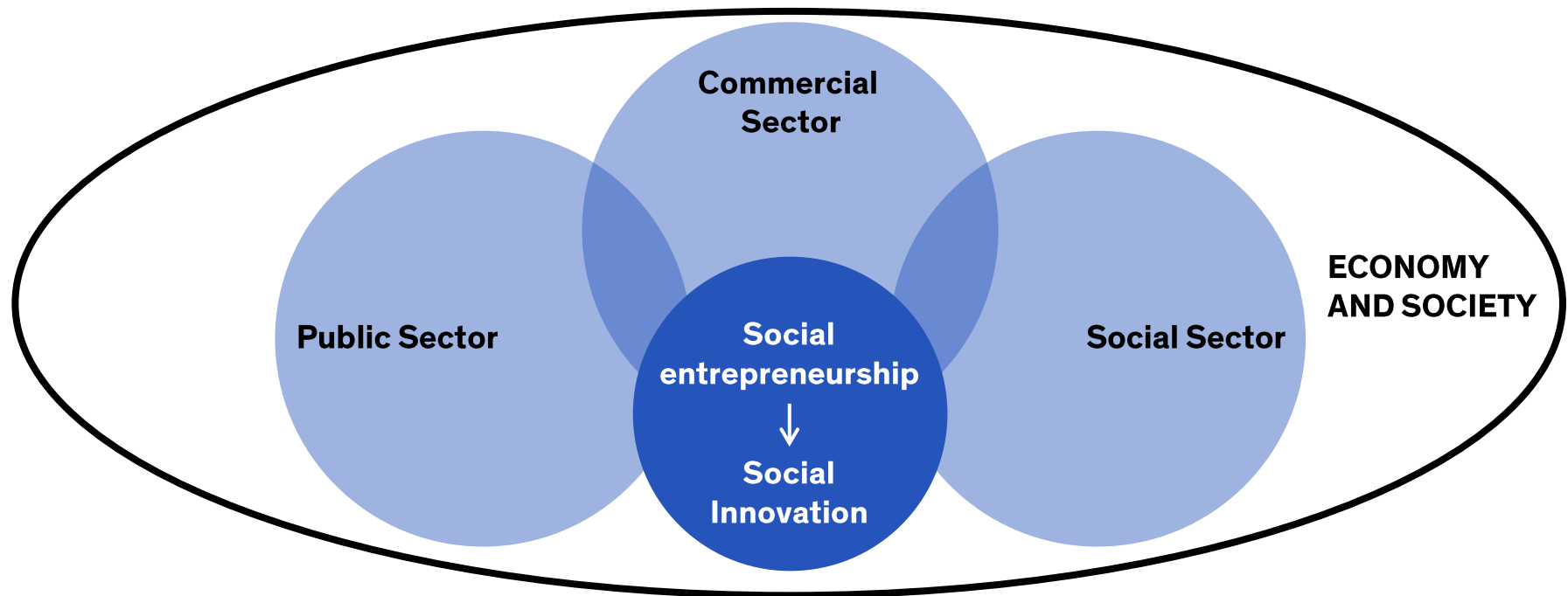
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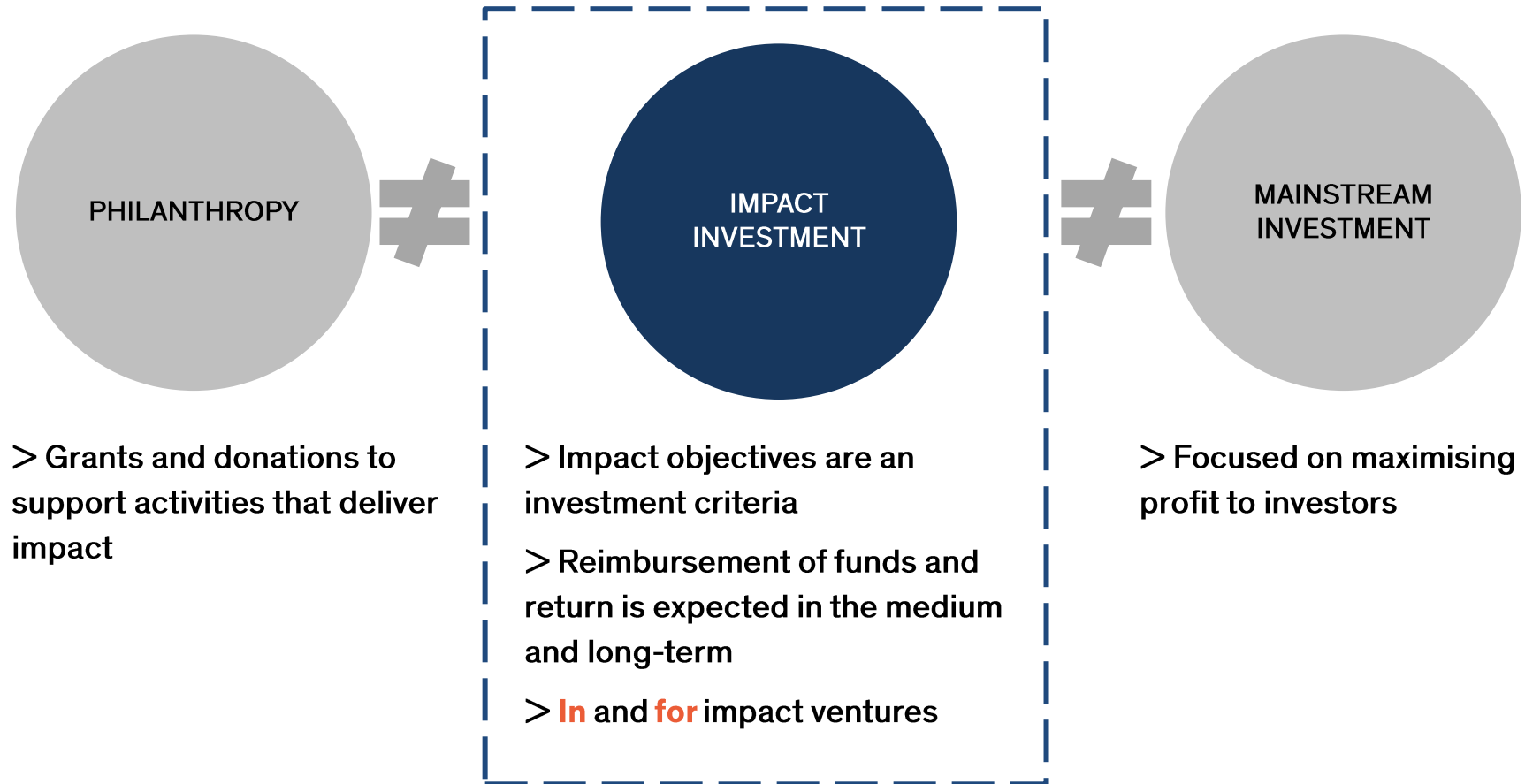
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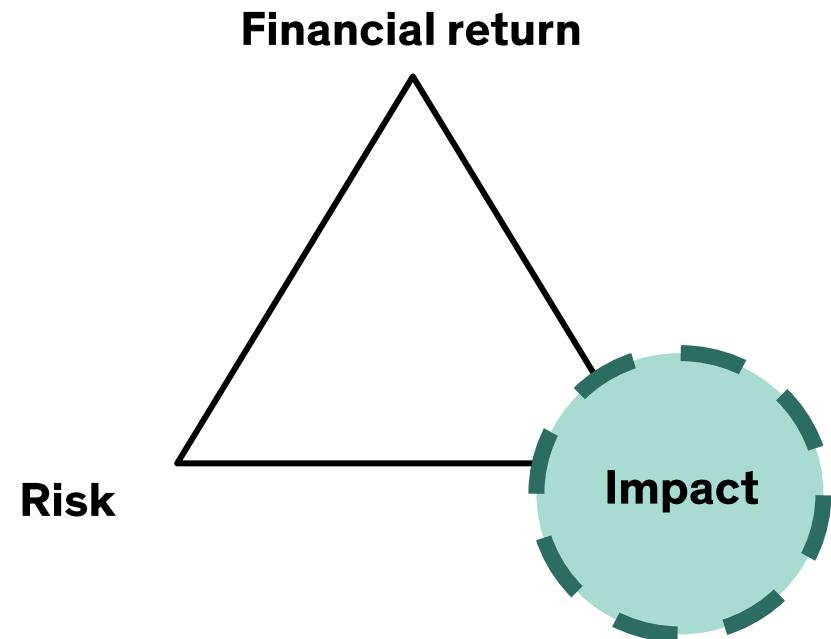
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# FAILURES IN THE IMPACT INVESTMENT MARKET

## PRODUCT AND LIFECYCLE FAILURES

Most capital failures in the impact investment market can be summarised at two levels: the **PRODUCT LEVEL** (i.e. Inadequacy of existing financial products for impact ventures) and at the **LIFECYCLE LEVEL** (i.e. Gaps in certain stages of a venture lifecycle).

### E.G. PRODUCT-LEVEL

Lack equity-based products because impact ventures often have legal structures where is not possible to issue shares.

### E.G. LIFECYCLE

Lack of early-stage investment due to high risk and little evidence / track record.

# FAILURES IN THE IMPACT INVESTMENT MARKET

## 5 MAIN FAILURES

THERE ARE 5 MAIN FAILURES IN THE IMPACT INVESTMENT MARKET THAT NEED TO BE ADDRESSED AS THE MARKET EVOLVES:

### #1 IMPACT VENTURES ARE UNDERCAPITALISED

Impact ventures are not able to raise the funds they need, run on deficit budgets which hinders their ability to deliver efficiently.

*E.g. in Portugal, this is around 750M€ / year*

### #2 IMPACT VENTURES ARE NOT ATTRACTIVE FOR INVESTORS

Impact investment is perceived as risky and associated to lower returns. *Though GIIN annual survey reports 91% investors indicating meeting or overachieving financial performance.*

### #3 PRODUCT OFFERING IS INCIPIENT

The lack of robust intermediaries compromises the long-term sustainability of the market given that they are crucial for product development and market competitiveness.

*E.g. impact financial products are rarely available at the retail level*

### #4 SUPPLY AND DEMAND MISMATCH

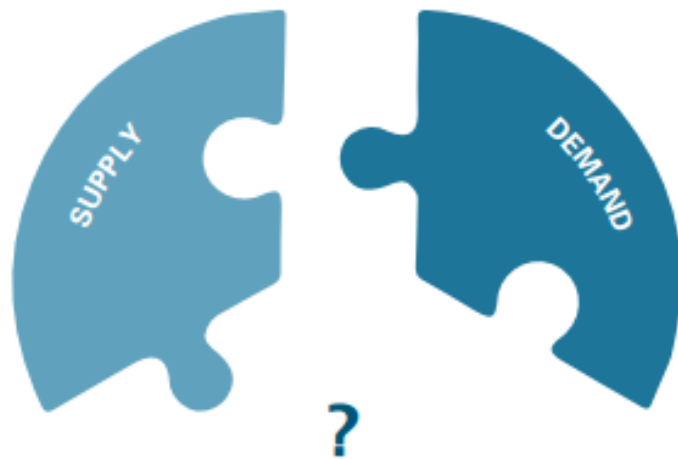
There is a gap between the size of Investments needed and the size of investment offered (i.e. average ticket size). *E.g. average ticket in the UK is 723,000 GBP whilst average investment sought by impact ventures is 58,000 GBP*

### #5 VULNERABLE MARKET INFRASTRUCTURE

There is little market infrastructure improving the investment readiness of impact ventures in order for them to attract capital. *E.g. lack of market intelligence, databases, etc..*

# MARKET INFRASTRUCTURE

INFRASTRUCTURE CAN BE DEFINED AS THE INSTITUTIONS WHICH “PROVIDE THE BASIC FRAMEWORK THAT SUPPORTS OR UNDERLIES A SYSTEM... IS ESSENTIAL TO SUPPORT COMMERCE, ECONOMIC ACTIVITY AND DEVELOPMENT... OPERATES A NETWORK WHICH FACILITATES THE DELIVERY OF GOODS AND SERVICES” (ANGELS IN THE ARCHITECTURE)



Infrastructure in financial markets can include data and information providers, brokers and advisors, trade bodies, product developers, research houses, education, skills and training providers, platforms and exchanges. These elements build confidence and credibility.

# THE 7 ELEMENTS OF THE IMPACT INVESTMENT MARKET INFRASTRUCTURE

## DEMAND

(of capital)

Who is seeking investment and for what purpose?

## PRODUCTS

Through what channels is capital matched with opportunities?

## INTERMEDIARIES

How is supply being matched with demand?

## SUPPLY

(of capital)

Who is providing investment and on what terms?

## IMPACT MEASUREMENT

What impact is created?

## GOVERNMENT ENGAGEMENT

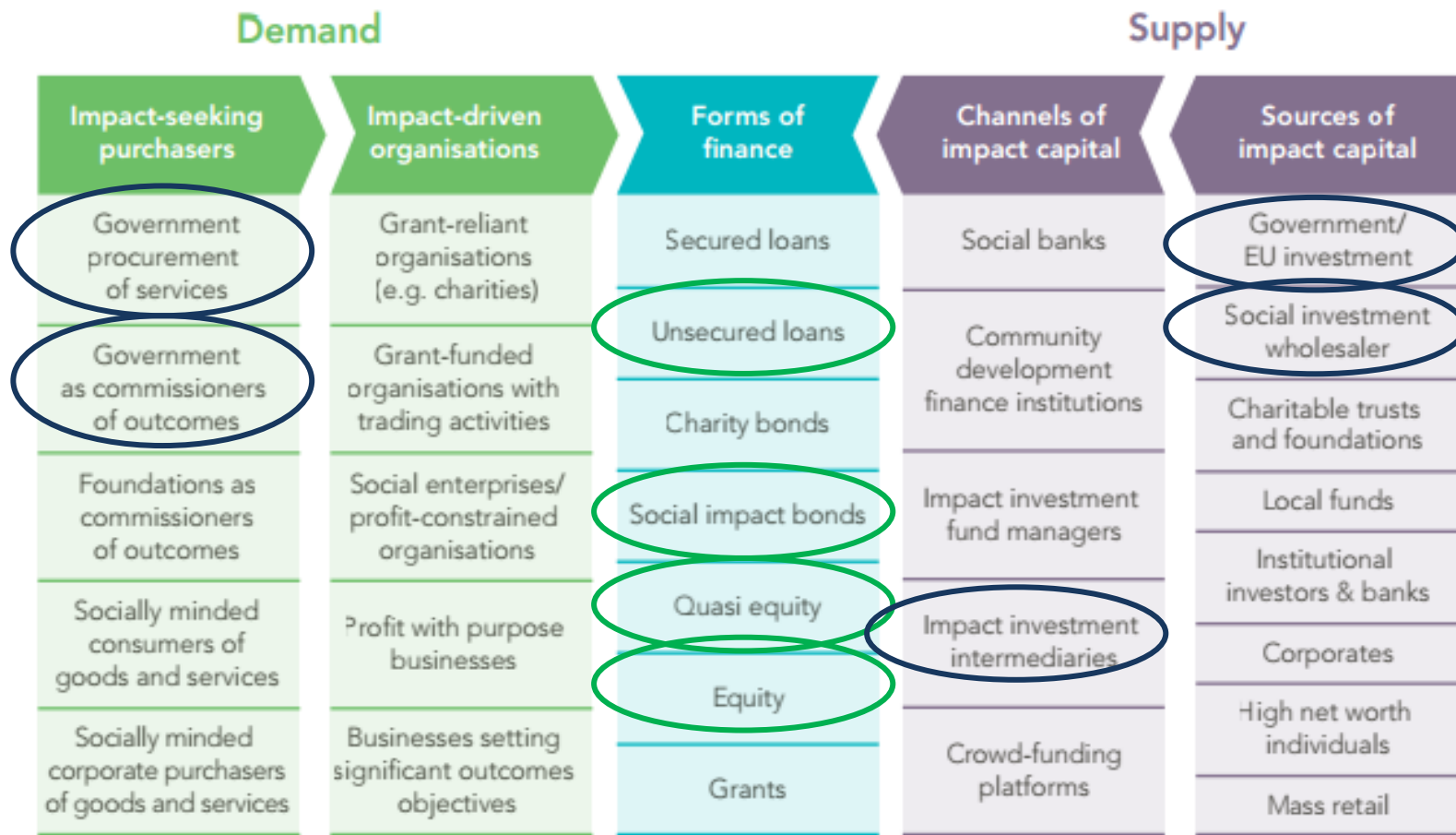
How can government enable the marketplace?

## LEADERSHIP

Who is providing leadership in this nascent field?



# WHO IS DOING WHAT IN IMPACT INVESTMENT?



# THE MULTIPLE ROLES OF THE PUBLIC SECTOR IN THE IMPACT INVESTMENT MARKET

> **Market builder.** This role involves taking on a leadership role and initiative with respect to developing the Impact Investment market. E.g. signaling it as a public policy priority, providing incentives for new activities, etc.

> **Market steward.** This role involves a government's position as a regulator or legislator. As market stewards, governments are responsible for removing barriers and ensuring that the intentions and reputation of the market are safeguarded over time.

Ruling initiatives include:

- Legislative measures (e.g. law around organizational frameworks, fiduciary duty, unclaimed assets, etc.)
- Fiscal and tax incentives
- Other regulatory measurements (e.g. rules around public procurement)

> **Market participant** as purchasers, commissioners, and providers of capital. E.g. in the amount of public procurement that is done from II market providers, in the way social services are commissioned, or through potential investment instruments.

# SUPPLY

THIS ELEMENT REFERS TO THE SUPPLY OF CAPITAL AND IS COMPRISED OF (IMPACT) INVESTORS AND SOURCES OF CAPITAL WHICH ARE AVAILABLE TO ALLOCATE CAPITAL IN THE MARKET.

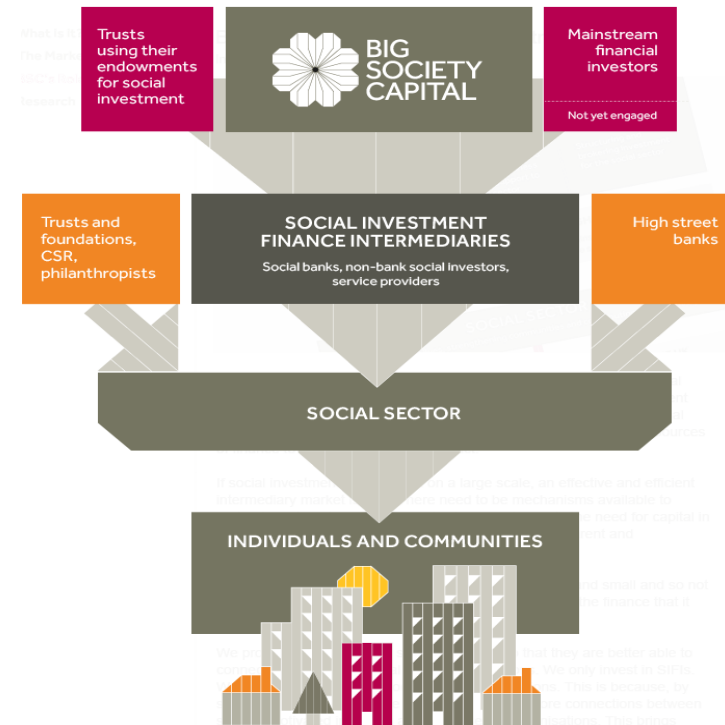
**SUPPLY**  
Who is providing investment and on what terms?

## LIVE EXAMPLE: BIG SOCIETY CAPITAL IN THE UK

Big Society Capital (BSC) is a wholesaler institution created in 2012 in the UK. BSC's mission is two-fold:

- **As an Investor:** To make a transformative impact on the social investment market by supporting Social Investment Finance Intermediaries (SIFIs) to become financially robust and effectively channel capital to the social sector.
- **As a Champion:** To raise awareness and increase confidence in, and the capacity of, the social investment market.

**How is BSC funded?** English dormant bank accounts: up to £400 million from the Reclaim Fund Ltd which collects dormant bank and building society account monies from UK banks and building societies + £200 million from Merlin Banks (HSBC, Barclays, RBC and Lloyds TSB).



# SUPPLY

THIS ELEMENT REFERS TO THE SUPPLY OF CAPITAL AND IS COMPRISED OF (IMPACT) INVESTORS AND SOURCES OF CAPITAL WHICH ARE AVAILABLE TO ALLOCATE CAPITAL IN THE MARKET.

## SUPPLY

Who is providing investment and on what terms?

## LIVE EXAMPLE: BIG SOCIETY CAPITAL IN THE UK

### How is BSC addressing market failures?

#### #1 IMPACT VENTURES ARE UNDERCAPITALISED

New products such as Social Impact Bonds, Unsecured Loans from Charity Bank, Revenue Shared Agreements from CAF Venturesome.

#### #2 IMPACT VENTURES ARE NOT ATTRACTIVE FOR INVESTORS

Acting as a cornerstone investor, first loss investor, early in-principle commitments, guarantor.

#### #3 PRODUCT OFFERING IS INCIPIENT

Support provided to intermediaries: Clearly So (business angel network); Social Finance UK (Social Impact Bonds); Mustard Seed UK (impact VC).

#### #4 SUPPLY AND DEMAND MISMATCH

Investment readiness and capacity building programmes to bring impact ventures up to speed and closer to investors' terms.

#### #5 VULNERABLE MARKET INFRASTRUCTURE

Market-building initiatives such as the social stock exchange, outcomes matrix, social investment research council.

# DEMAND

THIS ELEMENT REFERS TO THE DEMAND FOR CAPITAL AND IS COMPRISED OF IMPACT VENTURES (AND ALSO GOVERNMENT AS A COMMISSIONER OF SOCIAL SERVICES).

**DEMAND**  
Who is seeking investment and for what purpose?

## LIVE EXAMPLE: INVESTMENT AND CONTRACT READINESS FUND

The Investment and Contract Readiness Fund (ICRF) is managed by TSIB and aims to ensure social ventures are better equipped to secure new forms of investment and compete for public service contracts.

### OBJECTIVES

- Support impact ventures in attracting investment and bid for contracts
- Build capacity within impact ventures
- Increase the quality of the deal flow
- Develop the market for intermediaries

### PROCESS

- Managed by public institution
- Grants £50K-£150K
- Joint application with accredited providers
- Specific rules on grants
- Multiplying effect (>£500K forecast)

### IMPACT

- 213 applications, 94 approved, with 8.9£ committed to date
- 42 investment readiness, 52 contract readiness; average amount £100,000
- 8 completed projects, worth £815K resulted in £21.4m investment raised and 13.5£ contracts won

# DEMAND

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DEMAND  
Who is seeking investment and for what purpose?

## LIVE EXAMPLE: TECHSTARS IMPACT ACCELERATOR

Techstars Impact backs for-profit, mission-driven founders building tech to solve social & environmental problems. The program is based in Austin, an emerging leader in bridging tech & social innovation. The fund is backed by notable LPs Morgan Stanley Investment Management's AIP Private Markets Team & Impact America Fund.

Techstars invests \$120k into startups from around the world who believe solving pressing social & environmental problems can sit hand-in-hand with building a successful company.

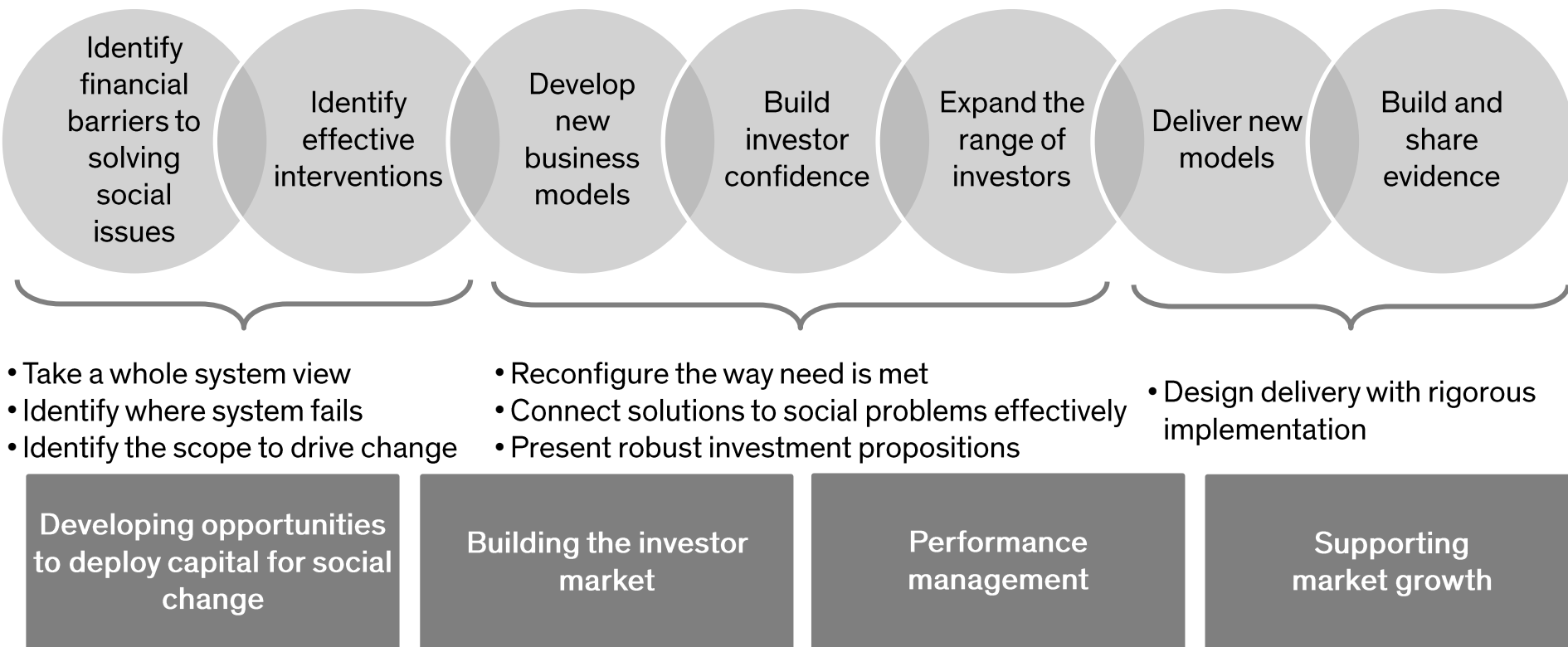
# PRODUCTS AND INTERMEDIARIES

WE WILL COVER DIFFERENT IMPACT INVESTMENT PRODUCTS IN THE NEXT 4 CLASSES (SIBS, VP, VC, ETC). INTERMEDIARIES ARE SPECIALISED ENTITIES MATCHING SUPPLY AND DEMAND.

## LIVE EXAMPLE: SOCIAL FINANCE UK

**PRODUCTS**  
Through what channels is capital matched with opportunities?

**INTERMEDIARIES**  
How is supply being matched with demand?



## IMPACT MEASUREMENT

# IMPACT MEASUREMENT

What impact is created?

THERE IS NO STANDARDISED IMPACT MEASUREMENT FRAMEWORK WHICH INVESTORS, VENTURES AND GOVERNMENT FOLLOW. HOWEVER, THERE ARE INITIATIVES IN PLACE WHICH PROVIDE INDICATION OF VALUE FOR MONEY ACHIEVED BY SUCCESSFUL IMPACT VENTURES.

## LIVE EXAMPLE: UNIT COST DATABASES

# Unit cost database UK

- The unit cost database brings together more than 600 cost estimates in a single place, most of which are national costs derived from government reports and academic studies.
- The costs cover crime, education and skills, employment and economy, fire, health, housing and social services.

**Homelessness**  
Local authority  
intervention per  
individual per year

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**£8,391**

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**Education**  
Exclusion from school  
per pupil per year

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Exclusion from school  
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**Drug Misuse**  
Drug-related offending  
and health per addict  
per year

---

**£3,631**

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**£3,631**

**Domestic Violence**  
Health and Criminal  
Justice cost per incident

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**£2,776**

**Domestic Violence**  
Health and Criminal  
Justice cost per incident

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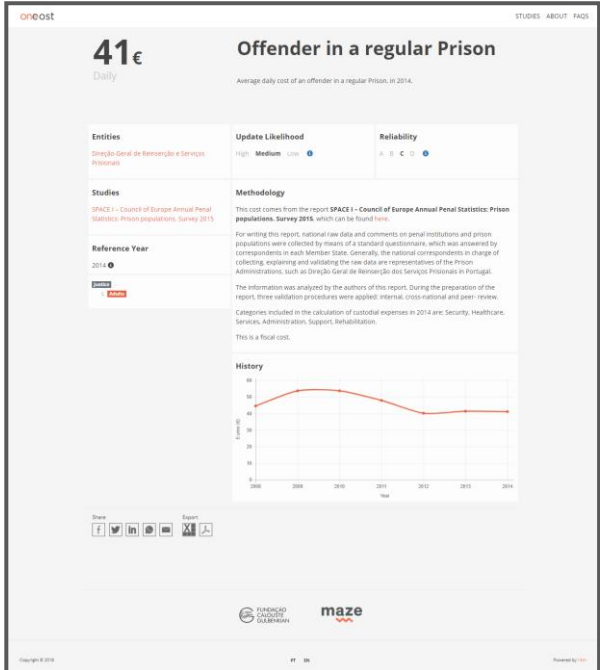
**£2,776**

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ONE.VALUE Portugal ([www.onevalue.gov.pt](http://www.onevalue.gov.pt))





# GOVERNMENT

GOVERNMENT  
How can  
government enable  
the marketplace?

GOVERNMENT IS THE ENABLER OF AN EFFECTIVE AND DYNAMIC MARKET. E.G. REGULATORY, DEVELOPMENT CAPITAL TO SUPPORT MARKET GROWTH, SUPPLY SIDE SUPPORT (BSC, TAX INCENTIVES), DEMAND SIDE SUPPORT (ICRF, SOCIAL OUTCOMES FUND), INFORMATION, IMPACT MEASUREMENT.

## LIVE EXAMPLE: SOCIAL VALUE ACT

### Social value act 2012

- Transform the way money is spent on local public services
- Requiring the people in charge of putting in place public services (commissioners) to think about more than just how to design these services and who will provide them
- Public authorities must also consider how the new services could have an even further reaching impact on the local community
- E.g. education supplier; healthy lifestyles



Public Services (Social Value) Act 2012

# THOUGHT LEADERSHIP

ALL MARKETS, ESPECIALLY NASCENT ONES, NEED CHAMPIONS THAT PUSH THE AGENDA FORWARD.

LEADERSHIP  
Who is providing  
leadership in this  
nascent field?

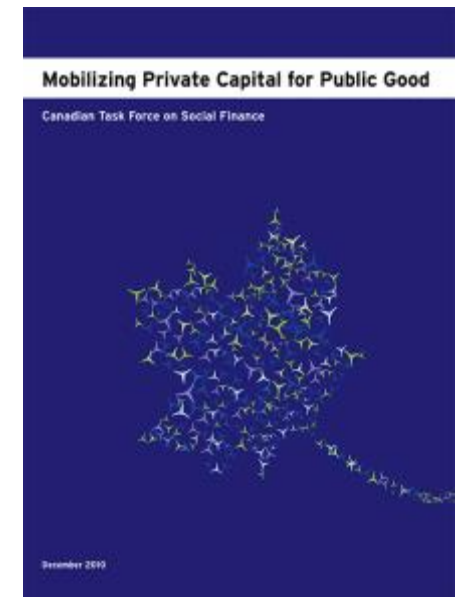
## LIVE EXAMPLE: NATIONAL IMPACT INVESTMENT TASKFORCES



G8



UK



CANADA

# Welcome to IMPACT INVESTMENT

## CLASS 3 Social Impact Bonds

Course instructor:  
**Antonio Miguel**

# **CLASS 3: POTENTIAL AND LIMITATIONS OF SOCIAL IMPACT BONDS /// LEARNING OUTCOMES**

## **STUDENTS SHOULD BE ABLE TO:**

**#1 UNDERSTAND HOW SOCIAL IMPACT BONDS WORK**

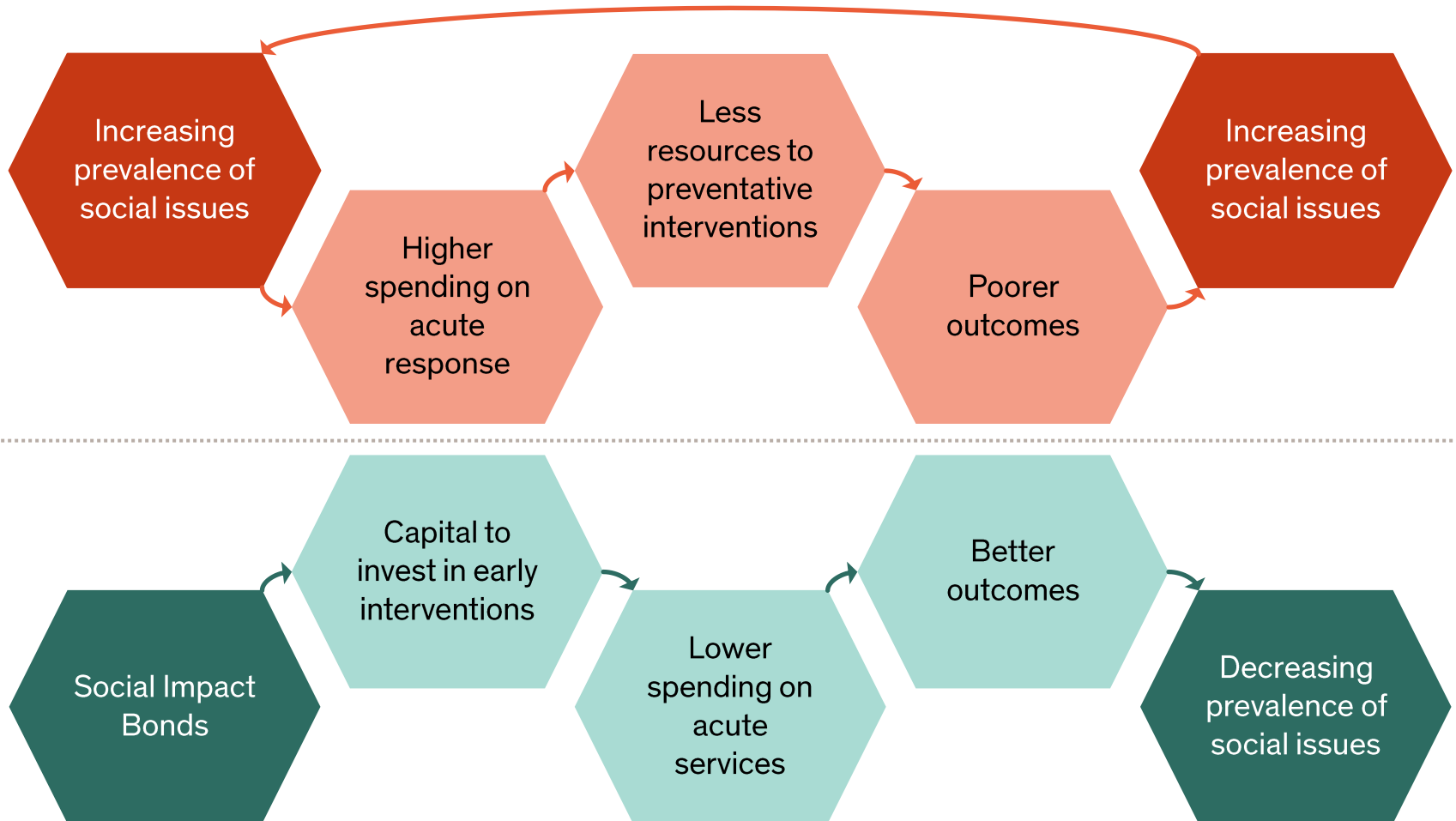
**#2 DESCRIBE THE MAIN FEATURES OF A SOCIAL IMPACT BOND AND ITS CRITICAL SUCCESS FACTORS**

**#3 DISCUSS THE LIMITATIONS AND BENEFITS OF SOCIAL IMPACT BONDS**

**#4 ARTICULATE THE SIB DEVELOPMENT PROCESS**

**#5 IDENTIFY CONCRETE EXAMPLES WHERE SIBS CAN BE APPLIED**

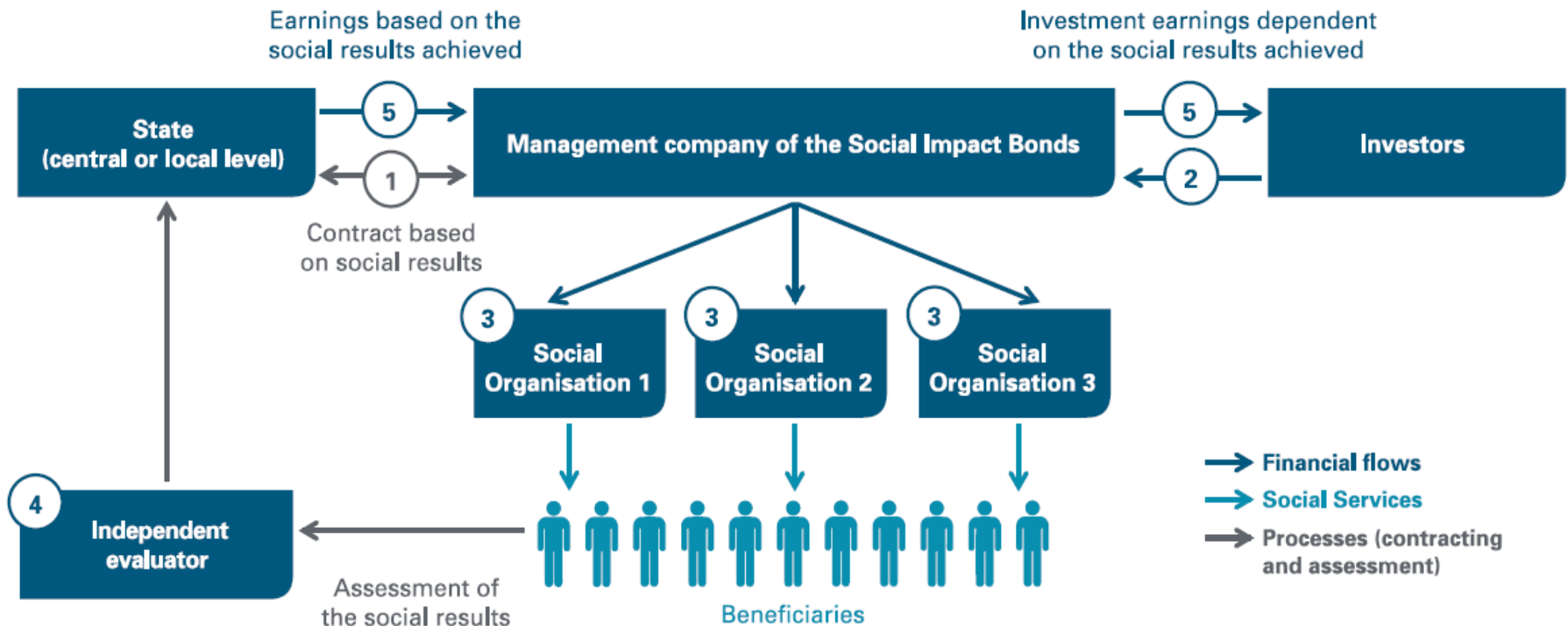
# THE BUSINESS CASE FOR PREVENTION



**THE BUSINESS CASE FOR PREVENTION IS HEAVILY CONDITIONED BY THE TIME VARIABLE. THERE IS A VIABLE VALUE PROPOSITION IN USING FUTURE SAVINGS OF AVERTED SOCIAL ISSUES TO FUND PREVENTATIVE INTERVENTIONS. HOW MUCH TIME DELTA IS ACCEPTABLE?**

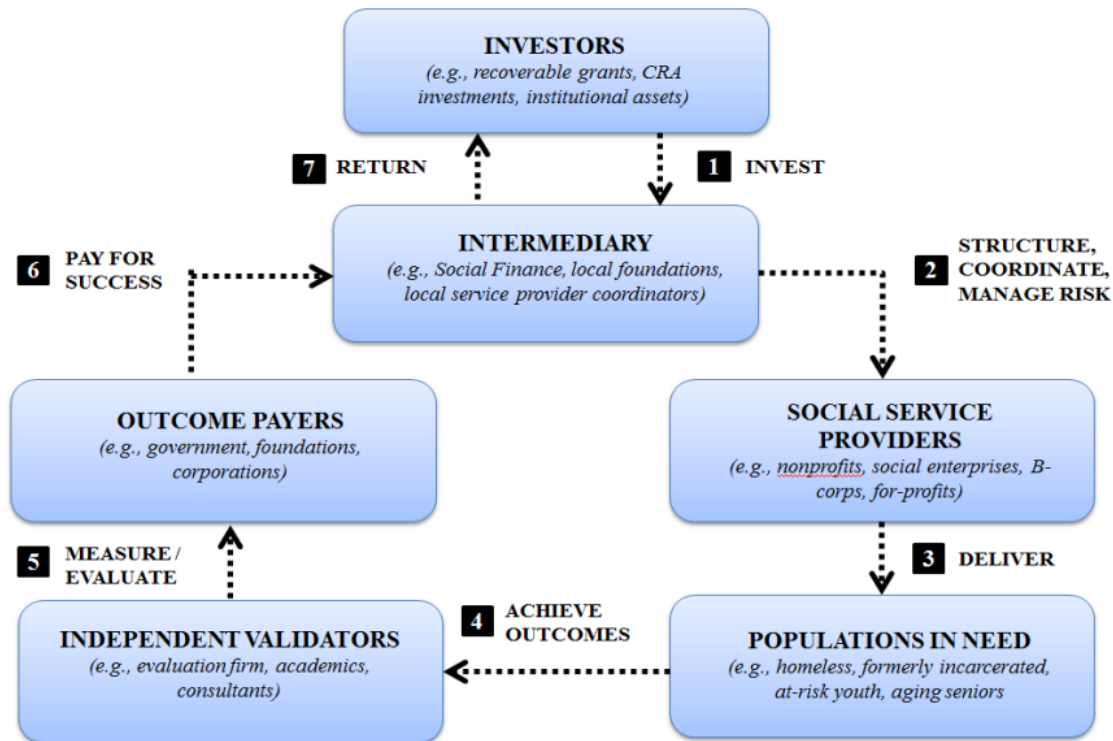
# FUNDAMENTAL PRINCIPLES IN THE ORIGIN OF SIBs

## TYPICAL SIB STRUCTURE (example 1)



# FUNDAMENTAL PRINCIPLES IN THE ORIGIN OF SIBs

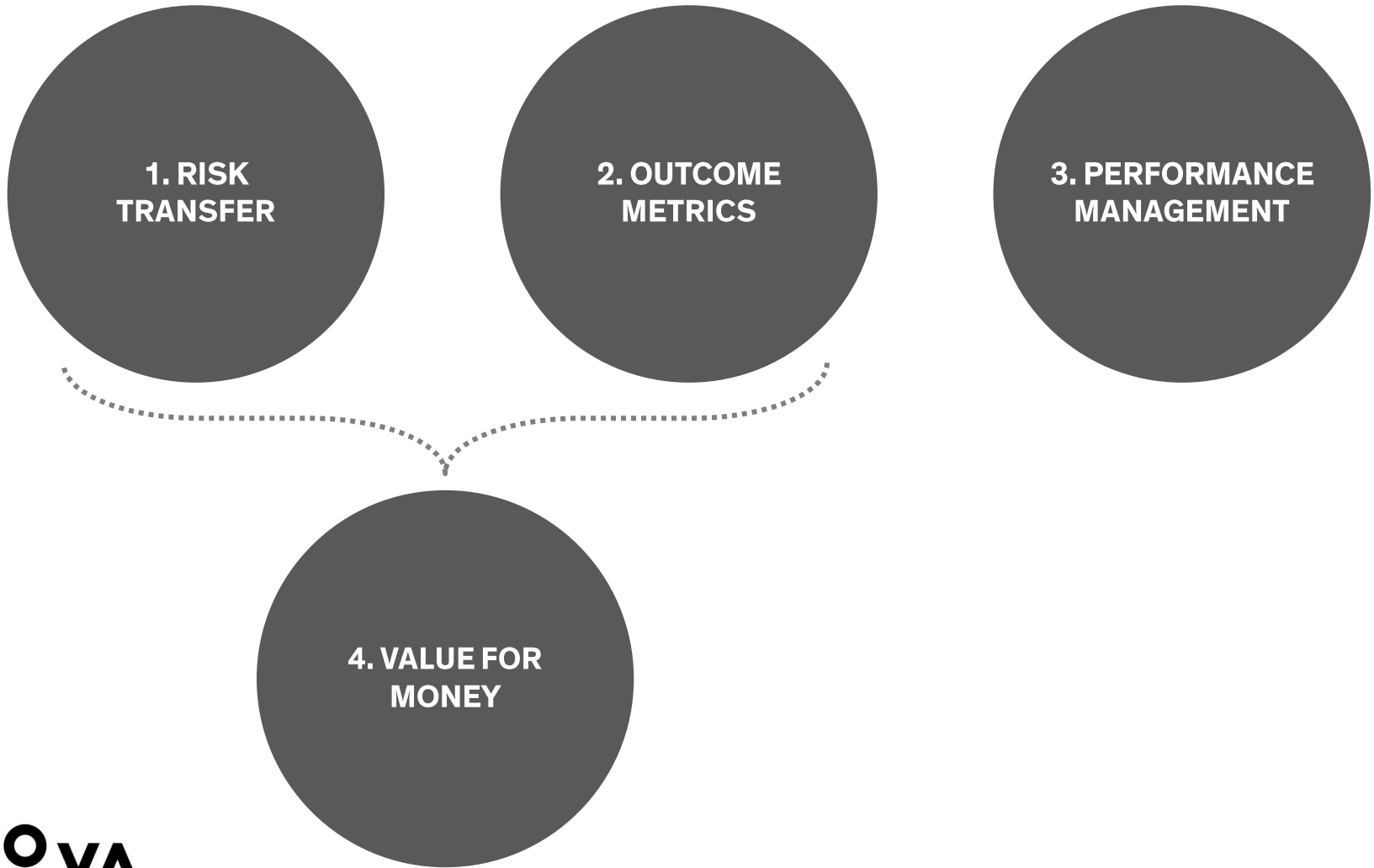
## TYPICAL SIB STRUCTURE (example 2)



Source: OECD adapted from Burand (2013)

# FUNDAMENTAL PRINCIPLES IN THE ORIGIN OF SIBs

## KEY FEATURES OF A SOCIAL IMPACT BOND



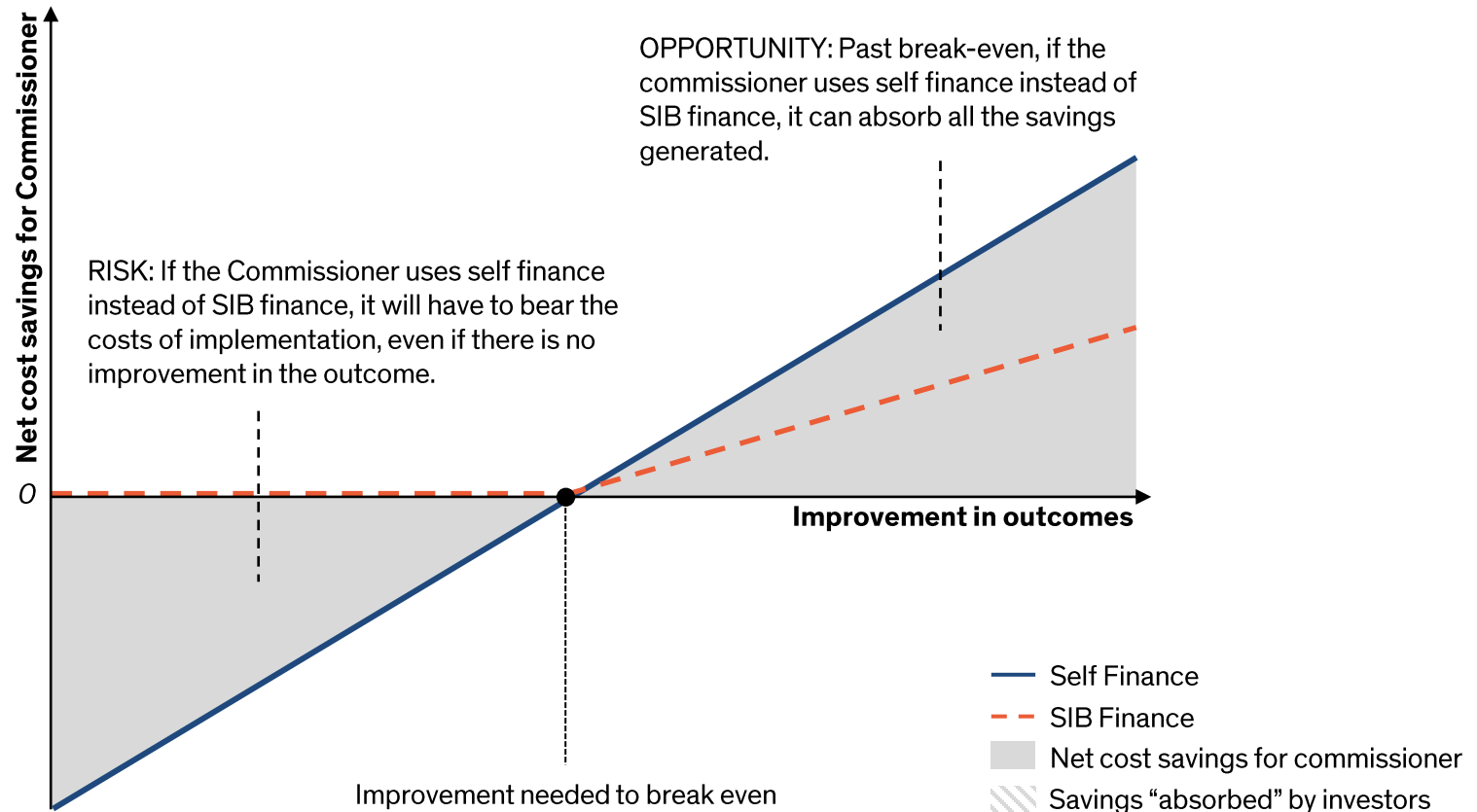


# 1. RISK TRANSFER

A SOCIAL IMPACT BOND TRANSFERS IMPLEMENTATION RISKS AWAY FROM THE PUBLIC SECTOR COMMISSIONER TO INVESTORS. HOWEVER, IF SUCCESSFUL, CAPITAL IS IN RETROSPECT MORE EXPENSIVE THAN GOVERNMENT FINANCE REFLECTING TRANSFER OF SUCH RISKS. SIBS ARE THEREFORE NOT APPROPRIATE WHERE SUCCESS IS CERTAIN.

SCENARIO A

PUBLIC SECTOR COMMISSIONER USES **SELF-FINANCE** TO FINANCE IMPLEMENTATION

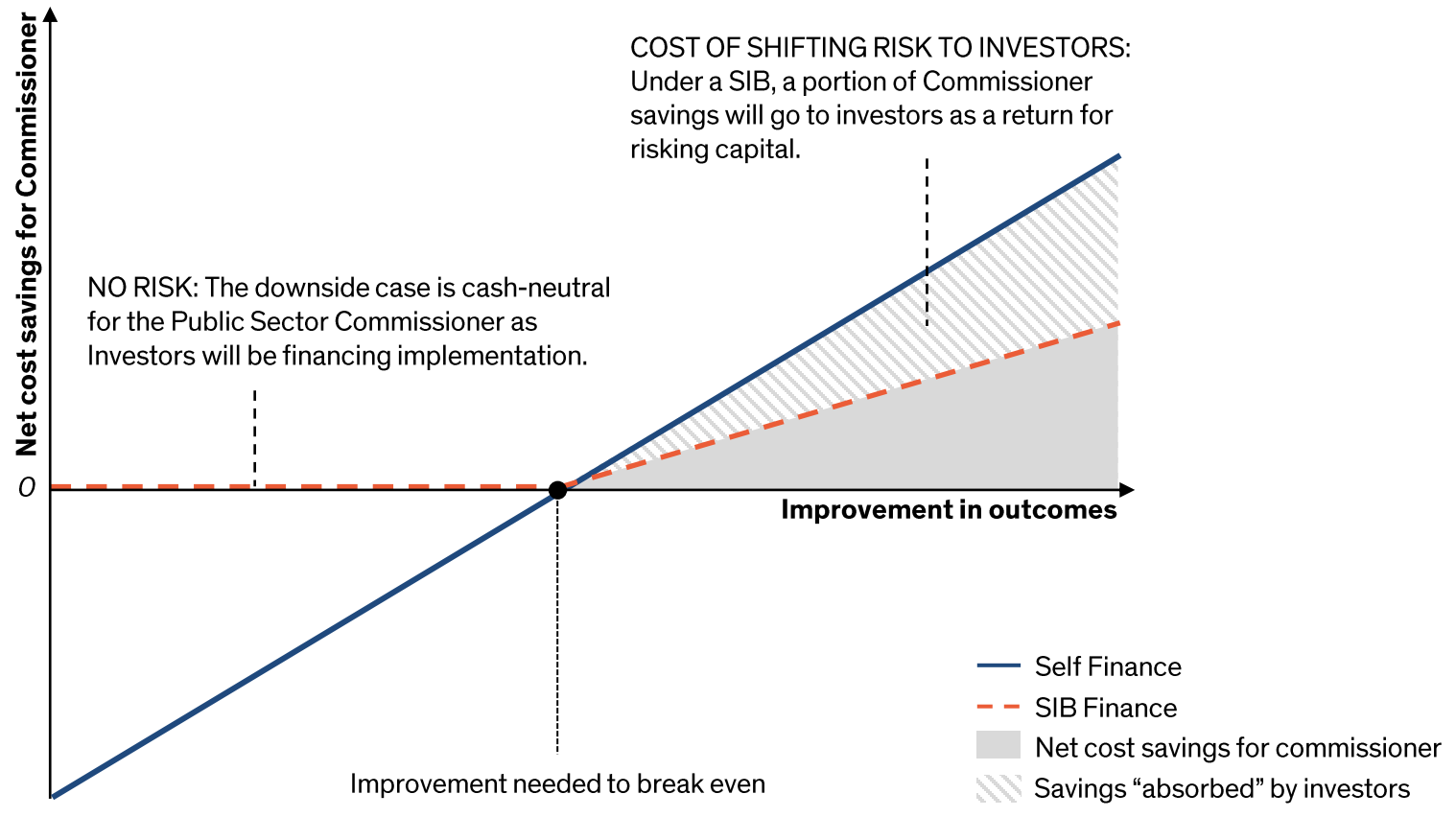


# 1. RISK TRANSFER

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SCENARIO B

PUBLIC SECTOR COMMISSIONER USES A **SIB** TO FINANCE IMPLEMENTATION



## 2. OUTCOME METRICS

**A SOCIAL IMPACT BOND REQUIRES THE SETTING OF ONE OR MORE OUTCOME METRICS. AS THE METRICS ARE DIRECTLY LINKED TO FINANCIAL FLOWS, THE INCENTIVES THEY CREATE MUST BE CAREFULLY CONSIDERED.**

A good outcome metric should:

Protect against perverse incentives such as *cherry picking or parking*

Provide an incentive to focus on sustained success

Ensure the root causes of the problems are addressed and comprehensive solutions developed

Encourage providers to work together towards a common goal of addressing service users needs

Example:

By setting objective **eligibility criteria** one can make sure that providers also work with more “difficult” members of the beneficiary population. Sometimes, **paying providers by activity** and leaving outcome risk to investors can also help avoid gaming.

**Measuring performance over a longer period** (ex: 2 years) to make sure that the full client journey is encapsulated. Striking a good balance between measuring short-term outcomes (typically cheaper and easier) versus long-term outcomes.

**Focus on improved outcomes** as much as possible. For example, if “fewer emergency admissions” are set as an outcome, it is important to look into whether that reflects improved clinical indicators.

Incentives should **reward cooperation (or at least not hinder it)**. When multiple providers are serving the same beneficiaries, having umbrella outcomes might foster more collaboration than having service-specific outcomes for each provider.

### Some learnings from **Peterborough**:

Binary  
metric

vs.

Frequency  
metric

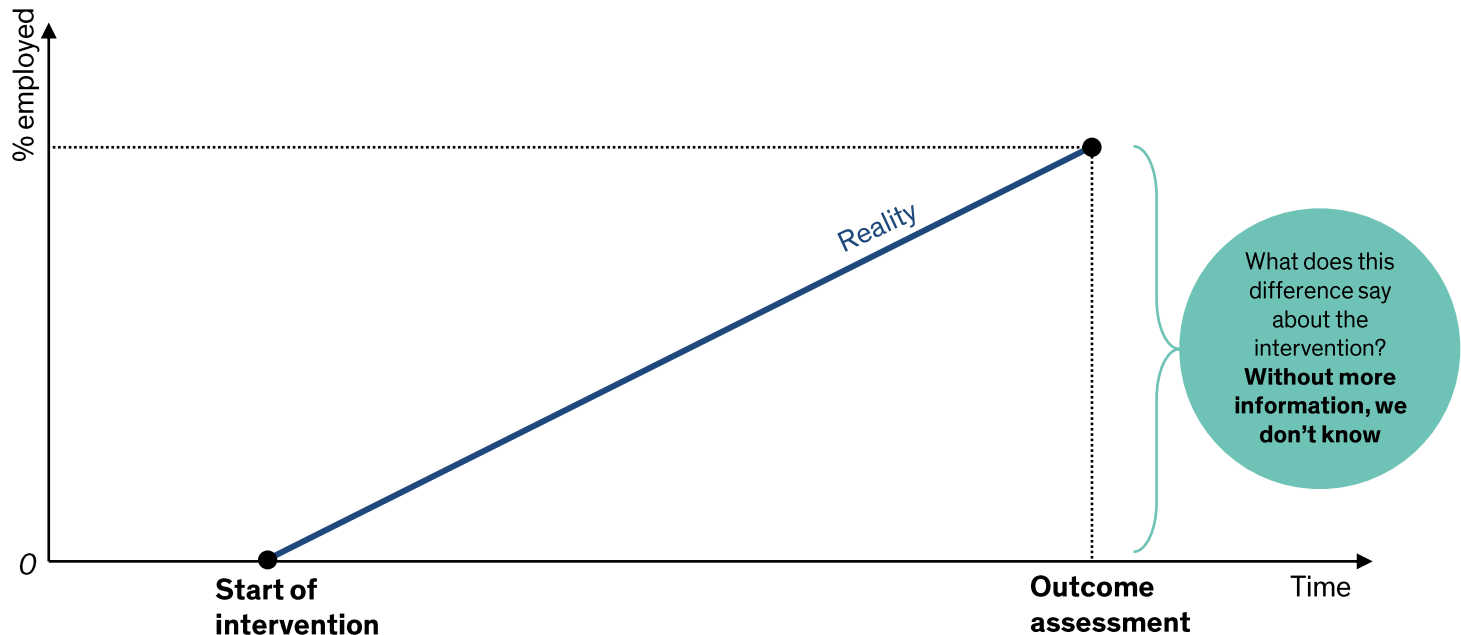
## 2. OUTCOME METRICS

OUTCOME METRICS ARE MEANT TO CAPTURE ADDITIONALITY, THAT IS, WHAT OUTCOMES WERE ACHIEVED WHEN YOU DISCOUNT WHAT WOULD HAVE HAPPENED ANYWAY. WHEN SETTING OUTCOME METRICS AND TARGETS, THE CONCEPT OF DEADWEIGHT OR COUNTERFACTUAL IS ESSENTIAL.

EXAMPLE

IMPLEMENTATION OF A REQUALIFICATION PROGRAMME FOR UNEMPLOYED PEOPLE.

OUTCOME: % OF BENEFICIARIES EMPLOYED



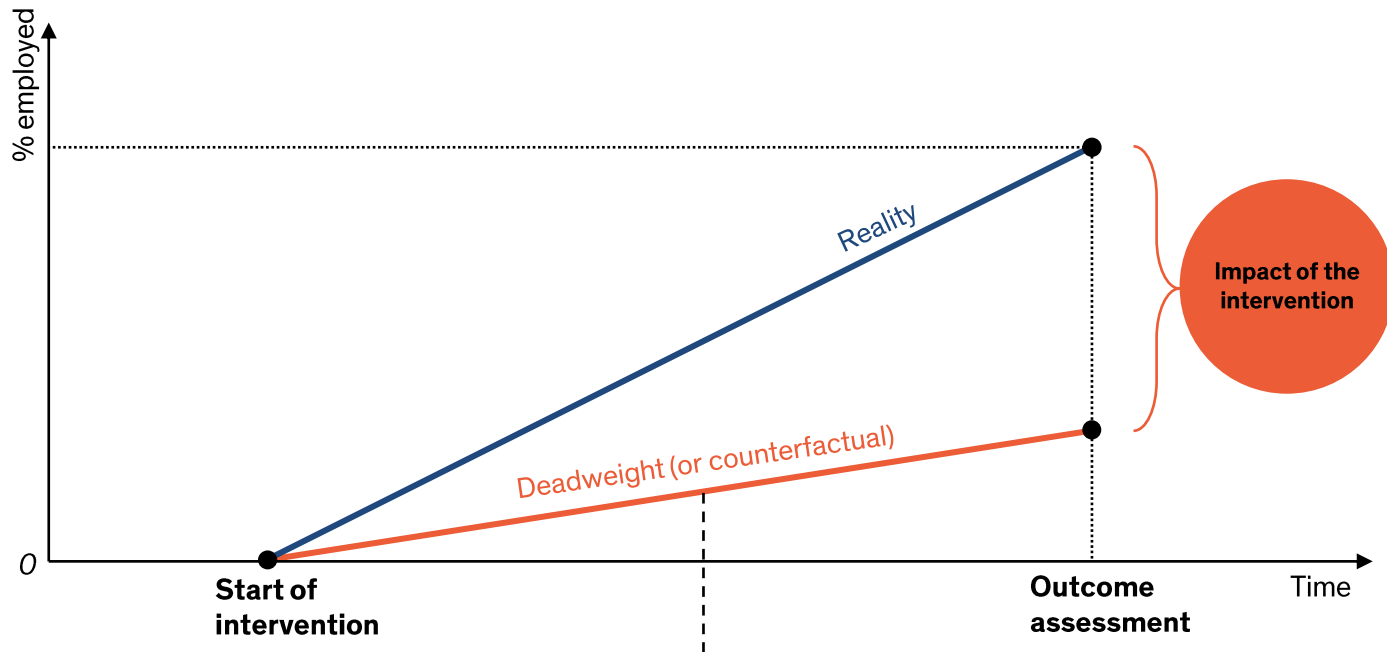
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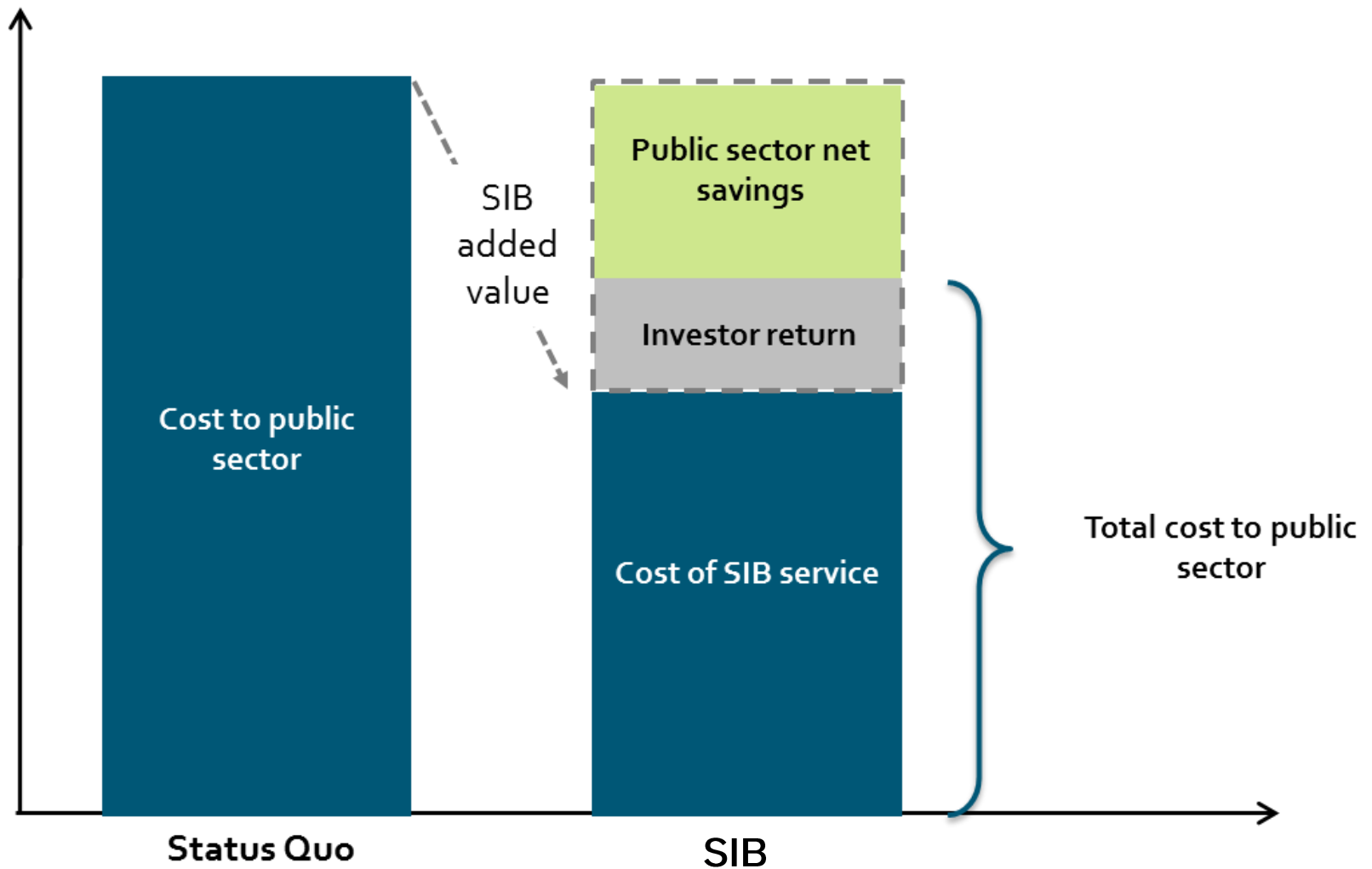
**IMPLEMENTATION OF A REQUALIFICATION PROGRAMME FOR UNEMPLOYED PEOPLE.**

**OUTCOME: % OF BENEFICIARIES EMPLOYED**



The deadweight is “what would have happened anyway”. While we never really know for sure what this is, there are ways to estimate it.

### 3. UNDERSTANDING VALUE FOR MONEY



## 4. MANAGING PERFORMANCE TOWARDS OUTCOMES

OVER THE TERM OF THE SIB, DATA WILL BE GATHERED ON THE EFFECTIVENESS OF INTERVENTIONS. THIS WILL ENSURE THAT FUNDING IS FLOWING TO THE PROGRAMS THAT WORK AND FILLS ANY SERVICE GAPS. THE AIM IS NOT TO DELIVER “STATIC” SERVICES BUT TO ADAPT SERVICES AS LESSONS ARE LEARNED AND THE NEEDS OF THE TARGET POPULATION CHANGE.

### Some learnings from **Peterborough**:

#### BEFORE

Support upon release according to the intervention model “Through the gate”.

Caseworkers allocated across caseload disregarding complexity of clients.

Focus on immediate needs (welfare, housing),



#### AFTER

**Support upon arrival to prison in order to anticipate needs.**

**Efficient allocation of caseworkers and volunteers according to high or moderate/low risk clients.**

**Focus on long-term needs (employment, family support)**

# FUNDAMENTAL PRINCIPLES IN THE ORIGIN OF SIBs

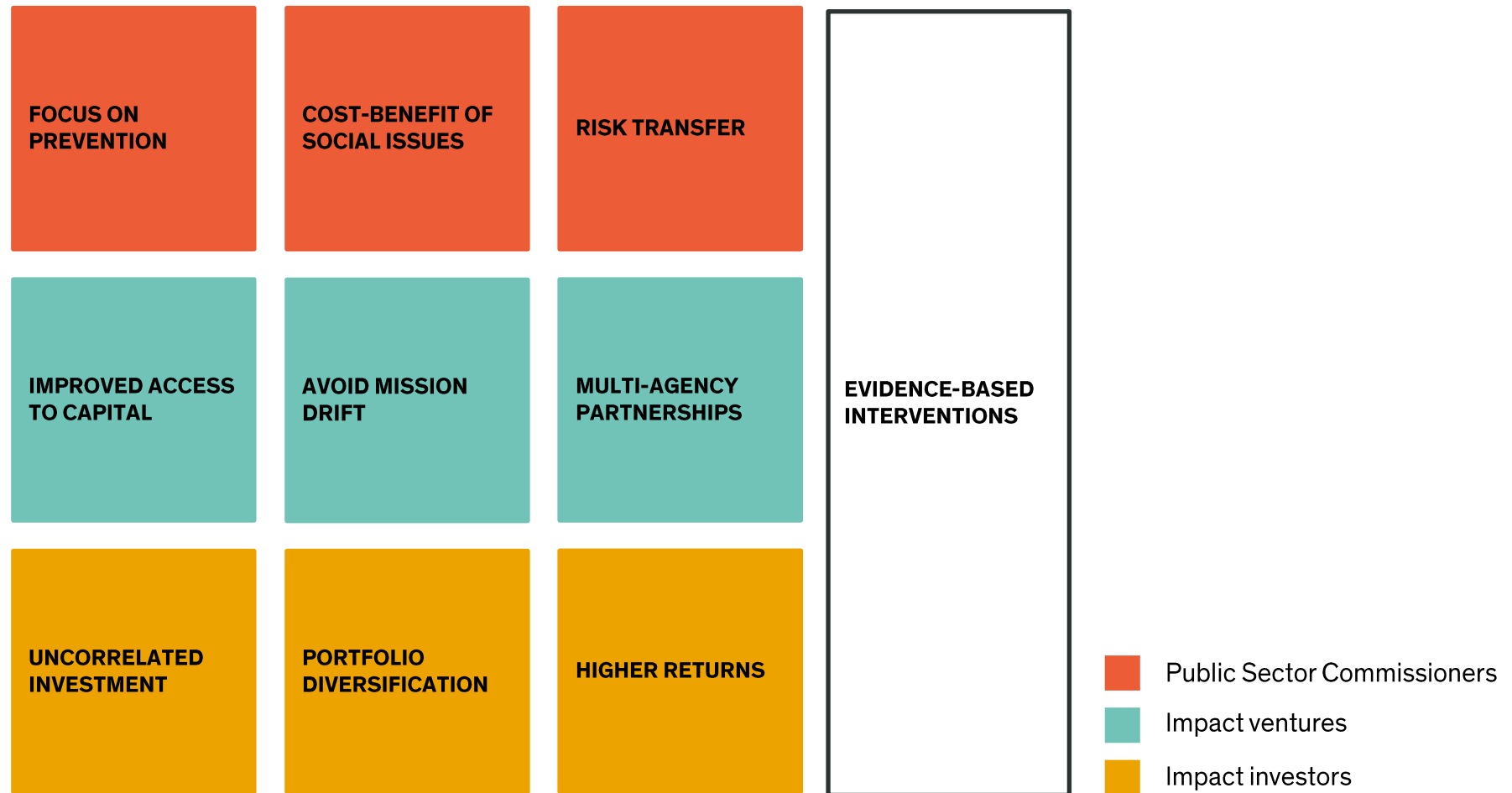
## CRITICAL SUCCESS FACTORS

Criteria for a successful SIB	Key considerations
<b>Pressing problem and gap in current provision</b>	SIB can bring new funding to meet a gap in services.
<b>Promising interventions</b>	SIBs work best for extending promising approaches, not pure innovation/R&D.
<b>Risk transfer, external expertise and more flexible resources</b>	Transfer of implementation risk from the public sector to investors can enable more flexible models of service provision.
<b>Support and catalyse wider service changes</b>	Continuous improvement of delivery through rigorous monitoring, evolving service provision and stimulating new forms of collaboration.
<b>Outcomes based contract possible:</b> <ul style="list-style-type: none"> <li>• <b>Robust outcome metrics with clear attribution</b></li> <li>• <b>Identifiable target population</b></li> <li>• <b>Sufficient savings for investors and commissioners</b></li> </ul>	<p>Implicit requirement for a robust outcome metric which can be easily measured. Ideally change is measured against a comparable group.</p> <p>A target population must be clearly identifiable and accessible.</p> <p>SIBs involve significant risk for investors and new ways of working for commissioners – each needs sufficient rewards.</p>
<b>High social impact attractive to investors</b>	SIBs aim to attract investors who are as interested in the social impact as well as a financial return.

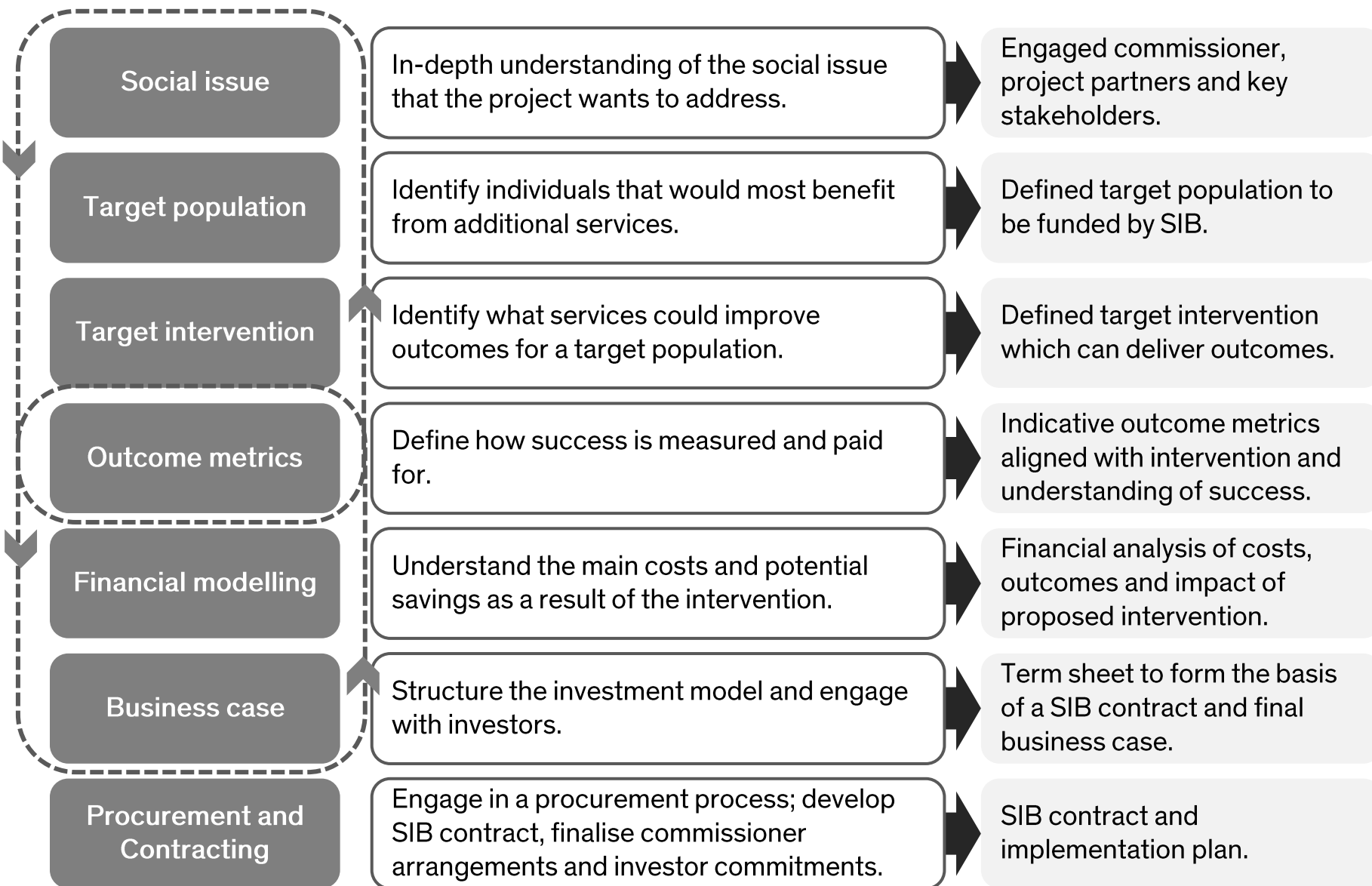


# FUNDAMENTAL PRINCIPLES IN THE ORIGIN OF SIBs

## VALUE PROPOSITION PER STAKEHOLDER



# SIB DEVELOPMENT PROCESS



# TRENDS IN SOCIAL IMPACT BONDS

Creation of rate cards as “menus” of priced outcomes

- Department of Work and Pensions rate card for the Innovation Fund SIB
  - Efficiency in outcome-based commissioning / challenges with attribution
- Value for money focused on incentivising innovation in service delivery and focus on outcomes

Use of data to inform dynamic outcome pricing

- Outcome price to reflect hardest-to-work individuals and reflect prices of low-hanging fruits
  - Data availability can reflect outcome prices based on efficiency rates of achieving such outcomes
- Customer journey data can better inform the business case for preventative services

Broader understanding of the risk/evidence spectrum



# GLOBAL SNAPSHOT OVERVIEW

**235**

Impact Bonds

**38**

Countries

**\$ 463M**

sum of upfront capital

**18,205**

average no. of  
beneficiaries\*

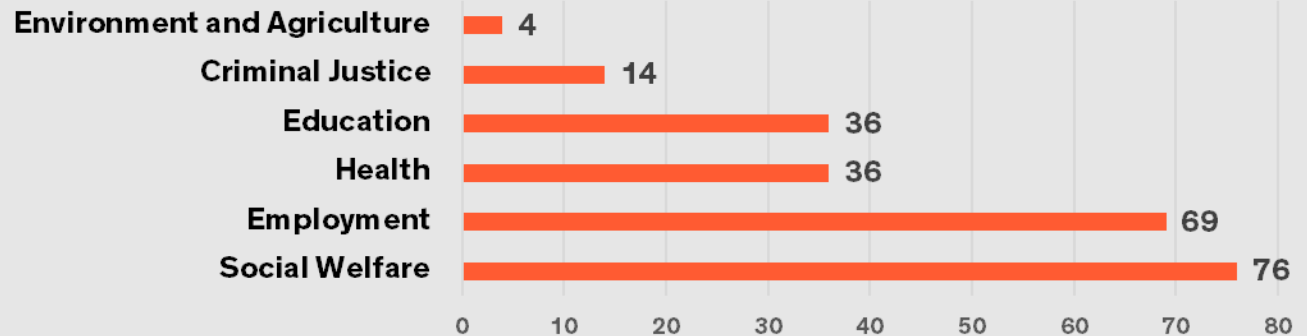
**51 months**

average contract duration

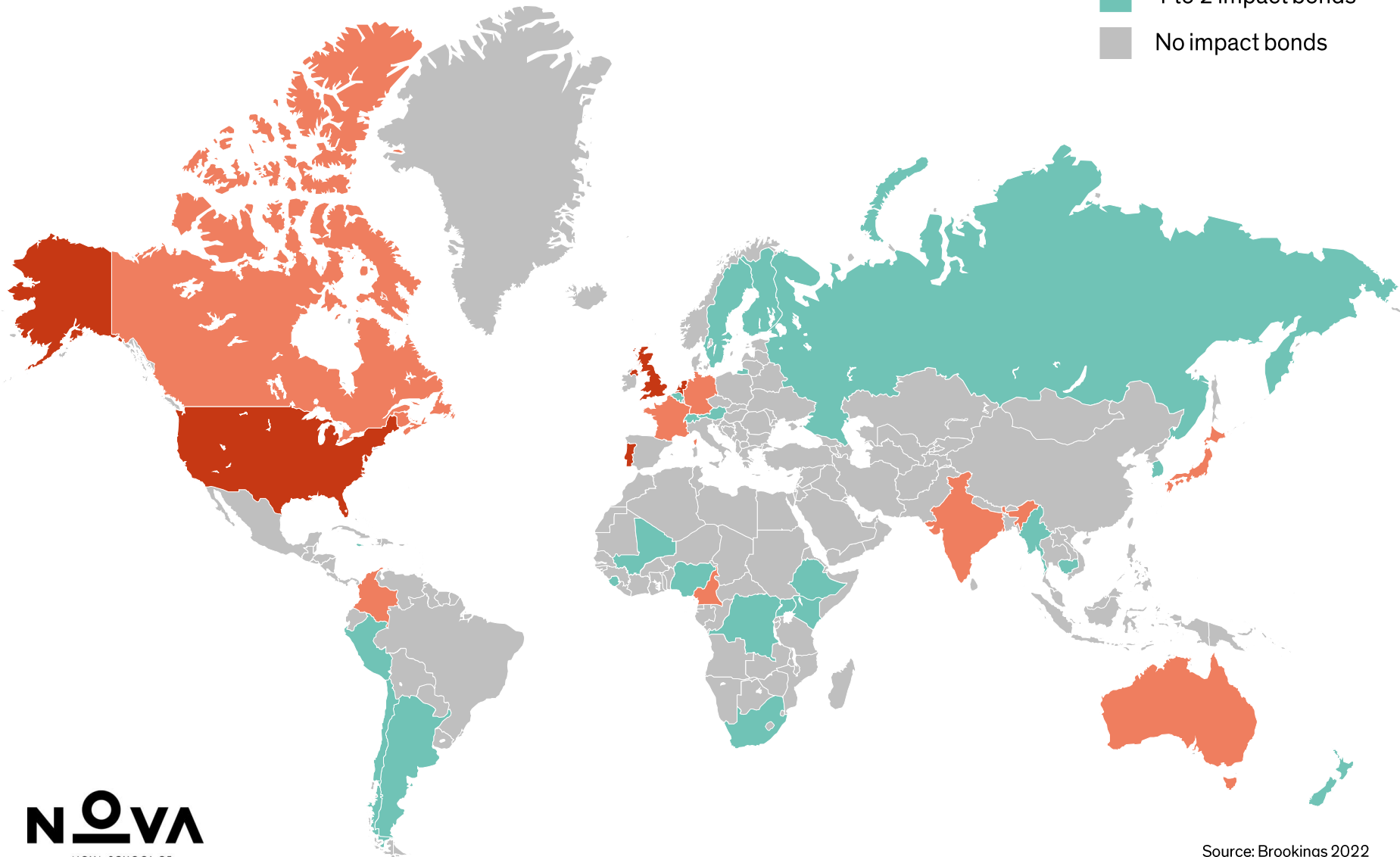
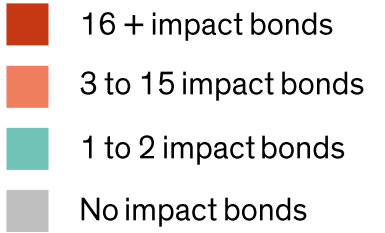
**~\$ 3M**

average upfront capital

## Sectors



# GLOBAL SNAPSHOT



# USEFUL RESOURCES

## Cabinet Office Centre for Social Impact Bonds

<https://www.gov.uk/social-impact-bonds>

- Pre-feasibility resources
  - Knowledge Box
- Template SIB service agreement contract
  - Signposting

## Big Society Capital

<http://www.bigsocietycapital.com/>

Directory of social finance investment organisations in the UK that provide finance and support to the social sector

## Impetus PEF

<https://impetus-pef.org.uk/>

Expertise in developing and managing social impact bond structures that support disadvantaged young people through education into employment

## Social Finance

<http://www.socialfinance.org.uk/publications/social-finance>

Advisory services to social impact bond developers

- Technical Guide to Developing SIBs
- Technical Guide to Commissioning SIBs

## MaRS Centre for Impact Investing

<http://www.marsdd.com/2013/11/07/development-perspective-social-impact-bonds-non-profit-service-providers/>

SIB Technical Guide for Service Providers

## Triodos Bank

<http://www.triodos.co.uk/en/personal/>

Corporate finance advice and capital raising services

# Welcome to IMPACT INVESTMENT

**CLASS 4**  
**Impact Venture Capital**

Course instructor:  
**Antonio Miguel**

# **CLASS 3: IMPACT VENTURE CAPITAL /// LEARNING OUTCOMES**

## **STUDENTS SHOULD BE ABLE TO:**

**#1 UNDERSTAND HOW VENTURE CAPITAL WORKS**

**#2 DESCRIBE THE KEY ELEMENTS OF AN IMPACT VENTURE CAPITAL FUND**

**#3 EXPLAIN THE KEY ACTIVITIES OF A FUND: SCOUTING, SCREENING, INVESTING, PORTFOLIO MANAGEMENT**

**#4 UNDERSTAND THE IMPORTANCE OF IMPACT MANAGEMENT AS A PROCESS AND AS PART OF INCENTIVES**

**#5 ARTICULATE HOW TO LINK IMPACT TO THE REMUNERATION OF FUND MANAGERS**

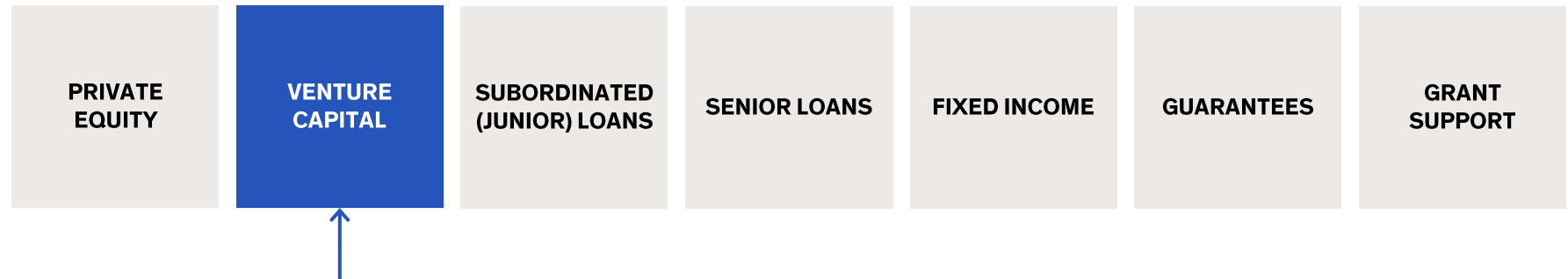


# HOW VENTURE CAPITAL WORKS

## ABOUT VENTURE CAPITAL

IMPACT VENTURE CAPITAL IS A TYPE OF EQUITY INVESTMENT INSTRUMENT FOCUSED ON **HIGH-RISK, EARLY STAGE VENTURES** THAT DELIVER **HIGH GROWTH POTENTIAL** AND SIGNIFICANT **SOCIAL AND/OR ENVIRONMENTAL IMPACT**.

### IMPACT INVESTMENT ASSET CLASSES



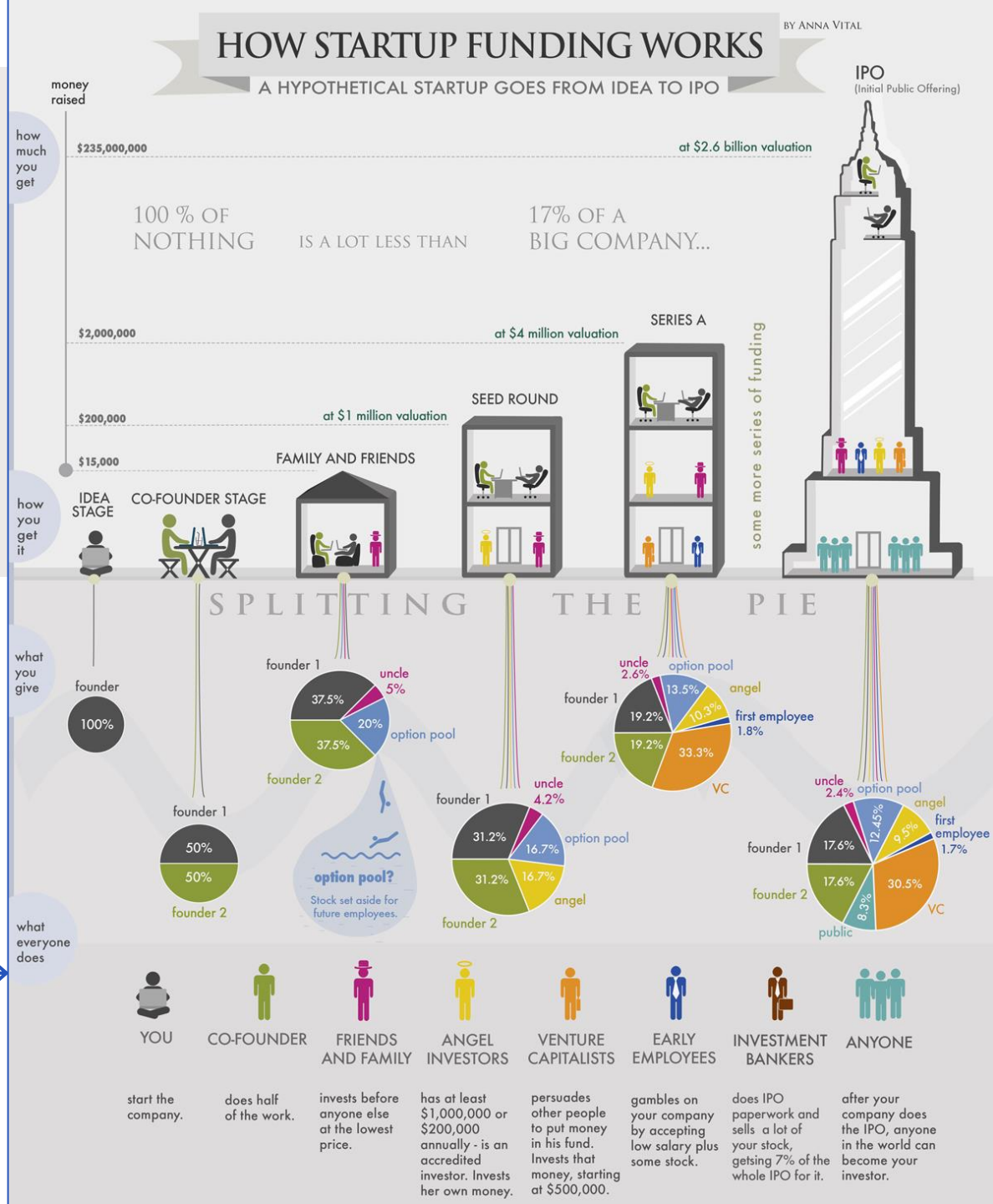
Venture Capital is a very specific equity instrument

**VENTURE CAPITAL IS A FORM OF EQUITY FINANCING THAT IS PROVIDED BY VENTURE CAPITAL FIRMS TO EARLY STAGE AND SMALL STARTUPS IN EXCHANGE FOR A % EQUITY STAKE IN THOSE COMPANIES. THE EXPECTATION IS THAT THE VALUE OF SUCH % EQUITY STAKE WILL GROW OVER TIME, CREATING VALUE FOR INVESTORS.**

Venture Capital comes in as part of the startup funding cycle. For different stages, there are different investor profiles and founders need to make calls on how much to dilute (how much equity stake (%) they are willing to sell in each round).

Typical funding path:

**Friends, Family & Fools (FFF) → early-stage VC funds → late-stage VC funds → late-stage asset managers.**



# HOW VENTURE CAPITAL WORKS

## ABOUT VENTURE CAPITAL

METRICS	belief	product	30-60k mrr	150k mrr
PRE MONEY	<1M	3-6M	6-9M	10-40M
ROUND SIZE	<250K	0,5-1,5M	2-3M	3-10M
ROUND LABEL / STAGE	angel	pre-seed	seed	series A
COMMENTS	FMF + idea no board	organic traction board	intl expansion PMF	repetition growth

MRR = monthly recurring revenue

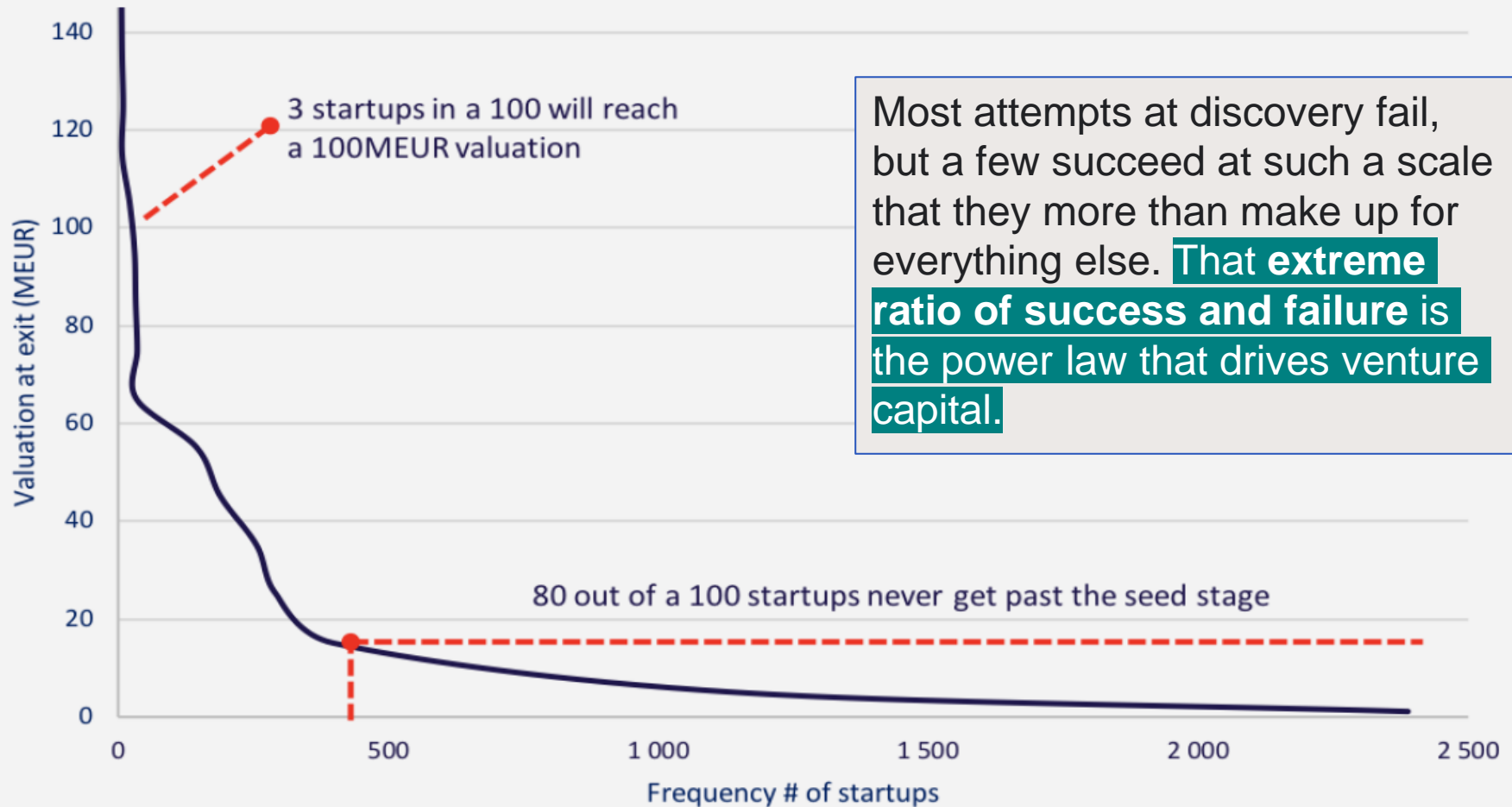
FMF = founder market fit

PMF = product market fit

# HOW VENTURE CAPITAL WORKS

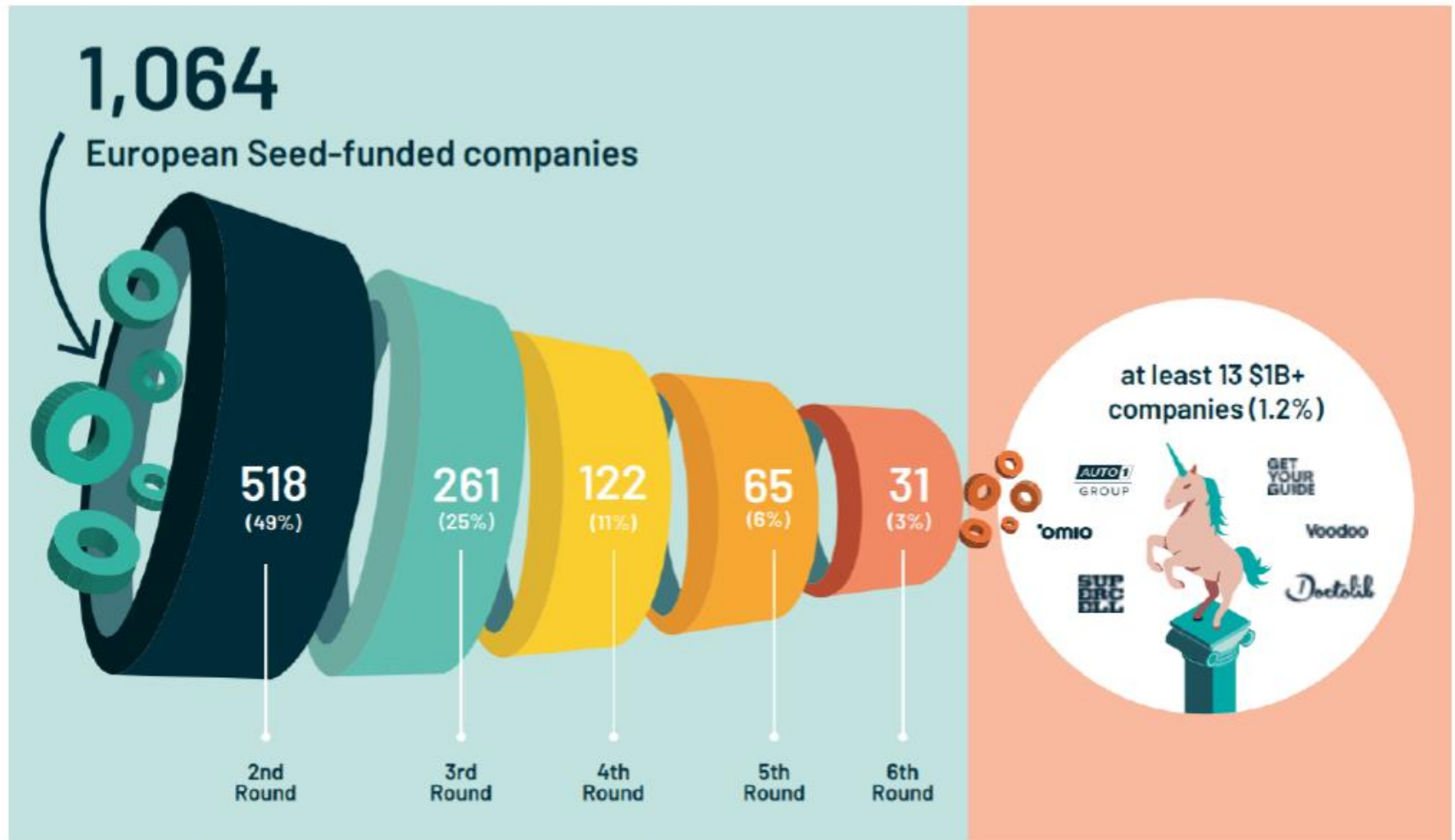
## THE POWER LAW

The Power Law of Venture Capital



# HOW VENTURE CAPITAL WORKS

## THE POWER LAW



# EXAMPLES OF IMPACT VENTURE CAPITAL FUNDS IN EUROPE

alterequity

Oltre  
VENTURE

 rubio  
impact ventures

BLUE  
YARD

BGV / Bethnal  
Green  
Ventures

 Ship2B  
Ventures  
INVESTING FOR A BETTER WORLD

<norrskan>  
C

 BONVENTURE

nesta  
Impact  
Investments 

MUSTARD  
SEED:MAZE

 ANANDA Impact Ventures

NOVA  
NOVA SCHOOL OF  
BUSINESS & ECONOMICS

# KEY ELEMENTS OF AN IMPACT VENTURE CAPITAL FUND

<b>ASSET EXPOSURE</b>	What is the our <b>asset exposure</b> ? At <b>what stages</b> do we want to invest? (i.e. Seed rounds, Series A/B, Series C, Series D, etc.).
<b>SIZE OF THE FUND</b>	What is the expected capital commitment for the fund? What is the <b>actual size of the fund</b> ? What are the typical strategies for raising capital?
<b>GEOGRAPHIC EXPOSURE</b>	<b>Where</b> do we want to invest?
<b>INVESTMENT LIFE</b>	What is the timeline of the fund, including <b>investment period and management period</b> ?
<b>FEES AND FUND ECONOMICS</b>	How much do the fund managers charge in <b>management fees</b> ? How much is the <b>carried interest</b> for fund managers? (share of fund's profits) Is there a <b>preferred return</b> percentage?
<b>OPERATING BUDGET</b>	How much does it cost to run the fund? Is the management fee sufficient to cover these costs?
<b>TARGET RETURN</b>	How do we define the <b>target IRR</b> ? What are the projected gross returns for the fund? What are the projected net returns to investors?
<b>PORTFOLIO COMPOSITION</b>	How do we determine <b>portfolio composition</b> ? How much risk are we willing to take?
<b>FUND CASHFLOW</b>	What are the projected reflows of capital to the fund from investees? How are these reflows to be used?
<b>DEAL INSTRUMENT</b>	What type of deal instruments is the fund using? What are the projected loss rates for investments?

# KEY ELEMENTS OF AN IMPACT VENTURE CAPITAL FUND

## IRR AND THE J-CURVE

The J-Curve describes the tendency for investors in closed-end funds to experience **negative returns in the early years of a fund's life.**

Until a fund begins to earn a profit from its investments, the IRR remains negative for the fund and all its Limited Partners (LPs). Most LPs see no revenue until the fund starts exiting investments, usually several years (typically six or seven) into the life of a fund.





# KEY ELEMENTS OF AN IMPACT VENTURE CAPITAL FUND

## KEY TERMS OF THE MSM FUND

Key Terms	Values (€ / %)
Structure	Impact Venture Capital Fund: “Fundo de Empreendedorismo Social”, approved by the national regulator CMVM
Asset Exposure	Pre-Seed to Series A/B Equity
Fund Size	€60m
Geographic Exposure	Europe
Investment Life	10 Years (5 Investment Period / 5 Management Period)
Fees	2% Management Fee 20% Carried Interest
Target Return	20% IRR / 3x MOIC
Portfolio Composition	40 Individual Companies with investments ratcheting across: Pre-Seed: 20 (€25-60k) Seed / Pre-Series A: 25 (€150k – €500k) Series A / Series B: 10 (€1.5m - €3m)

# KEY ELEMENTS OF AN IMPACT VENTURE CAPITAL FUND

## IMPACT THESIS

### What is the impact thesis?

- >What existing need in the market does my investment thesis address?
- >What is the evidence that the need exists, and what is the extent of the need?
- >What is the theory of change?
- >What underlying assumptions does the thesis imply?
- > How do we prioritise impact versus the expected level of financial return?

Questions that can help shape an impact thesis

### Why is it relevant?

- > A solid impact thesis is the **starting and end point** for an Impact VC: it determines the lenses through which the scouting process is conducted, and it helps determine how impact is measured and managed;
- > It is important to find a framework that helps guide investments, whether it is through a thematic scope (e.g, UN SDGs), the beneficiaries' perspective (e.g., Impact Management Project, *which we will discuss later in the course*), or a theory of change underlying the business model (e.g., Lock-step)

# KEY ELEMENTS OF AN IMPACT VENTURE CAPITAL FUND

## IMPACT THESIS OF THE MSM FUND

The Mustard Seed Maze Fund's (MSMF) investment thesis is rooted in the belief that the great businesses of the future will be those addressing the world's biggest social and environmental challenges. This is based on the belief that these problems have not yet been solved by the market or the state and therefore must be innovative. 'Lock-Step' ventures benefit from 4 'key advantages':



MSM targets a broad impact framework aligned with the United Nations Sustainable Development Goals, especially interested in the following Goals:



# LINKING IMPACT TO FUND MANAGERS REMUNERATION

## Putting money where your mouth is — impact incentives for fund managers



Incentives are everywhere and dictate our behaviour, as individuals and as organisations. The energy transition that we are currently witnessing is a great example of this, whereby an increasing adoption of renewable sources of energy or electric vehicles is a result of tax and monetary incentives, shaping the behaviour according to the goals of policymakers (and to the benefit of our

Company	Student Finance	Omocom	NuiCare
Impact metric	# of job placements for people previously unemployed	Tonnes of CO <sub>2</sub> savings	# of informal caregivers who report an improvement in their mental health
4-year Target Goal (illustrative)	10,000 people	500,000 tonnes	5,000 caregivers
4-year Performance (illustrative)	7,000 placements	600,000 tonnes	1,500 caregivers
Impact Multiple (illustrative)	0,7 (7,000/10,000)	1,2 (600,000/500,000)	0,3 (1,500/5,000)
Amount invested (€) (illustrative)	€2,000,000	€200,000	€1,000,000

Summary table — impact multiple

Based on the table above, the 'impact portfolio goal' at year 4 would be calculated as follows:

$$\frac{(0,7 * 2,000,000) + (1,2 * 200,000) + (0,3 * 1,000,000)}{2,000,000 + 200,000 + 1,000,000} = 0,60 = 60\%$$

<https://medium.com/msmfund/putting-your-money-where-your-mouth-is-impact-incentives-for-fund-managers-b2944837d3b0>

# SCOUTING STRATEGY

## SCOUTING STRATEGY

### WHAT IS THE SCOUTING STRATEGY?

**The process of identifying pipeline for the fund and sourcing new deals.** There is a growing landscape of impact ventures and there must be a structured process that provides the investment team with good leads of potential deals.

### WHY IS IT RELEVANT? WHO IS INVOLVED?

In the competitive VC landscape, it is important to continuously identify stakeholders that give the fund access to potential deals.

The ventures selected have to fit the VC strategy and rigorous selection criteria, which requires a large database to begin with.

A venture capital fund usually develops wide networks that include accelerator programs, other funds and summits/demo-days, intermediaries. These stakeholders know the VC fund and can help them scout for ventures.

The whole team is involved in the scouting process.



# SCOUTING STRATEGY

## RESOURCES

Co-investors	Other founders	High-net worth individuals (Angel Investors)	Incubators and accelerators
<p>Funding rounds tend to have multiple VC funds involved. These funds will often share leads on opportunities, either because the startups fall out of their specific mandate (e.g., impact vs nonimpact focus) or because they want to co-invest with another fund.</p>	<p>Founders can be a good source of leads, referring you to companies that share the same workplaces, have participated in same demo-days, have founding partners that share their Academic background or professional path, etc.</p>	<p>Angel investors play a critical role in early-stage start-ups, as they are often willing to take more risks than VC funds. Angel investors will look for VC funds to co-invest with them, in order to meet the value of the round and add value throughout the due diligence and investment processes.</p>	<p>Incubators and accelerators are one of the main sources of pipeline for VC, specially in demo-days. Some accelerators like TechStars are considered a quality stamp and participating in accelerator will solidify a venture's business model making it more attractive for investors.</p>



# SCREENING

## WHAT DO INVESTORS LOOK FOR? (1 of 4)

### UNDERSTANDING THE MARKET/MACRO CONTEXT:

- What market is the company operating in? What does it look like now? What are the main foreseeable changes? Where is it heading towards? What is the regulatory environment?
- What is the size of the addressable market? Where is the market opportunity? How much can the company capture?

**This is what allows the VC firm to understand how the venture is expected to grow.**

### UNDERSTANDING THE PRODUCT:

- What is it focused on solving for? How does it work? What is their production capacity? What are the risks? How replicable is it? Is there intellectual property?

**This is what allows the VC firm to understand where it is investing in.**

# SCREENING

## WHAT DO INVESTORS LOOK FOR? (2 of 4)

### UNDERSTANDING THE GO-TO MARKET STRATEGY:

- What is their current strategy?
- Where do they want to focus on in the future?
- How do they communicate? What channels do they use to place their product/service? Do they want to expand?

**This is what allows the VC firm to understand what are the next steps of the venture.**

### UNDERSTANDING THE RISKS:

- Operational, team, funding, unit economics, market grow, product limitations, regulation, impact risks, etc.?

**This is what allows the VC firm to understand what to look after and mitigate.**



# SCREENING

## WHAT DO INVESTORS LOOK FOR? (3 of 4)

### UNDERSTANDING THE BUSINESS:

- After understanding the market, the company operates in and the product/service it provides, a VC firm wants to understand the financials.
- What is the average revenue per transaction, margins on the product/service, gross margins, revenue growth, cost of goods sold, customer acquisition cost, customer retention, lifetime value, sales growth, etc.

**This is what allows the VC firm to measure the pulse on how the business is going.**

### UNDERSTANDING THE COMPETITION:

- Who are their competitors? How do they differentiate? How big is the market? How mature is the competition? Which market is the most developed to date?

**This is what allows the VC firm to understand what is their positioning.**

# SCREENING

## WHAT DO INVESTORS LOOK FOR? (4 of 4)

### UNDERSTANDING THE TEAM:

- Who are the founders? What is their academic and professional background? What do their references say about them? How did we contact them? How were the interactions? What is the dynamic between co-founders? What are the risks?

**This is what allows the VC firm to get to know who they are investing in.**

### UNDERSTANDING THE IMPACT:

- WHAT is the outcome they work towards?
- WHO are their beneficiaries?
- HOW MUCH are they impacting?
- What is their CONTRIBUTION towards the outcome?
- Are there any RISKS?

**This is what allows the VC firm to determine what the impact metric should be.**

# PORTFOLIO MANAGEMENT

## What is the portfolio management approach?

Fund managers can add value to their investees at every stage of their relationship and across the investment lifecycle. The portfolio management approach is focused on adding value to the venture in order to drive successful outcomes across the portfolio, both in terms of financial and impact results.

## Why is it relevant? Who is involved?

There are 5 key areas where investors can add the most value in their portfolio management approach:

- **Strategy:** namely growth and impact management and measurement
- **Human Resources:** helping to find the best talent
- **Governance:** strengthen the board
- **Finance:** review structure and help identify sources of working capital
- **Operations:** improve product, pricing strategy, review relationship with suppliers, channels, etc.

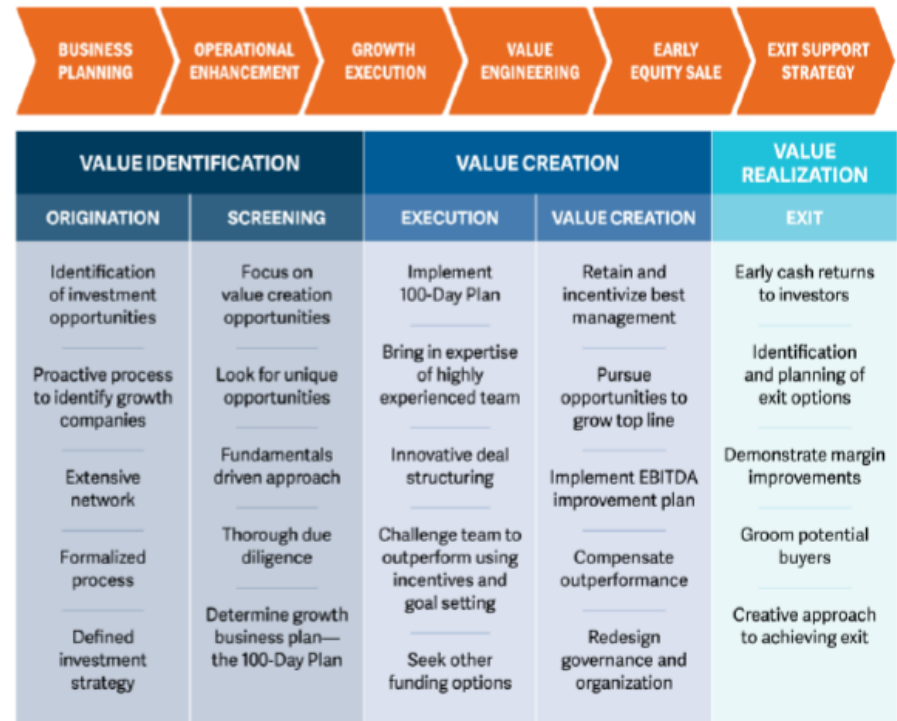


Figure 16: Adding Value Across the Investment Lifecycle  
Source: The GIN 2016

# PORTFOLIO MANAGEMENT

## HOW INVESTORS ADD VALUE

Founders want more than money.



61% of founders want it.



92% of investors offer it.

- But 3 out of 5 founders feel duped.
- 59% of founders report a negative experience with value-add compared to what they were promised.

### WHY?

- The support is not specialized: 47% of founders believe their investors had little knowledge of the sectors they are investing in.
- Over promise and under deliver: 33% of founders felt that value-add was over promised and under delivered.
- Not results driven: 49% of founders reported that value-add had no impact on their business.

# PORTFOLIO MANAGEMENT

## HOW INVESTORS ADD VALUE

**VC platform is a new concept that has been growing in popularity.**  
**It is used to convey the **non-financial support** funds provide to their founders.**

There are four models.

Each require a different set of skills and infrastructure.

1

### network-driven

provide access to  
quality, vetted network,  
talent, partners,  
investors, customers

2

### knowledge-first

Provides resource hubs,  
rich content offerings,  
and exclusive  
knowledge-sharing  
communities or  
workshop programs.

3

### platform

access to in-house  
operators who connect,  
advise and consult on  
strategy focus PR and  
marketing.

4

### applied venture

access to in-house team  
that helps with growth  
e.g. product,  
recruitment, marketing  
or PR. Often paid for in  
cash or through a larger  
equity stake.

# Welcome to IMPACT INVESTMENT

## CLASS 5

**Venture Philanthropy and Financial Innovation  
for impact**

Course instructor:  
**Antonio Miguel**

# AN HELICOPTER VIEW OF OUR CLASS SO FAR

1. IMPACT  
INVESTMENT  
DEFINITION

4. IMPACT VENTURE CAPITAL

2. IMPACT INVESTMENT  
MARKET INFRASTRUCTURE  
(7 ELEMENTS) AND  
EXAMPLES

3. SOCIAL IMPACT  
BONDS: ADVANTAGES,  
DISADVANTAGES AND  
DEVELOPMENT  
PROCESS

5. VENTURE  
PHILANTHROPY AND  
FINANCIAL  
INNOVATION FOR  
IMPACT VENTURES

6. MICROFINANCE

# **CLASS 5: VENTURE PHILANTHROPY AND FINANCIAL INNOVATION /// LEARNING OUTCOMES**

## **STUDENTS SHOULD BE ABLE TO:**

**#1 UNDERSTAND THE DIFFERENT BUSINESS MODELS OF IMPACT VENTURES**

**#2 ARTICULATE THE DIFFERENT TYPES OF FINANCE AVAILABLE FOR IMPACT VENTURES AND HOW THEY FIT INTO THE VENTURE LIFECYCLE**

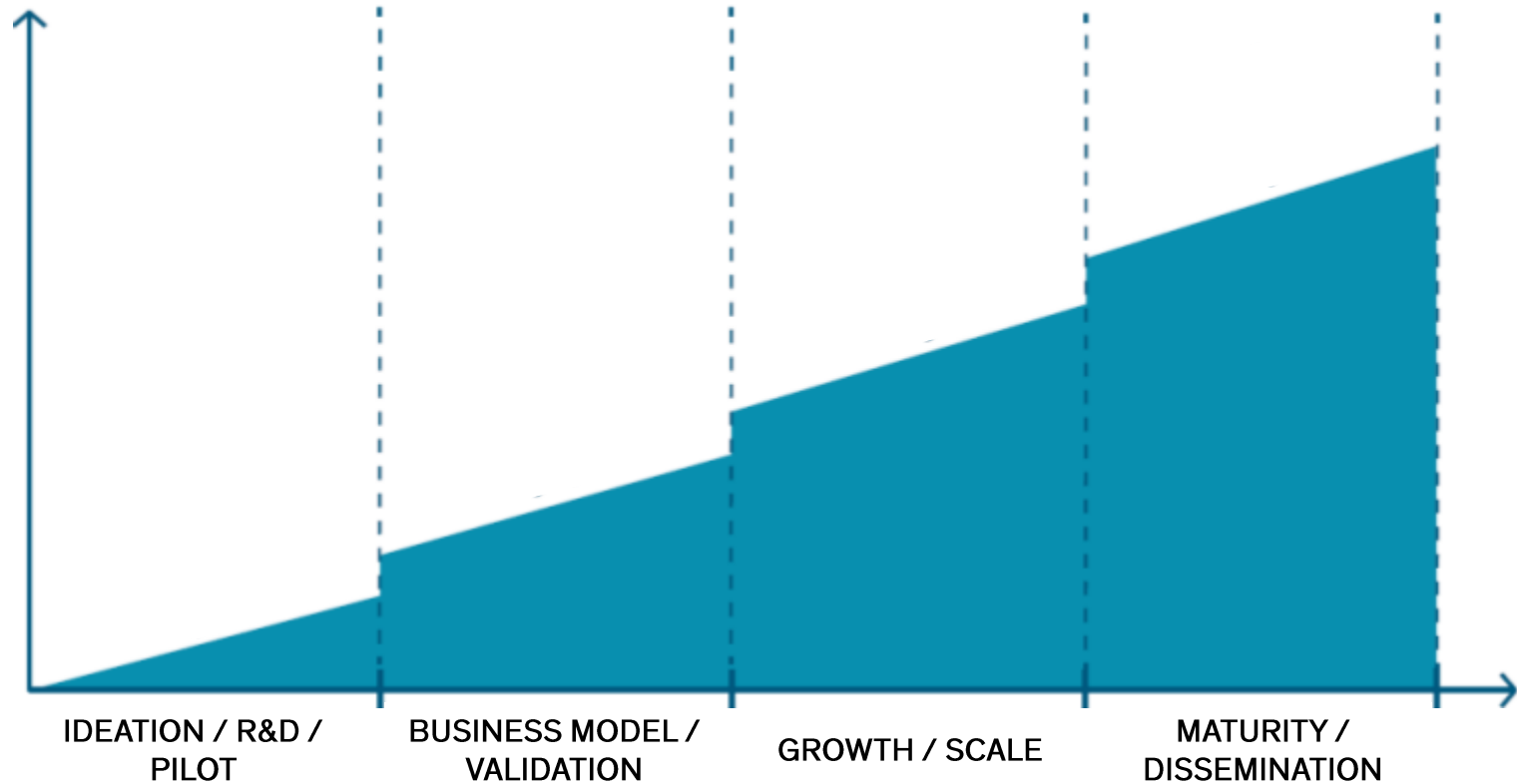
**#3 DEFINE VENTURE PHILANTHROPY AND ITS APPROACH TO INVESTING IN IMPACT VENTURES**

**#4 IDENTIFY AND DESCRIBE THE 3 KEY CHARACTERISTICS OF VENTURE PHILANTHROPY**

**#5 UNDERSTAND THE DIFFERENCES BETWEEN TRADITIONAL PHILANTHROPY, VENTURE PHILANTHROPY AND VENTURE CAPITAL**



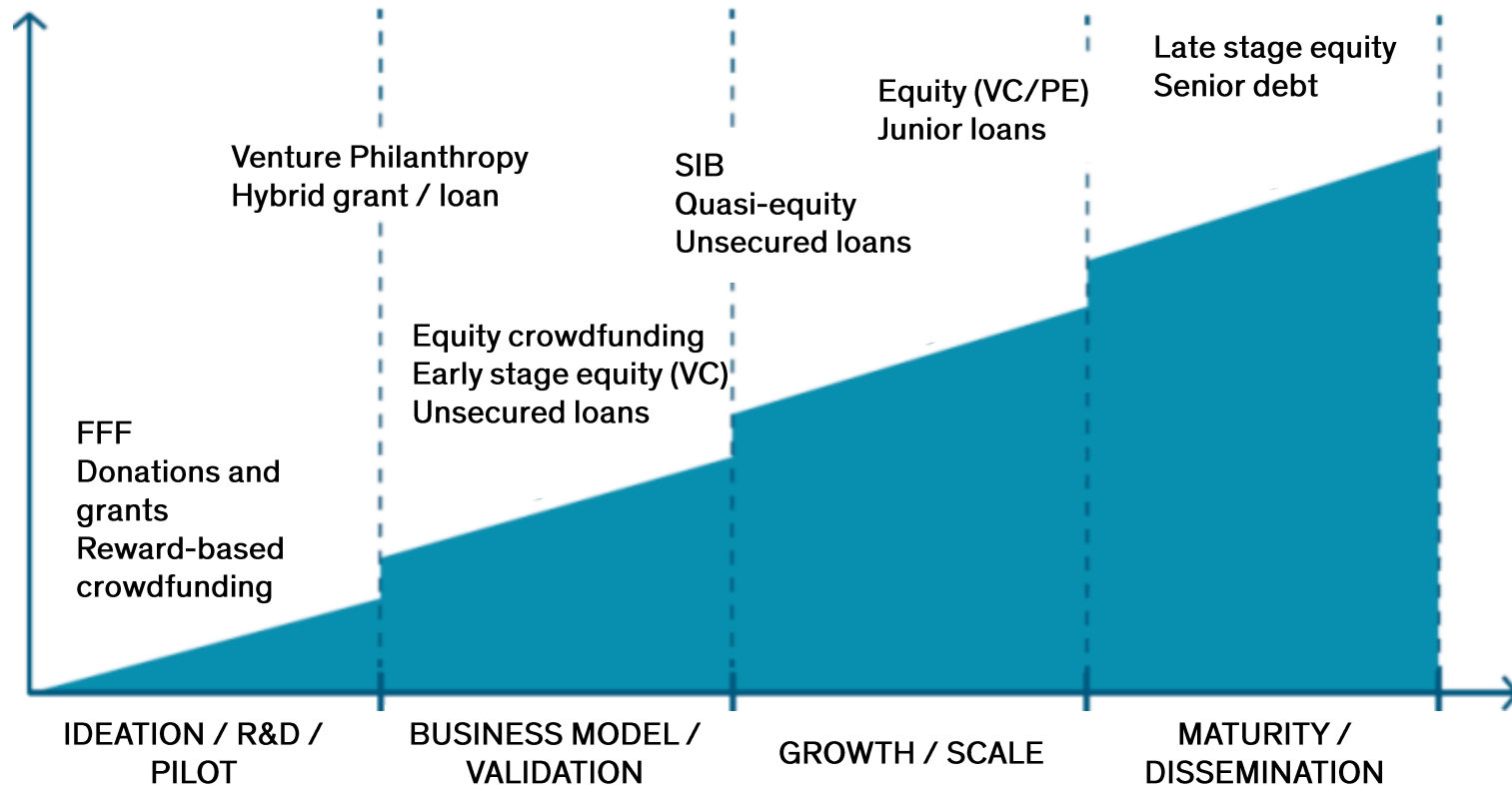
# THE VENTURE LIFECYCLE AND ADEQUATE FORMS OF FINANCE



+ Risk  
- Traction  
- Revenues  
- Bargaining power  
(for ventures)

- Risk  
+ Traction  
+ Revenues  
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(for ventures)

# THE VENTURE LIFECYCLE AND ADEQUATE FORMS OF FINANCE



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(for ventures)

# TOP LEVEL APPROACH TO IMPACT BUSINESS MODELS

LOCK STEP / IMPACT LOCK	SIDE BY SIDE ("ROBIN HOOD")	CSR / DONATION MODEL	NO REVENUE GENERATION	PUBLIC SERVICE PROVISION
Positive correlation between impact creation and revenue generation. Impact and profit are mutually reinforcing.	For each product sold, another product is given for free to someone facing a vulnerable situation.	Focus of the solution / organisation is not to solve a specific social or environmental problem but dedicates a % of profits to specific causes.	The solution provided is effective from an impact perspective, helping solve the problem, but no revenues are generated.	The solution is provided to end beneficiaries and is part of State's responsibilities. As such, Government pays for these services.
<b>Examples:</b> Winnow solutions What3Words Code for All	<b>Examples:</b> TOMS Shoes	<b>Examples:</b> Ben & Jerry's Patagonia	<b>Examples:</b> 12 steps AA Wikipedia	<b>Examples:</b> MST Nurse-Family Partnership

# EXAMPLES OF REVENUE MODELS

FEE FOR SERVICE (STANDARD + CUSTOMISED)

SUBSCRIPTION MODEL (FIXED PERIOD IN TIME) (E.G. NETFLIX)

CHANNEL SALES (E.G. NEMI TEAS)

RETAIL SALES (E.G. PATAGONIA)

FREEMIUM (E.G. LINKEDIN)

SERVICES PAYED / FREE PRODUCT (E.G. BITCLIQ BIG EYE SMART FISH)

AFFILLIATE MODEL (E.G. HOLD)

# FINANCIAL INNOVATION FOR IMPACT VENTURES FROM A BUSINESS MODEL PERSPECTIVE

No revenues (yet)

B2B // B2C  
(user = payer)

B2G  
(user not payer)

Organisational level

FFF  
Donations  
Reward-based  
crowdfunding  
Venture Philanthropy

Hybrid grant / loan  
Equity crowdfunding  
Unsecured loans  
Quasi-equity

Social Impact Bonds  
Secured / Unsecured  
loans

Individual  
level:  
Microfinance

# TYPES OF FINANCE AVAILABLE

## DONATE

A gift typically for charitable causes. No return consideration.

Could generally be in cash, services or goods

Usually made by an individual or an organization to a nonprofit organization, charity or private foundation

## INVEST

Purchase of an asset e.g. a financial product/share of a company or other products with the expectation to generate future financial returns

Equity crowdfunding

## LEND

To grant the use of money or something else of value, with the understanding that it or something else of value will be returned at a future date

Secured / unsecured loan  
Quasi-equity

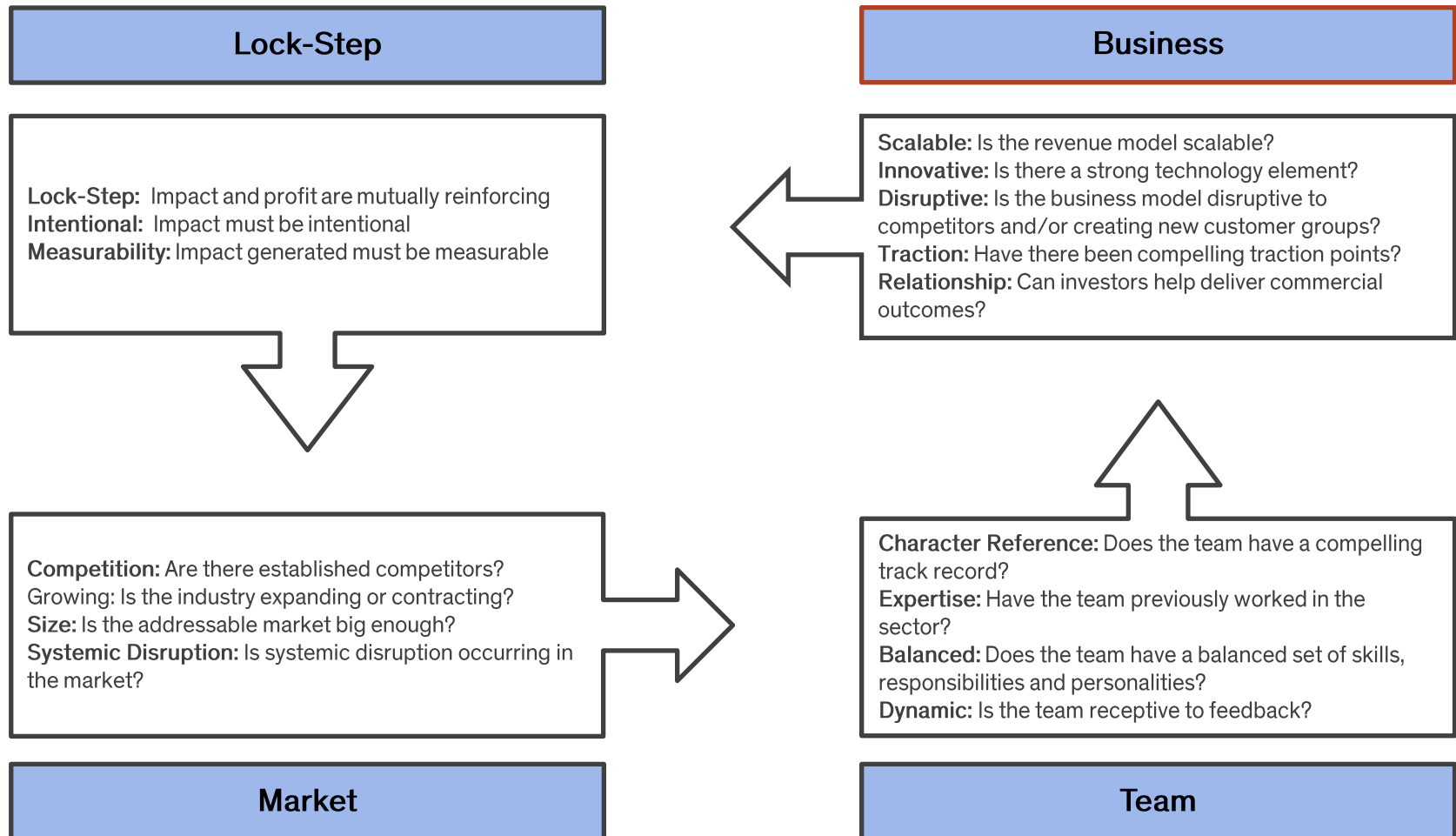
Hybrid

# OVERVIEW OF FINANCING INSTRUMENTS AVAILABLE FOR IMPACT VENTURES

	1 Equity Capital	2 Donations	3 Grants	4 Debt Capital	5 Mezzanine Capital	6 Hybrid Capital
Annual Payment	dividend payment if applicable	none	none	interest payment (variable)	interest payments (variable)	depends on structure
Repayment	generally no <sup>1)</sup>	none	none	yes	yes	none
Duration	unlimited	unlimited	short term	long term	long term	long term
Repayment hierarchy	Last	no repayment	no repayment	First	Subordinated to debt	depends on structure
Upside potential	yes <sup>2)</sup>	none	none	none	none	depends on structure
Ownership / decision rights	yes	none	generally none <sup>3)</sup>	none	yes	depends on structure
Typical givers	<ul style="list-style-type: none"> <li>- Funds</li> <li>- Foundations</li> <li>- Companies &amp; individuals</li> </ul>	<ul style="list-style-type: none"> <li>- Individuals</li> <li>- Philanthropists</li> <li>- Companies</li> </ul>	<ul style="list-style-type: none"> <li>- Governments</li> <li>- Foundations</li> <li>- Intl. institutions</li> </ul>	<ul style="list-style-type: none"> <li>- Banks</li> <li>- Foundations</li> <li>- Governments</li> <li>- Individuals</li> </ul>	<ul style="list-style-type: none"> <li>- Banks</li> <li>- Financial Institutions</li> </ul>	<ul style="list-style-type: none"> <li>- Banks</li> <li>- Foundations</li> </ul>
Typical receivers	<ul style="list-style-type: none"> <li>- Social Businesses</li> <li>- Social Enterprises</li> <li>- For-profit Businesses</li> </ul>	<ul style="list-style-type: none"> <li>- Charitable and other organizations</li> </ul>	<ul style="list-style-type: none"> <li>- Charitable orgs.</li> <li>- Businesses</li> <li>- Foundations</li> </ul>	<ul style="list-style-type: none"> <li>- Social Businesses</li> <li>- Social Enterprises</li> <li>- For-profit Businesses</li> </ul>	<ul style="list-style-type: none"> <li>- Social Businesses</li> <li>- Social Enterprises</li> <li>- For-profit Businesses</li> </ul>	<ul style="list-style-type: none"> <li>- Social Businesses</li> <li>- Social Enterprises</li> <li>- For-profit Businesses</li> </ul>

Source: Grameen Creative Lab

# SCREENING IMPACT VENTURES





# WHY IS VENTURE PHILANTHROPY RELEVANT

Society needs new models to tackle societal challenges – considering the persistency of the challenges, and the diminishing resources of governments

Many impact ventures lack stable funding and organizational capacity to most effectively resolve the challenges found in society today.

# WHAT IS VENTURE PHILANTHROPY

**John D. Rockefeller III (1969):** “Private foundations often are established to engage in what has been described as ‘Venture Philanthropy,’ or the imaginative pursuit of less conventional charitable purposes than those normally undertaken by established public charitable organizations.”

**EVPA:** Venture Philanthropy is an approach to charitable giving that applies venture capital principles, such as long-term investment and hands-on support, to the social economy. Venture philanthropists work in partnership with a wide range of organizations that have a clear social objective. These organizations may be charities, social enterprises or socially driven commercial businesses.

**Sustainability Dictionary:** Philanthropy that draws upon the traditional venture capital model to invest in nonprofits and socially entrepreneurial organizations to build their capacity, rather than to support discrete programs. Venture philanthropists typically assess progress and track the outcomes of their investments in terms of the social value produced. They often maintain a close and active relationship with grantees.

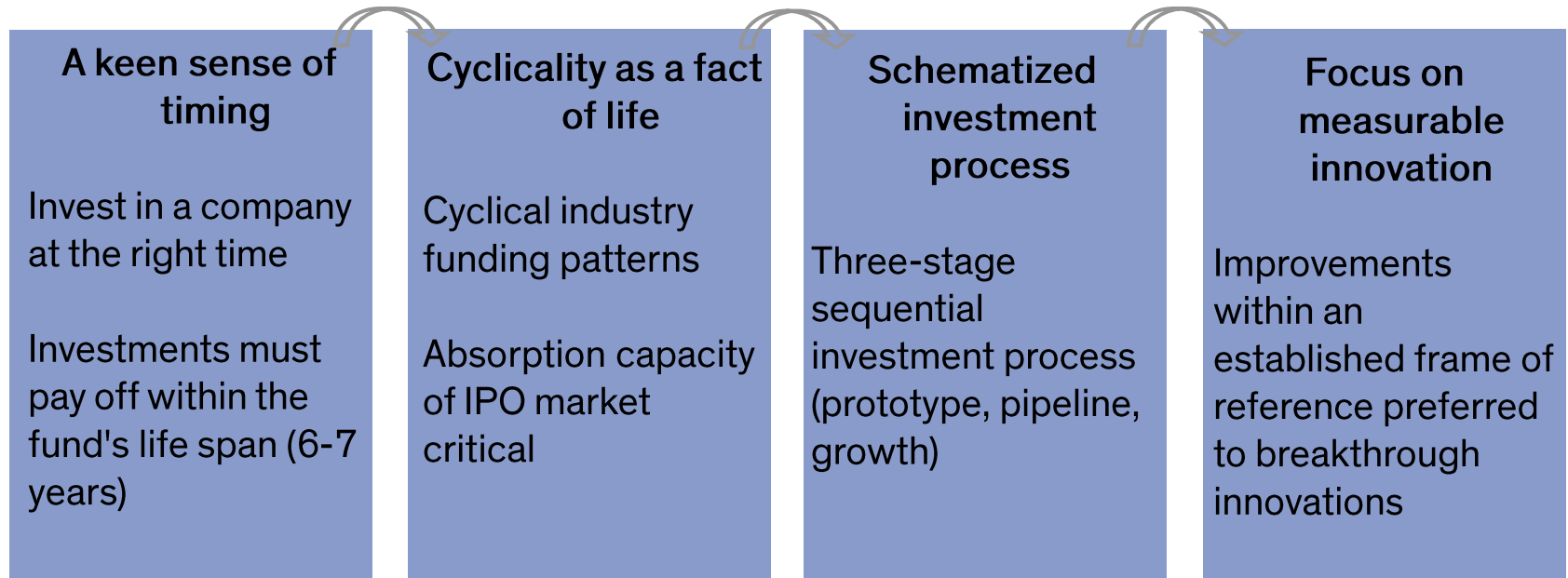
# WHAT IS VENTURE PHILANTHROPY

**Venture Philanthropy** is about using private resources for societal impact.

It is about matching the soul of philanthropy with the spirit of investing, about **building strong impact ventures**; it is high-engagement, and long-term.

It provides **financial and non-financial support**, demands a **holistic view**, and includes social impact tools spanning grant-giving to investing.

# SIMILARITIES WITH VENTURE CAPITAL



**Venture capital is:** long term investments, 3-7 years, annual investment returns 25% - 100%.

**Venture capital is not:** investment intermediary services such as merchant banking, investment banking or business brokerage services. It is also not consulting services, penny stock strategies, public shell merger strategies or any other fee income motivated financial services.

# THE PHILANTHROPIC IRR

## Need

In order to create change in scale, philanthropy needs to draw on a whole toolbox of intervention mechanisms beyond pure grant-making.

## Contribution

Venture Philanthropy draws upon the traditional venture capital model to invest in nonprofits and socially entrepreneurial organizations to build their capacity, rather than supporting discrete programs.

Venture philanthropists assess progress and track the outcomes of their investments in terms of the social value produced.

They maintain a close and active relationship with grantees, providing ongoing strategic guidance in addition to financial capital.

The fundamental objective of venture philanthropy is to achieve higher social or financial return (or both) from impact ventures.

# VENTURE PHILANTHROPY VS VENTURE CAPITAL

## Time

Venture Philanthropy operates with different "curve shapes" – "investors" must either be ready to operate with longer time horizons, or suboptimal topic selection.

## Exit

Value creation in the social sector cannot always be measured by simple quantitative proxies. Moreover, exit funding does not follow automatically from performance.

## Cost

Venture capital industry operates on a different scale than venture philanthropy investments. Absence of economies of scale.

## Culture

Venture philanthropists coming from the venture capital world must adapt their language to the culture of the social sector.

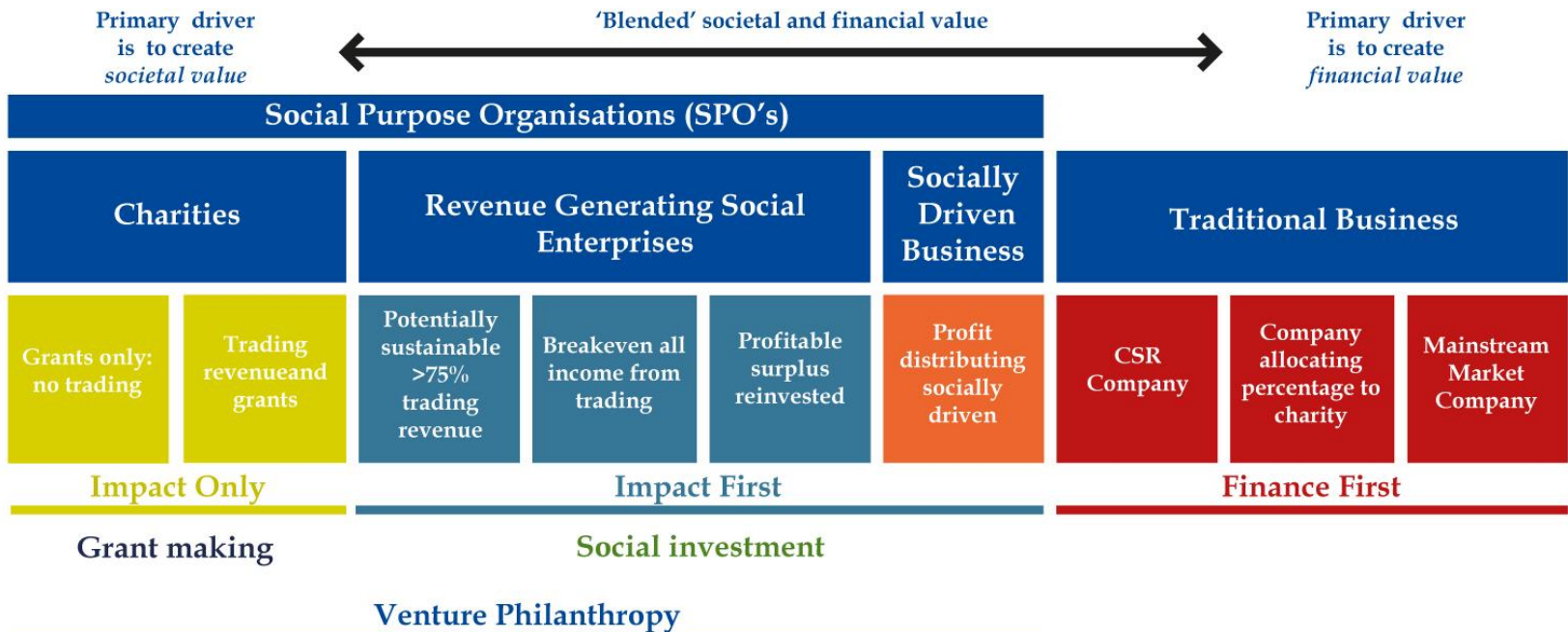
# 3 KEY CHARACTERISTICS OF VENTURE PHILANTHROPY

**Tailored Financing:** the process through which a venture philanthropy organization finds the most suitable financial instrument(s) to support a social enterprise choosing from the range of financial instruments available (grant, debt, equity, and hybrid financial instruments).

**Organisational Support:** the provision from venture philanthropy organisations of added-value support services to investees (social enterprises) to strengthen their organisational resilience and financial sustainability by developing skills or improving structures and processes.

**Impact Measurement and Management:** the measurement and management of the process of creating social impact in order to maximise and optimise it.

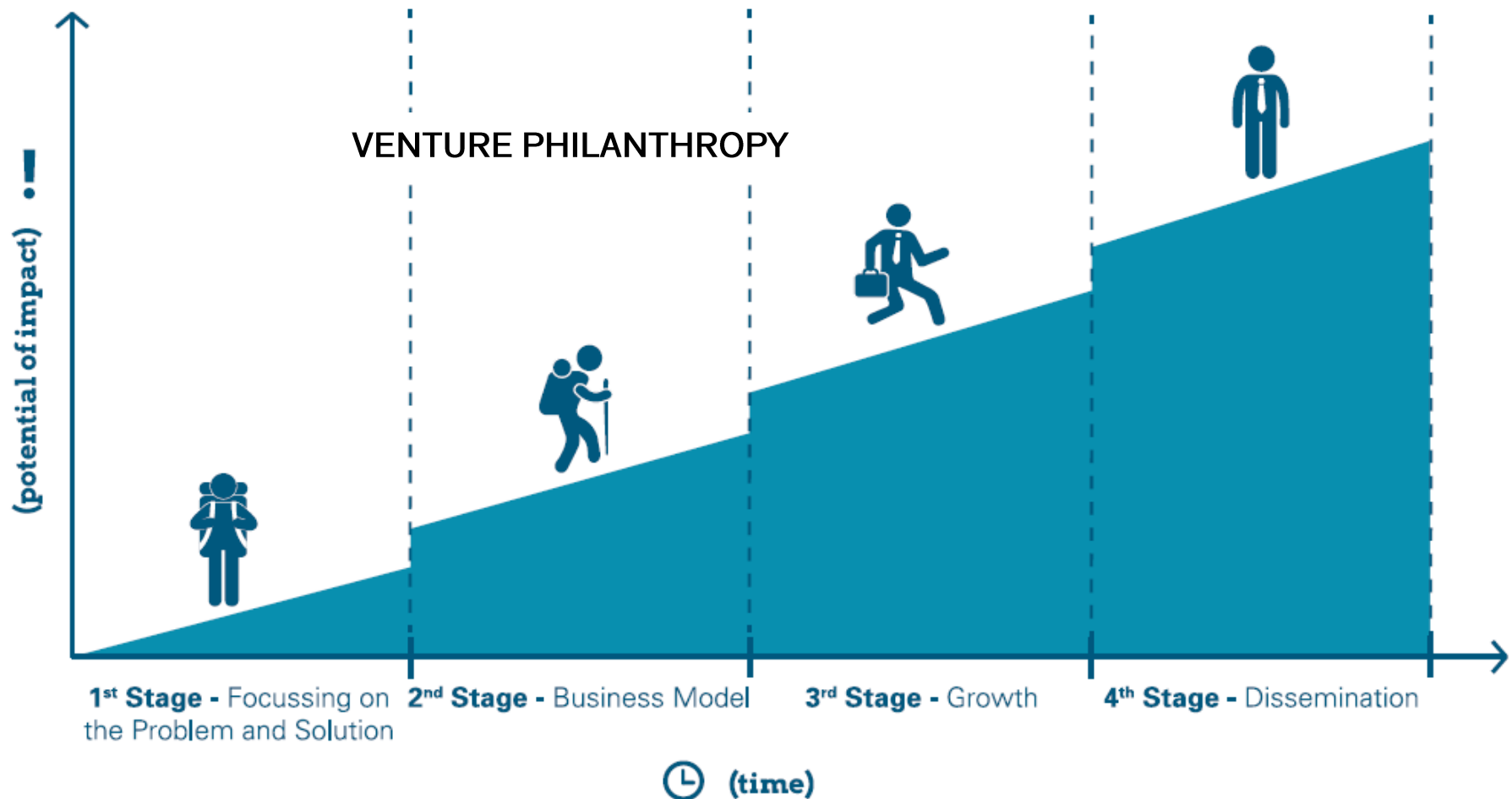
# VENTURE PHILANTHROPY IN THE IMPACT INVESTMENT SPECTRUM









# VENTURE PHILANTHROPY IN THE VENTURE LIFECYCLE

The development cycle of impact ventures consists of a pathway that starts with an innovative idea and advances towards the mainstream adoption of the proposed solution – institutionalisation.



# EXAMPLE: ST GILE'S TRUST

St Giles Trust aims to help break the cycle of prison, crime and disadvantage and create safer communities by supporting people to change their lives.

Stage	Case study: St Giles Trust	Financing mechanism
 <p>I. Focus on the problem and proposed solution</p>	<ul style="list-style-type: none"> <li>• Problem: high re-offending rate of prisoners upon release from prison</li> <li>• Idea: the moment when they leave the prison gates is crucial for their rehabilitation process</li> <li>• Solution: through the gate model whereby a social worker meets the prisoner at the prison gate and offers ongoing support</li> </ul>	<p>Donations and traditional philanthropy</p>
 <p>II. Business model</p>	<ul style="list-style-type: none"> <li>• Adapting intervention model: social workers that provide support were also ex-offenders, and therefore the interaction and connection is stronger; continuous adaptation of services</li> <li>• Development of SGT as an organisation: investment in IT infrastructure, management control systems, long-term strategy</li> </ul>	<p>Venture Philanthropy: Impetus PEF</p>
 <p>III. Growth</p>	<ul style="list-style-type: none"> <li>• Scaling project with a specific segment of the population – short sentenced offenders (&lt;12m)</li> </ul>	<p>Social Impact Bond (first one internationally)</p>
 <p>IV. Dissemination</p>	<ul style="list-style-type: none"> <li>• Through the gate model is currently being replicated across the UK within the “Transforming rehabilitation agenda”</li> </ul>	<p>Public commissioning</p>

# HACKER PHILANTHROPY

## Sean Parker: Hacker philanthropist

The Napster creator on what billionaires should do to launch scientific breakthroughs



**WHAT IS THE ROLE OF FOUNDATIONS?**

**HOW IS TECHNOLOGY ENABLING SOCIAL CHANGE?**

# Welcome to IMPACT INVESTMENT

**CLASS 6 – Part 1**  
**Microfinance**

Course instructor:  
**Antonio Miguel**

# CLASS 6.1: THE MICROFINANCE REVOLUTION /// LEARNING OUTCOMES

## STUDENTS SHOULD BE ABLE TO:

**#1 UNDERSTAND HOW MICROFINANCE WORKS AND THE RANGE OF PRODUCTS THAT IT ENCOMPASSES (E.G. MICROCREDIT, MICROSAVINGS, MICROINSURANCE)**

**#2 ARTICULATE THE DIFFERENT GOALS OF MICROFINANCE**

**#3 EXPLAIN THE ROLE OF MICROFINANCE INSTITUTIONS (MFI) AND THE PROS AND CONS OF REGULATED MFI**

**#4 DISCUSS THE COMMERCIALISATION OF MICROFINANCE (ITS PROS AND CONS) THROUGH THE CASE STUDY OF COMPARTAMOS**

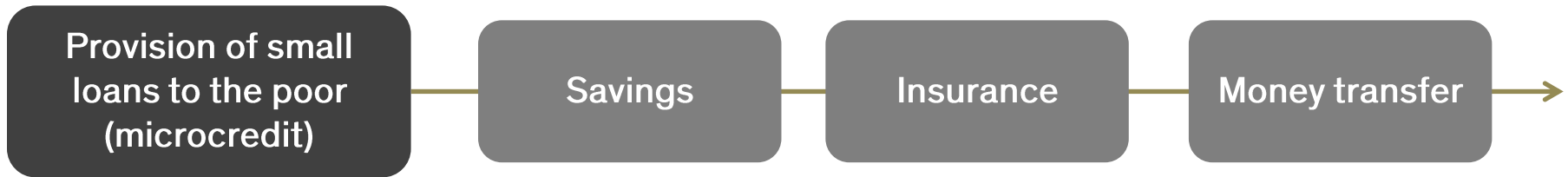
# THE ROOTS OF MICROFINANCE



27\$ to 42 women

# WHAT IS MICROFINANCE?

Microfinance is a type of banking service that is provided to unemployed or low-income individuals or groups who would otherwise have no other means of gaining financial services (*investopedia*).

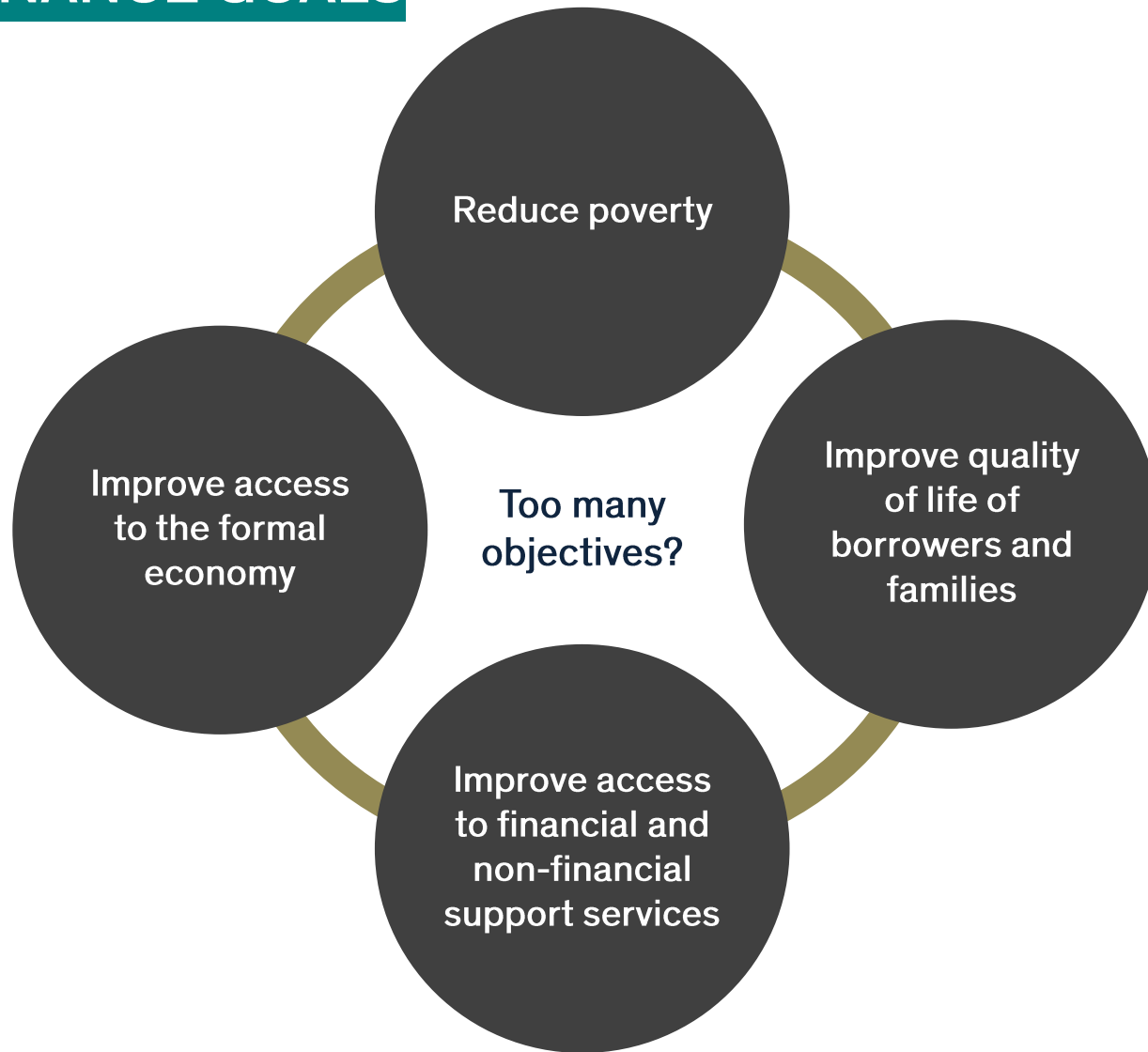


THE COMMON DENOMINATOR = EXCLUSION



Effective microfinance is positioned to overcome a variety of access barriers to a wide range of financial services for the many different customers who are excluded from the formal financial system.

# MICROFINANCE GOALS





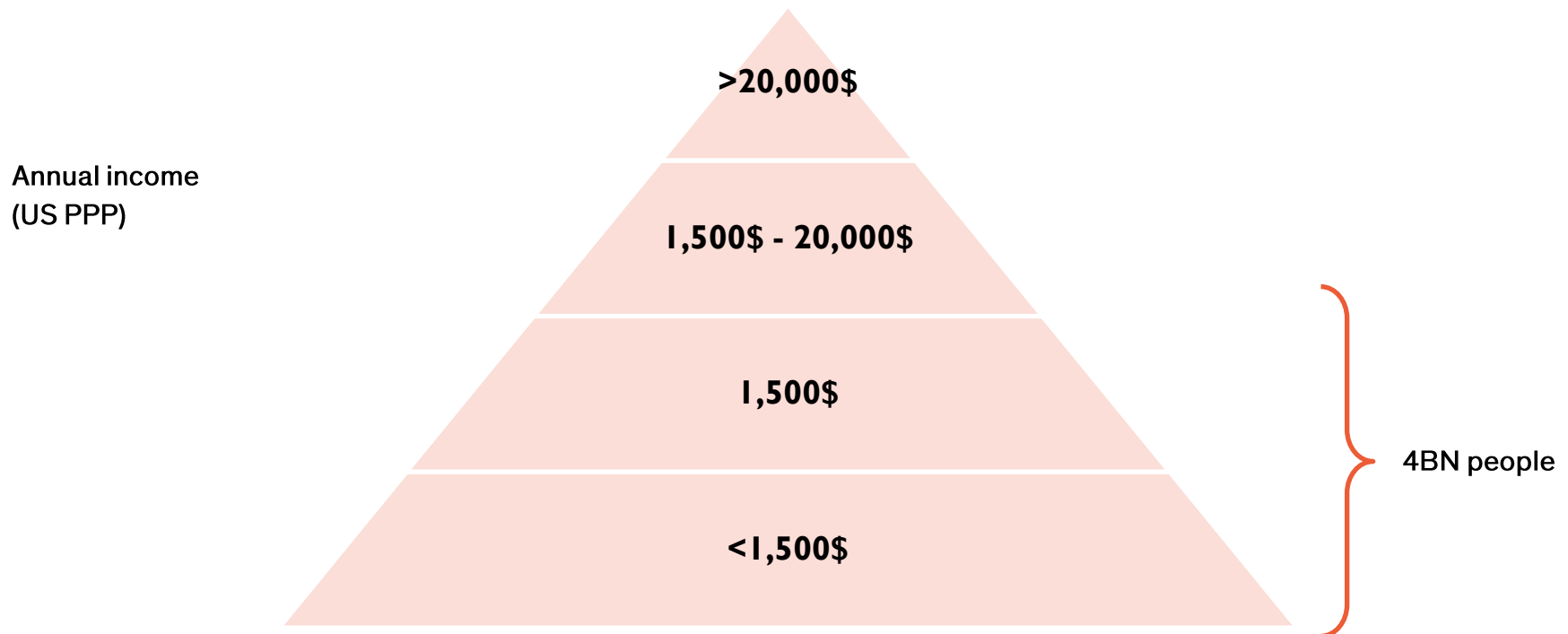
# KEY PRINCIPLES OF MICROFINANCE

## According to CGAP:

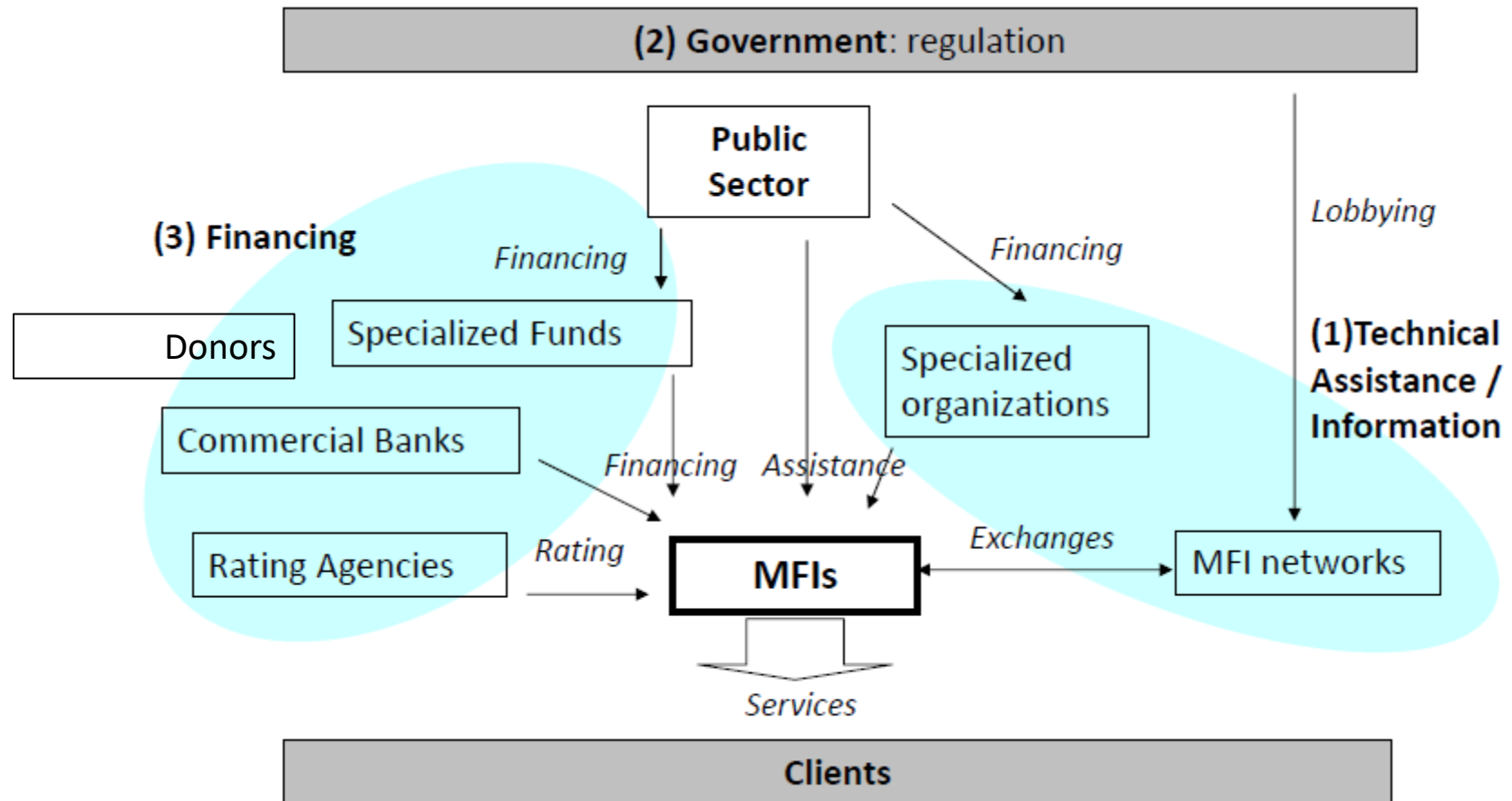
- The poor need a variety of financial services, not just loans.
- Microfinance is a powerful instrument against poverty.
- Microfinance means building financial systems that serve the poor.
- Financial sustainability is necessary to reach significant numbers of poor people.
- Microfinance is about building permanent local financial institutions.
- Microcredit is not always the answer.
- The government's role is as an enabler, not as a direct provider of financial services.
- Donor subsidies should complement, not compete with private sector capital.
- The lack of institutional and human capacity is the key constraint.
- The importance of financial and outreach transparency.

# WHO ARE THE CLIENTS OF MICROFINANCE

There are over 4bn people in the world living on less than \$5 per day. But is microfinance reaching the poor of the poorest, or those in transition? 70% of microfinance clients are women: good enterprise skills, investment in families and reinvestment in businesses.



# WHO IS WHO IN MICROFINANCE



# THE ROLE OF MFIs

Microfinance institutions, or MFIs, come in all shapes and sizes. They can differ in scale, experience, legal statute, strategy and budget. What lies at the heart of the microfinance system is the issue of reliability. Reliability determines how smoothly an MFI operates. These organizations provide hard-to-find financial services to local individuals and groups. (*planet finance*) The most important innovation of microfinance has been the use of the client relationship (that is, the present value of the expected stream of future services) as an incentive to repay. // MFI play a number of roles:

- > Provision of financial products directly to individuals (microloans, group loans, small business loans, deposits, insurance, remittances)
- > Provision of business development services
- > Serve as a bridge between microfinance investors and end beneficiaries
- > Develop local / regional expertise targeting the population that they serve
- > Undertake risk assessment methodologies using both financial and non-financial information
- > Monitoring and non-financial support to borrowers (capacity-building)
- > Business plan analysis (loan officers)

## PROS OF REGULATED MFI

- Can access commercial capital markets
- Increased leverage (i.e. access to funding)
- Can offer savings to clients
- Can increase client base and generate client loyalty
- Better governance
- Client protection

## CONS OF REGULATED MFI

- Can lead to mission drift due to dual mission (profit and impact)
- Impact on personnel of moving from NGO to for-profit culture
- More costly due to capital needs & higher monitoring requirements
- Regulatory constraints may be burdensome
- Control of interest rates which can hinder MFI sustainability

# MICROFINANCE TECHNOLOGIES AND METHODOLOGIES

Group lending

Individual lending

Use of mobile  
technology



## HOT TOPICS RELATED MICROFINANCE

- Costs – transactions, risk management, structure
- Operational and financial viability
- Market infrastructure: information to mitigate risk
- Interest rates subsidised vs non subsidised

## IMPACT OF MICROFINANCE

- Access to finance and financial exclusion
- Poverty alleviation
- Entrepreneurship
- Small, medium, micro enterprises

# IMPACT OF MICROFINANCE

## Industrialised countries

Exclusion from financial services  
drives to social exclusion

Financial transactions are made  
through money transfer

## Developing countries

Exclusion from financial services  
among many other types of  
exclusion

Growing interest for the fight  
against poverty in general



**Increasing role for Microfinance Institutions**



Average loan in industrialised  
countries

EU (15): < 10249 €

No other financial services than  
credit are offered by MFIs yet



Average loan in developing countries

Africa: 307€

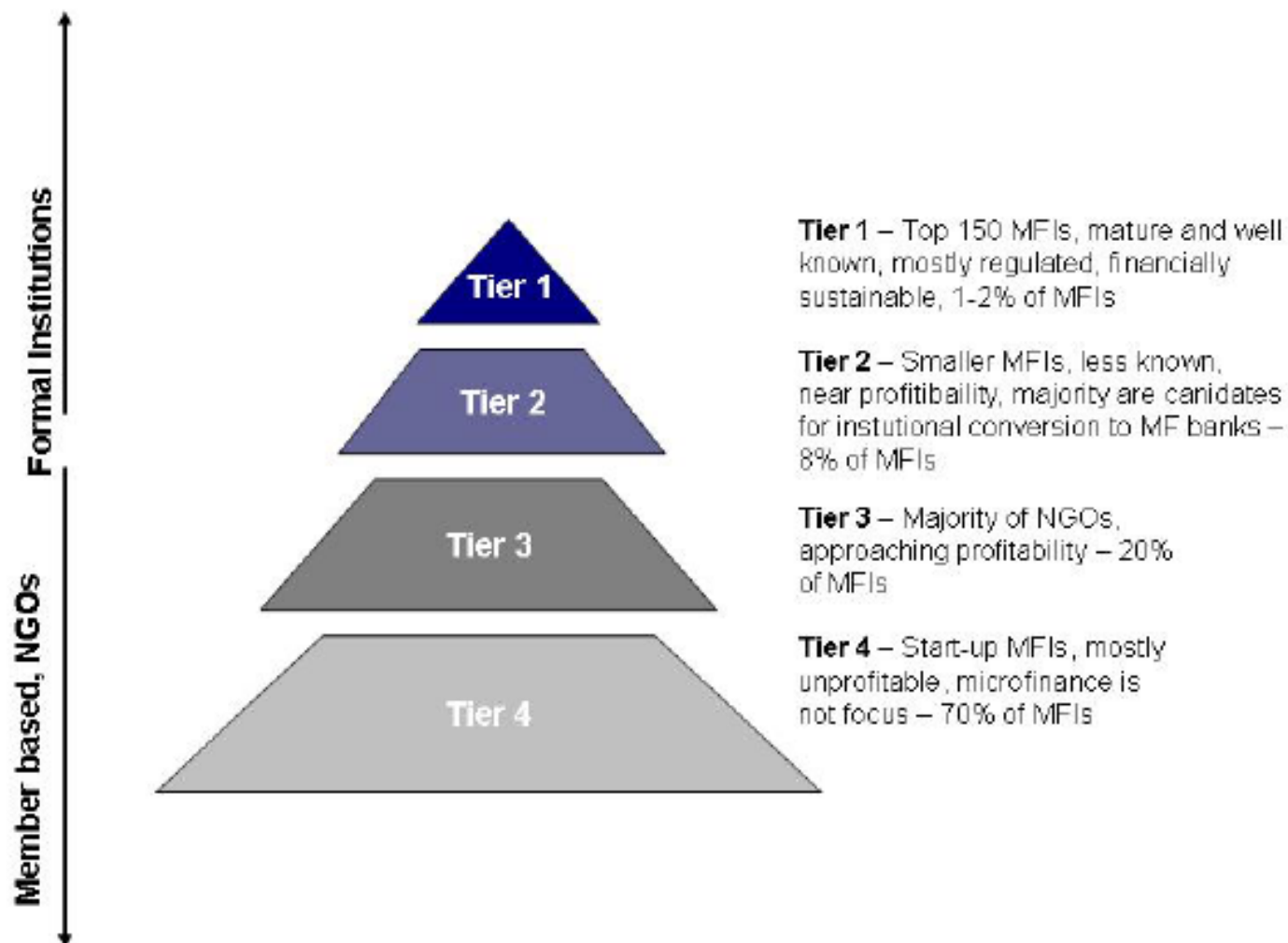
Asia: 334€

Latin America: 750€

Eastern Europe: 1200 €

# COMMERCIALISATION OF MICROFINANCE

According to degree of commercialisation



Source: Mehan – taken from Deutsche Bank Research, Microfinance: an emerging investment opportunity, December 17 2007



*Do you believe that the most effective way to alleviate poverty on a global scale is to increasingly transform microfinance into a commercial proposition or to maintain the social mission that characterised microfinance's origins?*

*What central arguments support your position?*

# COMPARTAMOS

*“You are on the money-lender’s side. Your aim is the money-lender’s aim. Your thinking is the money-lender’s thinking. So I don’t want to associate with you. I want to fight you!”*

Extract from “Lenders to the Poor Adopt Guidelines”, *The New York Times*, Elisabeth Amlgin:

“In its defence Compartamos said that the stock sale showed private investors that microfinance could be profitable and would attract more private capital to the industry.”

*Alvaro Rodriguez Arregui, Chair of ACCION, said*

“A big win like the Compartamos IPO was needed to attract lots more capital into the microfinance industry.”

*Commentary on the microfinance debate: Business Standard.  
Compartamos vs. Yunus*

“For someone who looks at microfinance as philanthropy, Carlos Labarthe and Carlos Danel should go to the depths of the MFI hell, if one existed.”

# Welcome to IMPACT INVESTMENT

**CLASS 6 – Part 2**  
**Impact Management Project**

Course instructor:  
**Antonio Miguel**

# CLASS 6.2: IMPACT MANAGEMENT PROJECT

## STUDENTS SHOULD BE ABLE TO:

**#1 UNDERSTAND THE DIFFERENCE BETWEEN IMPACT MANAGEMENT AND IMPACT MEASUREMENT**

**#2 UNDERSTAND THE MULTIPLE DIMENSIONS OF THE IMPACT MANAGEMENT FRAMEWORK: WHO, WHAT, HOW MUCH, CONTRIBUTION, RISK**

**#3 GRASP THE ABC OF IMPACT INTUITION AND BE ABLE TO APPLY IT**

# SDGs help us agree on what outcomes an enterprise contributes to



## WHAT

The Sustainable Development Goals give us a commonly agreed set of 'important positive outcomes' for people and planet.



NOVA SCHOOL OF  
BUSINESS & ECONOMICS

Source: Feldman, A (2018). Impact Management Project

# But we also want to know **for whom** and **how much**



## WHAT

The Sustainable Development Goals give us a commonly agreed set of 'important positive outcomes' for people and planet.



## WHO

**Are the people you are affecting underserved in relation to the SDGs?**

To understand who is affected by interaction with a business, we try to collect geographic and demographic data **directly from people affected**, or from experts in the outcomes needed by the planet (such as scientists)..



## HOW MUCH

**How much of the effect occurs?**

Ideally, we always want our contribution to an SDG **to be deep, to occur for many people, to last for a long time and to be quick to occur**. But we cannot say that any one of those individual drives of significance is necessarily more important than another.



# Presenting the Impact Management Project's Framework(1/2)

## Impact dimensions



WHAT



WHO



HOW MUCH



CONTRIBUTION



RISK



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## Impact categories

1. Outcome in period
2. Importance of the outcome to stakeholder
3. Outcome threshold
4. SDGs and SDG targets
5. Stakeholder
6. Geographical boundary
7. Baseline
8. Stakeholder characteristics
9. Scale
10. Depth
11. Duration
12. Depth
13. Duration
14. Type of risk
15. Level of risk

## Questions to ask

- What outcome occurs in period?
- How important is the outcome to the people (or planet) experiencing it?
- Who experiences the outcome?
- How underserved are the affected stakeholders in relation to the outcome?
- How much of the outcome occurs- across scale, depth and duration?
- What is the enterprise's contribution to the outcome, accounting for what would have happened anyway? Importance of attribution
- What is the risk to people and planet that impact does not occur as expected?

# Presenting the Impact Management Project's Framework(2/2)

## Impact dimensions



WHAT



WHO



HOW  
MUCH



CONTRIBUTION



RISK



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## Impact categories

1. Outcome in period
2. Importance of the outcome to stakeholder
3. Outcome threshold
4. SDGs and SDG targets
5. Stakeholder
6. Geographical boundary
7. Baseline
8. Stakeholder characteristics
9. Scale
10. Depth
11. Duration
12. Depth
13. Duration
14. Type of risk
15. Level of risk

## Code for All

Employment outcomes (entry into employment and sustainment for 12 months) for at least 50% participants which were previously unemployed (SDG 8 Decent work and economic growth).

Previously unemployed individuals who are based in Europe. Have at least secondary school and currently face unemployment rates of x%

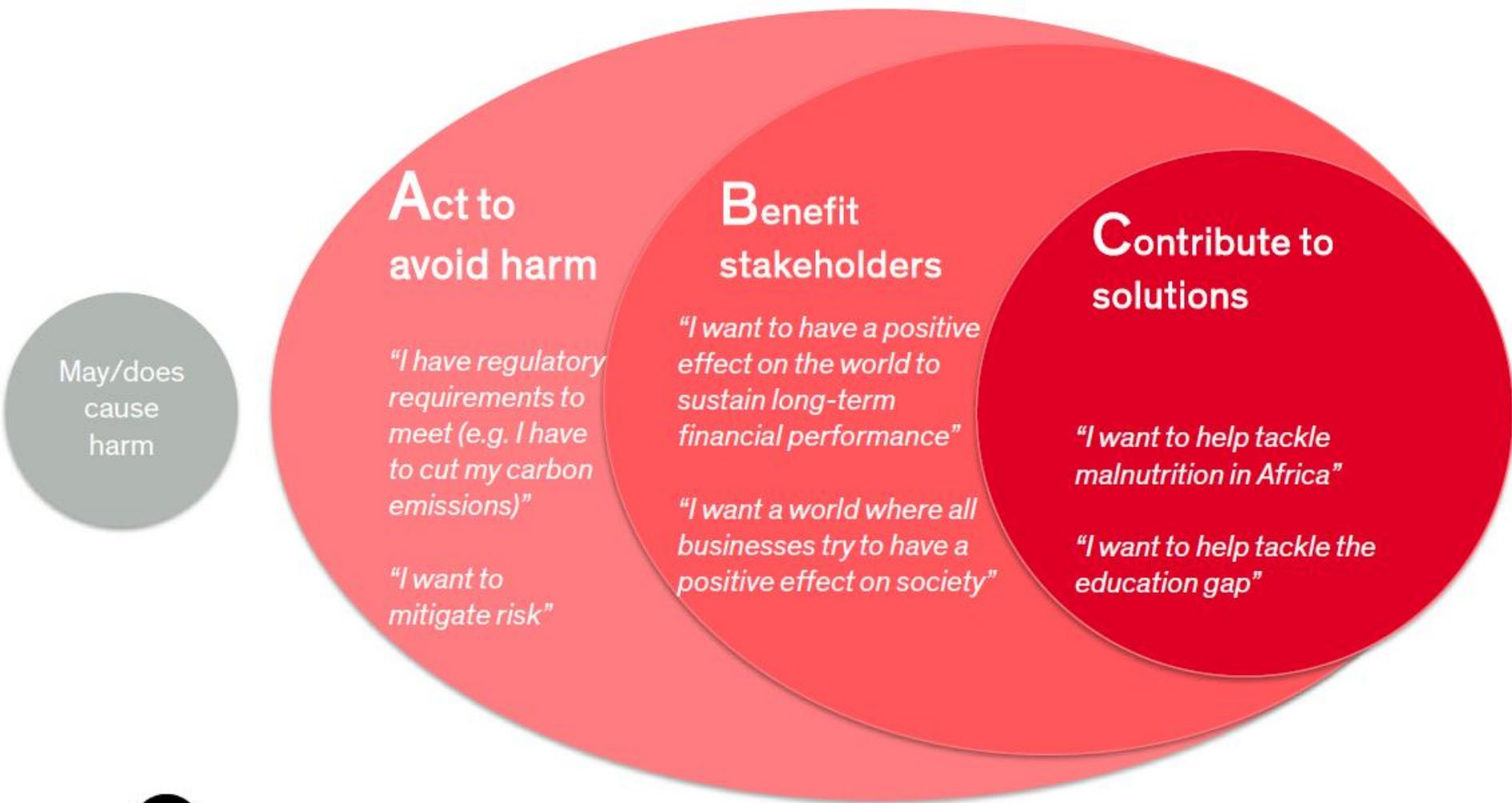
Scale: reach 10,000 individuals  
Depth: Outcome in period/baseline  
Duration: sustainment of outcomes for 12 months

Code for All wants to work with at least x% that have been unemployed for over 1 year and have participated in training provided by government.

Evidence (attribution) risk; eligibility risk  
Medium; High



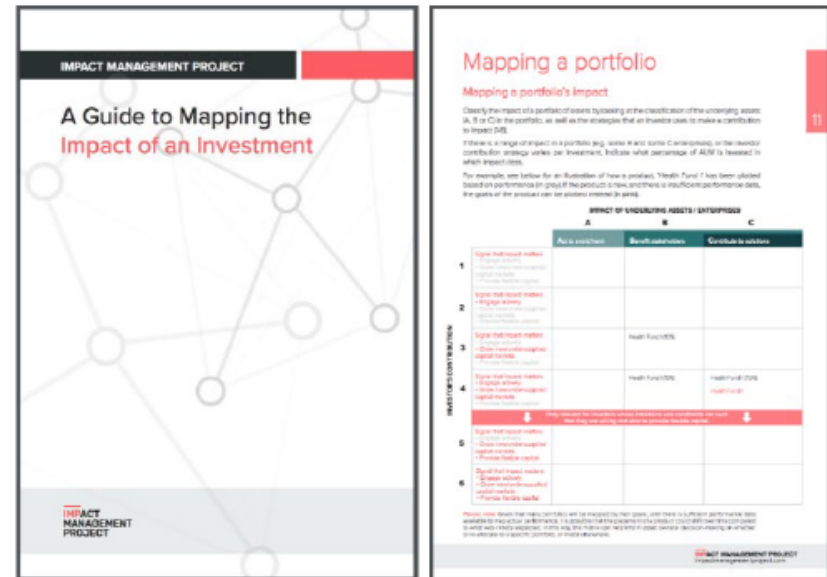
# The ABC of Impact Intuition



# There are resources available that investors and entrepreneurs can leverage on to measure and manage their impact

## Managing impact at scale in a blended private markets portfolio

### The Investor's Perspective



**Impact Management Project**  
**Impact data categories template**

To measure any impact (defined as a change in an important data point), two dimensions of data are needed. To guide enterprises and investors in collecting this data, the IMP has broken the five dimensions down into 15 categories of data, listed below.

The table below can be used as a template for those who are starting to measure the impact of an enterprise from scratch, or as a checklist for ensuring that existing impact data provides sufficient coverage across the five dimensions to enable assessment, where data already exists.

When reporting data to stakeholders, it is recommended that all four columns are completed for each impact: the indicator used, the raw data collected, the source of this data, and the assessment of performance that this data enables. Where possible, a 'target' column should be included for internal management purposes at the enterprise-level.

The IMP will be publishing further guidance on using both standardised and bespoke indicators across the 15 data categories. Make sure you are subscribed to our newsletter to be the first to read it.

The [Impact classification section](#) at the bottom references the IMP's guidance on how enterprises can classify each impact, and the enterprise as a whole, into three categories: Act to Avoid Harm, Benefit Stakeholders and Contribute to Solutions. Read more on the IMP website about why this classification is valuable as a communication, market segmentation and portfolio management device for investors.

Dimension	Impact category	Definition	Indicator	Data	Source	Assessment	Indicator
What	Outcome level in period	The level of outcome experienced by the stakeholder when engaging with the enterprise.				Positive / negative	

1. IMPACT OF AN ENTERPRISE



NOVA SCHOOL OF  
BUSINESS & ECONOMICS

Source: Feldman, A (2018). Impact Management Project

Thank you  
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