



UNLOCKING THE POTENTIAL OF FRONTIER FINANCE



ACKNOWLEDGMENTS

Authors & Reviewers

This report was principally authored by Rachel Bass, Research Manager. Several members of the GIIN team provided critical input and review of this research, including Sapna Shah, Managing Director; Abhilash Mudaliar, Research Director; Katrina Ngo, Senior Manager of Strategic Partnerships; and Sarah Zhukovsky, Communications Associate. Additionally, Noshin Nova, Research Analyst; Aliana Pineiro, former GIIN Research Manager; and Kathryn Savasuk, former Senior Associate – Investors’ Council, made significant contributions to this report.

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About the Global Impact Investing Network

The Global Impact Investing Network (GIIN) is the leading global champion of impact investing, dedicated to increasing the scale and effectiveness of impact investing around the world. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry.

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LIST OF ACRONYMS

AWS – Automatic weather stations

CFF – Collaborative for Frontier Finance

DFI – Development finance institution

EECA – Eastern Europe and Central Asia

HNWI – High-net-worth individual

LAC – Latin America and the Caribbean

MFI – Microfinance institution

PGII – Partners Group Impact Investments AG

SDG – Sustainable Development Goal

SGB – Small and growing business

SME – Small and medium enterprise

SSA – Sub-Saharan Africa

SVF – Social Venture Fund

WASH – Water, sanitation, and hygiene

WNS Europe – Western, Northern, and Southern Europe

AUTHOR'S LETTER



Mwai Kibaki, the former Kenyan president, said “leadership is a privilege to better the lives of others.” This opportunity to display leadership rests at the heart of frontier finance, defined as a segment of impact investing that seeks to improve the lives of low- to lower-middle income people across emerging and frontier markets.

Yet, within these markets, opportunities for substantial impact remain unrealized. To truly transform the lives of the world’s most vulnerable, impact investors must demonstrate leadership by channeling more capital more effectively to real solutions.

In this report, *Unlocking the Potential of Frontier Finance*, we uncover both the impact and financial drivers of such investment activity and illustrate various forms such transactions take. Through five in-depth case studies, we further explore key decision points in the structuring and management of frontier finance vehicles and transactions. Lastly, we identify challenges investors face raising and deploying frontier capital, managing transaction and operating costs, and overcoming educational gaps, in order to identify actionable recommendations for advancing the market.

These challenges point to real barriers that inhibit frontier finance activity from scaling, yet also elevate several concrete opportunities for investors and other field-builders to advance this market. Through the strategic use of grant capital, further testing of financial instruments, cultivation of partnership models, and expansion of forums to share knowledge and successes, we can address these challenges directly.

By leveraging the strength, spirit, and generous leadership of the impact investing industry, together we can realize the just and equitable future we all wish to see.



Rachel Bass
Research Manager, Global Impact Investing Network (GIIN)

**TO TRULY TRANSFORM
THE LIVES OF THE WORLD'S
MOST VULNERABLE,
IMPACT INVESTORS MUST
DEMONSTRATE LEADERSHIP BY
CHANNELING MORE CAPITAL
MORE EFFECTIVELY TO
REAL SOLUTIONS.**

Source: Arifu, Mercy Corps
Social Venture Fund

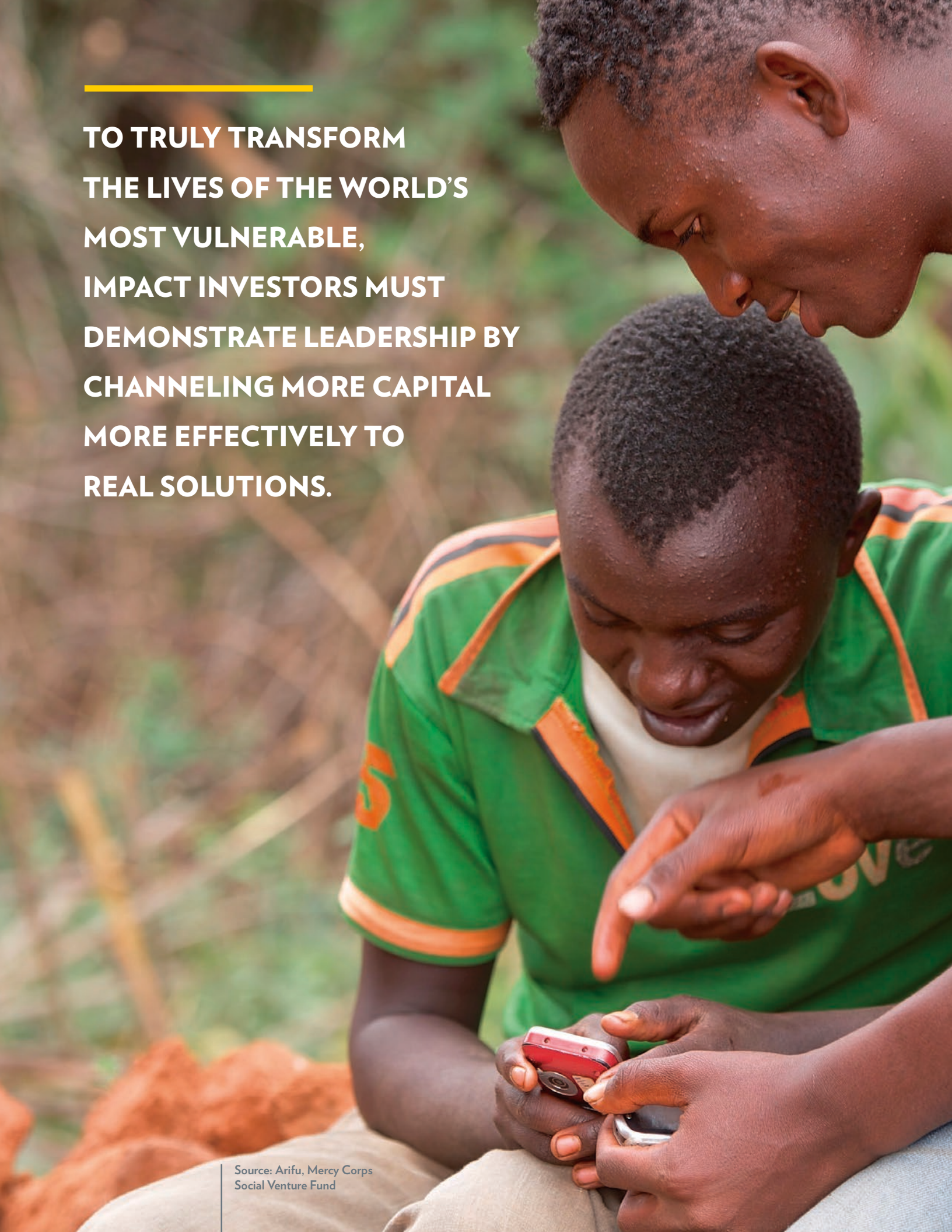
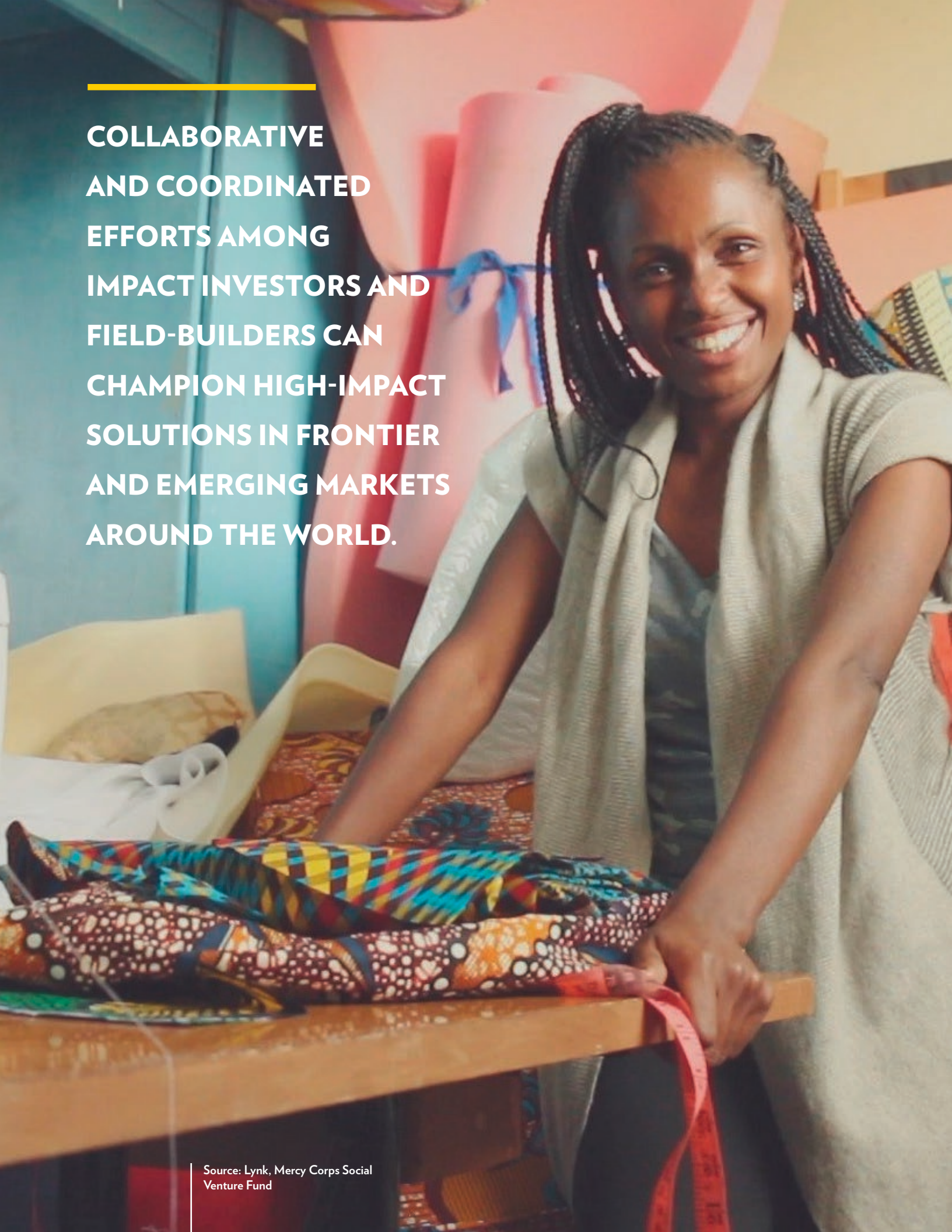


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**COLLABORATIVE
AND COORDINATED
EFFORTS AMONG
IMPACT INVESTORS AND
FIELD-BUILDERS CAN
CHAMPION HIGH-IMPACT
SOLUTIONS IN FRONTIER
AND EMERGING MARKETS
AROUND THE WORLD.**

Source: Lynk, Mercy Corps Social
Venture Fund



EXECUTIVE SUMMARY

Impact investors have a long history of practicing frontier finance, or investing to improve the lives of low to lower-middle income people in emerging and frontier markets. They're motivated by the significant potential of frontier finance investments to create deep, lasting impact while tapping into markets with strong growth potential and an emerging consumer class. Ultimately, many frontier finance investors are driven by an intention to effect broader systemic change on the financial systems in frontier markets.

Yet capital flows fall far short of demand for investment in these markets – and far short of the estimated capital gaps required to achieve the Sustainable Development Goals (SDGs). For impact investment in frontier finance to reach its full potential, investors require more clarity around the common features and performance of such transactions and strategies to address the challenges they face in the market. This research seeks to answer these questions by analyzing a database of 40 frontier finance transactions, 10 interviews, and a workshop discussion with 39 investors and other ecosystem players.

Through the transaction database, the Research Team found that frontier finance investments play myriad roles in the market and have diverse features. Common features include:

- relatively small ticket sizes, with an average ticket size of USD 1.1 million and a median of USD 385,000;
- use of both developed market and emerging market currencies (60% and 40%, respectively);
- primarily market-rate return targets (74%), with a majority of investments meeting or exceeding financial performance expectations (87%); and
- primarily social impact objectives, with commonly targeted SDGs including decent work and economic growth (SDG 8; 50%) and no poverty (SDG 1; 48%).

This research found constraints to frontier finance activities from difficulties raising (in the case of asset managers) and deploying (in the case of asset owners) capital; educational gaps across the capital supply chain; and high transaction and operating costs. Five primary strategies can begin to address these challenges, namely to:

- unlock grant capital to act as a de-risking mechanism to individual investments and support the broader impact investing ecosystem;
- test and refine financial instruments and structures to strengthen the appropriateness of investment products;
- expand and strengthen partnerships among investors and with other ecosystem players;
- strengthen forums for investors and entrepreneurs to exchange ideas and share lessons learned; and
- elevate and celebrate success stories.

Collaborative and coordinated efforts among investors and field-builders are required to advance these strategies and, ultimately, to unlock capital flows, improve the efficiency of frontier finance transactions and operations, and champion high-impact solutions in frontier and emerging markets around the world.

INTRODUCTION

MOTIVATIONS FOR THIS REPORT

Impact investors are committed to addressing pressing social and environmental challenges globally, and collectively, they pursue an ambitious global development agenda. Yet significant capital gaps remain. To achieve the Sustainable Development Goals by 2030 requires an estimated USD 2.5 trillion per year in emerging markets alone, far exceeding the estimated USD 500 billion of impact investing capital currently at play.¹

These capital gaps persist for a number of reasons. Critically, impact investors consistently cite a lack of flexible capital appropriate for frontier and emerging market investments and for innovative business models, such as early-stage and high-risk capital, patient capital, and capital that addresses underserved geographies and sectors.² This dearth of capital is particularly pronounced in frontier markets which often lack investment opportunities with track records, a major reason that more investment does not flow into frontier finance. Yet a range of investors, including below-market and catalytic capital providers as well as institutional investors, demonstrate interest in growing their activity across emerging and frontier markets. These barriers indicate a market need for more information about the features, financial and impact targets, performance, and strategies of impact investors in frontier and emerging markets to translate that investor interest into action.

Several field-builders, including Dalberg, Omidyar Network, the Dutch Good Growth Fund, and Transform Finance, have begun to build this information base, described in more detail in Appendix 2. This report seeks to build from this foundational research to further address remaining information gaps through analysis of a database describing the features, objectives, and performance results of 40 direct transactions in frontier finance (defined below) made by 24 investors. Additionally, in-depth case studies offer illustrative examples of how three specific frontier finance vehicles navigate the full investment process and how two transactions unfolded. Lastly, the report identifies key recommendations as investors seek to grow and strengthen their frontier finance activities and encourage new capital into the market.

DEFINITIONS

Impact investments

Impact investments are defined as investments that seek to create positive, measurable social and environmental impact alongside a financial return. Impact investments seek financial returns ranging from competitive, risk-adjusted market-rate returns to capital preservation and can be made across asset classes and geographies.

Frontier finance investments

For the purpose of this report, frontier finance investments constitute a subset of impact investments. These investments seek to improve the lives of low-to lower-middle income people in emerging and frontier markets.³

1 Abhilash Mudaliar and Hannah Dithrich, *Sizing the Impact Investing Market* (New York: The Global Impact Investing Network, 2018).

2 Abhilash Mudaliar, Rachel Bass, and Hannah Dithrich, *2018 Annual Impact Investor Survey* (New York: The Global Impact Investing Network, 2018).

3 For the purpose of this report, emerging and frontier markets align, generally, to the United Nations' classification of least developed and developing countries.

Such investments commonly share certain characteristics, including:

- Investing into small and growing businesses (SGBs) with limited access to capital (ticket size usually between USD 20,000 and 2 million);
- Employing seed-stage or early-stage risk capital, and/or patient risk capital;
- Financing enterprises that serve clients (B2C) or businesses (B2B);
- Providing capacity-building support or other forms of active investment management alongside investment capital;
- Improving market infrastructure, access, and stability.

Small and growing business segments

In 2018, the Omidyar Network, in partnership with the Dutch Good Growth Fund, Dalberg Advisors, and the Collaborative for Frontier Finance (CFF), produced a study that identified four segments of small and growing businesses (SGBs) that comprise a significant portion of business activity in frontier and emerging markets.⁴ The study additionally detailed their respective financing needs.

These SGB segments, referenced throughout this report, include:

- **High-growth venture:** Disruptive business models that target large addressable markets; high growth and scale potential, and are typically led by ambitious entrepreneurs with significant risk tolerance
- **Niche venture:** Create innovative products and services that target niche markets or customer segments; entrepreneurs who seek to grow, but often prioritize goals other than scale
- **Dynamic enterprise:** Operate in established “bread and butter” industries – e.g., trading, manufacturing, retail, and services; deploy existing products / proven business models; seek to grow through market extension / incremental innovations; moderate growth and scale potential
- **Livelihood-sustaining enterprise:** Opportunity-driven, family-run businesses that are on the path to incremental growth; may be formal or informal, and operate on a small scale to maintain a source of income for an individual family; replicative business models, serving highly local markets or value chains

METHODOLOGY

To develop the findings in this report, authors:

- Conducted 10 interviews with both asset owners and asset managers investing in direct and indirect frontier finance opportunities;
- Compiled and analyzed a database of 40 investments made by 24 investors, featuring investments’ structures, objectives, and results;
- Produced three fund- or vehicle-level case studies illustrating frontier finance investors’ motivations and approaches and two in-depth investment-level case studies; and
- Iterated on challenges and recommendations with a cohort of 39 individuals from 32 organizations through an interactive, discussion-based workshop.

⁴ Kusi Hornberger and Veronica Chau, [The Missing Middles: Segmenting Enterprises to Better Understand their Financial Needs](#) (Washington DC: The Omidyar Network, 2018).

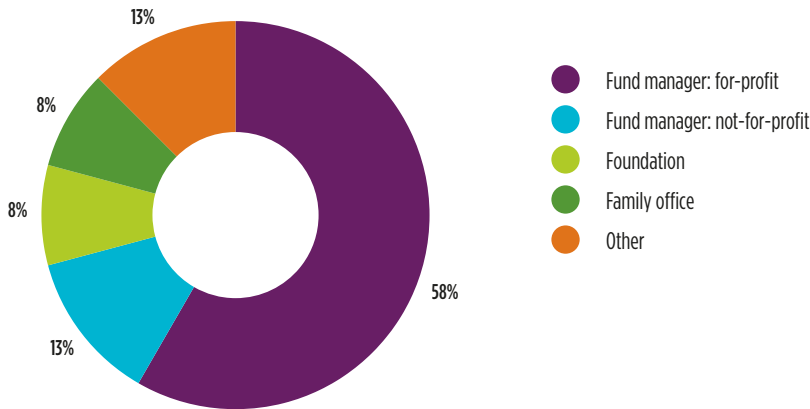
SAMPLE OVERVIEW

INVESTOR OVERVIEW

Twenty-four investors contributed data on 40 total transactions in this study. Over 70% of these investors identify as either for-profit or nonprofit fund managers (Figure 1). Other organization types include foundations and family offices (8% each).

FIGURE 1: INVESTOR ORGANIZATION TYPES

n = 24



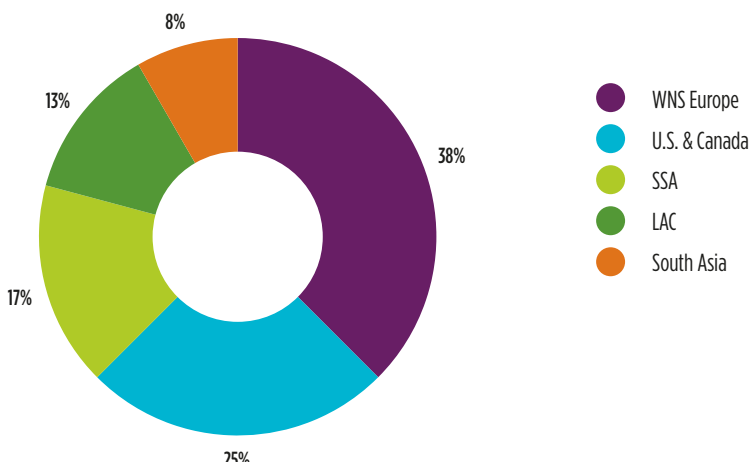
Note: 'Other' includes cooperatives, multi-lateral development banks, and international NGOs.

Source: GIIN

Most investors in the sample are headquartered in developed markets, specifically WNS Europe (38%; Figure 2) and the U.S. & Canada (25%). The remainder are headquartered in SSA (17%), LAC (13%), and South Asia (8%). Fifteen respondents have multiple offices in an effort to better reach investees in disparate markets.

FIGURE 2: INVESTOR HEADQUARTERS LOCATIONS

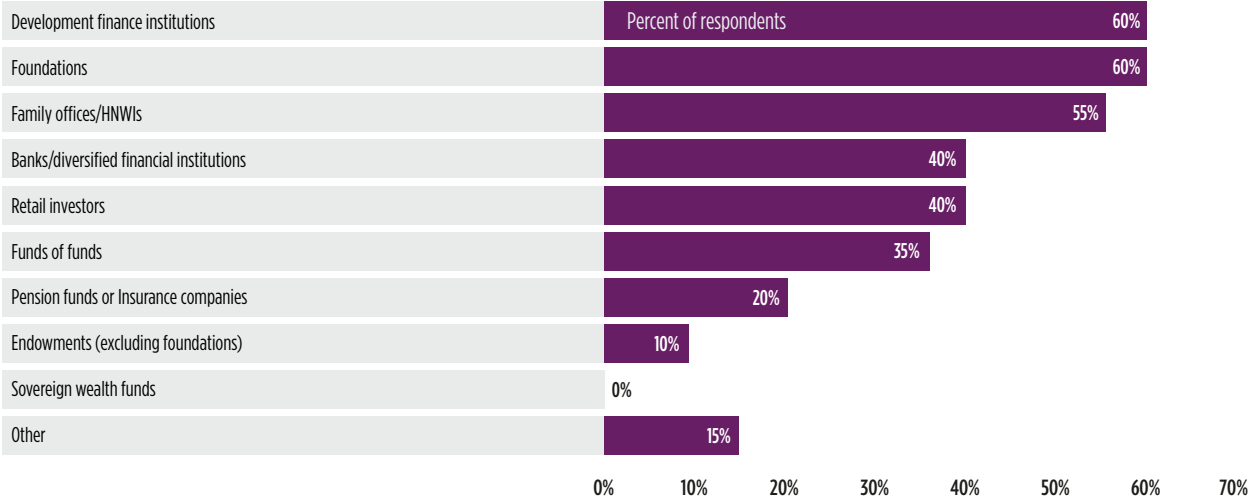
n = 24



Source: GIIN

Respondents serving as intermediaries described a broad range of capital sources, most commonly development finance institutions and foundations (60% each; Figure 3). Another 55% raised some capital from family offices / high-net-worth individuals, and 40% each from banks / diversified financial institutions and retail investors.

FIGURE 3: FRONTIER INVESTORS' SOURCES OF CAPITAL
 n = 20; investors may raise capital from multiple sources.



Note: The remaining four organizations invest proprietary capital only. 'Other' capital sources include NGOs, philanthropists, and government programs.

Source: GIIN

INVESTOR MOTIVATIONS FOR FRONTIER FINANCE ACTIVITIES

Investors are compelled to allocate capital to frontier opportunities by their significant potential to create deep, lasting impact on low and lower-middle income populations, whether through the products and services investees produce, through the creation of quality jobs, and fostering of sustainable supply chains. Additionally, investors cited compelling opportunities to positively impact the markets in which investees operate and develop local and regional financial systems, thus contributing to long-term economic development and catalyzing future, additional investment. Lastly, investors also cited large, often untapped markets with high growth potential and growing middle classes of consumers, suggesting potential for significant financial returns.

“We seek to fund and support the ‘missing middle,’ or viable SMEs that don’t qualify for traditional bank funding.”
 - *Business Partners International*

“We believe that SMEs are a strong driver for growth and social and political stability in Africa. They provide jobs, have a strong effect on local value chains and give access to local goods and services.”
 - *Investisseurs & Partenaires*

“We seek to positively impact the development and well-being of the most vulnerable people in Mexico by investing in innovative, scalable and profitable businesses that try to solve critical problems in the healthcare, education, economic development and early childhood development sectors.”
 - *Promotora Social México*

“Investment in frontier markets is a core pillar of our mission to promote the use of capital and entrepreneurship as a means for addressing the challenges of poverty.”
 - *Acumen*

“We are dedicated to supporting the next generation of exceptional entrepreneurs designing and executing innovative business models that profitably serve Africa’s mass markets.”
 - *Novastar Ventures*

“Our goal is to improve the livelihoods and living conditions of socially and economically disadvantaged people and communities, predominantly in rural areas in low- and middle-income countries around the world.”
 - *Alterfin*

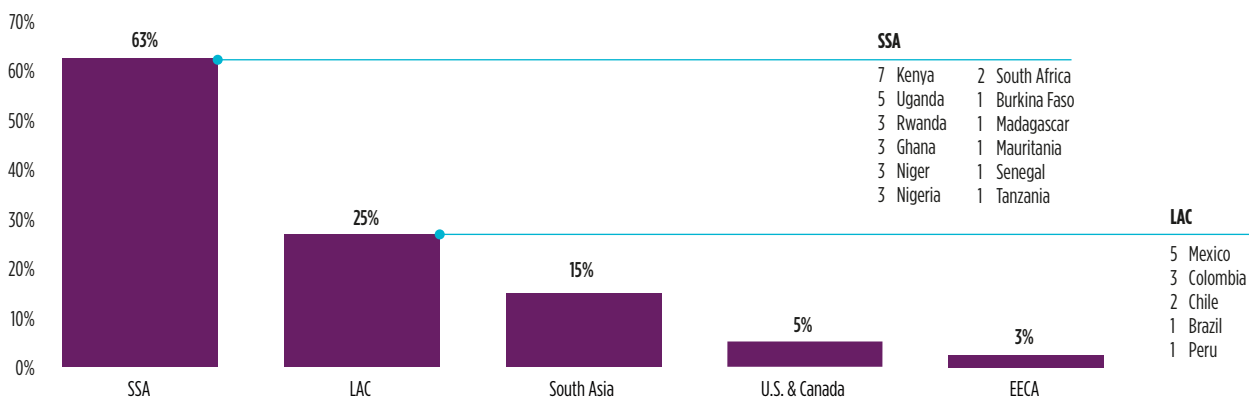
INVESTMENT OVERVIEW

The 24 investors participating in the study disclosed data on 40 direct transactions. All of these transactions were made since 2008, and three-quarters since 2016. As a result, the analyses presented herein primarily reflect recent deals at early stages in their lifecycle.

These 40 investees operate in 21 countries across emerging markets (Figure 4). On average, investees have operations in 1.2 countries, typically working in countries that share geographic borders. At a regional level, investees have a strong concentration in SSA (25 investees) and LAC (10). Most investments were made in USD (22 investments; Table 1) or EUR (2), although many investors did leverage local currencies, including KES (3), RWF (2), and INR (2). One investment was made in each of BRL, CFA, COP, DKK, MRO, MXN, UGX, and ZAR.

FIGURE 4: REGION OF INVESTEE OPERATIONS

n = 40 investments made by 24 investors; investees may conduct business in multiple regions.



Note: The investees with operations in the U.S. & Canada also operate in LAC.

Source: GIIN

TABLE 1: CURRENCIES OF INVESTMENT

n = 40 investments made by 24 investors

Code	Currency	Number of investments
USD	U.S. Dollar	22
KES	Kenyan Shilling	3
EUR	Euro	2
INR	Indian Rupee	2
RWF	Rwandan Franc	2
BRL	Brazilian Real	1
CFA	West African CFA Franc	1
COP	Colombian Peso	1
MRO	Mauritanian Ouguiya	1
MXN	Mexican Peso	1
UGX	Ugandan Shilling	1
ZAR	South African Rand	1
DKK	Danish Kroner	1

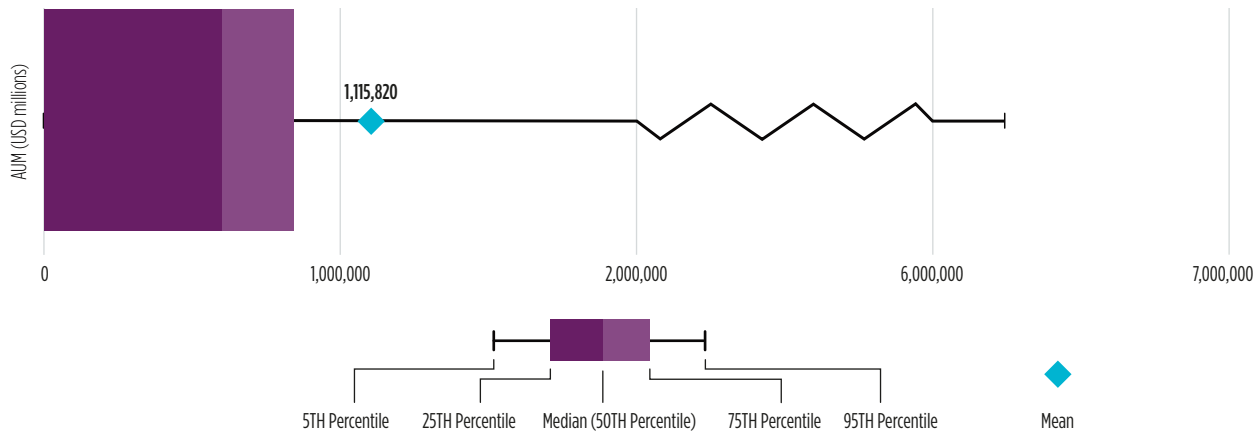
Note: One respondent used an unspecified local currency.

Source: GIIN

Frontier finance investments, typically small, reflect the capital needs of SGBs in emerging and frontier markets. The smallest reported investment was USD 49,000 and the largest USD 6.4 million (Figure 5). The average frontier investment was USD 1.1 million. Investment size varied by instrument, with private debt and private equity investments larger on average (USD 2.1 million and USD 1.3 million, respectively) than investments made through mezzanine financing (USD 555 thousand).

FIGURE 5: DISTRIBUTION OF INVESTMENT SIZES

n = 38 investments made by 22 investors



Note: Two investors did not share investment size data.

Source: GIIN

These investments also target different types of SGBs, most commonly dynamic enterprises – or those enterprises operating in ‘bread and butter’ industries or seeking to grow established business models (16 investments) – and high-growth ventures – or more disruptive business models that target large, addressable markets (14). Fewer investments targeted niche ventures – or those businesses targeting niche markets or customer segments (8)⁵. Investment sizes vary by SGB segment, with dynamic enterprises seeing an average investment size of USD 1.4 million, compared to USD 1.1 million for high-growth ventures and USD 640 thousand for niche ventures.

Notably, 80% of these investments received capacity-building support, either financed by the investor directly (21 investments) or by another organization (11). Additionally, 20% of investments included some catalytic capital, such as a guarantee or first-loss, either provided by the reporting investor (8%) or by another organization (13%).

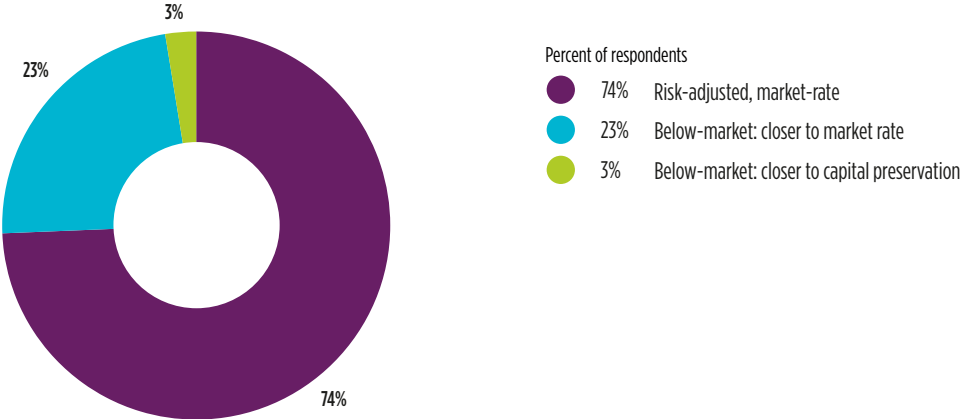
⁵ Two investments did not identify with any of the SGB segments.

FINANCIAL TARGETS & RESULTS

FINANCIAL TARGETS

Nearly three-quarters of investments target risk-adjusted, market-rate returns; all but one of the remaining investments target below-market returns closer to market rates (Figure 6). A higher proportion of investments into dynamic enterprises target market-rate returns (45%) than do investments into high-growth ventures (34%).

FIGURE 6: TARGET FINANCIAL RETURNS
n = 39



Note: One investor did not indicate target financial returns.
Source: GIIN

A total of 35 investments shared target, gross returns data. Among those, two-thirds target market-rate returns, with targets averaging 21% per annum (Table 2). The remaining third target below-market returns, with targets averaging 12% per annum.

TABLE 2: ANNUALIZED GROSS RETURNS TARGETS, BY RETURN PHILOSOPHY

	Market rate	Below market
n	27	8
Mean	21%	12%
Median	21%	13%

Note: The remaining five respondents did not disclose target returns figures.
Source: GIIN

Naturally, return targets vary by geography and asset class of investment. Investments into LAC anticipated annualized gross returns of 22% on average, and investments into SSA 18%. By asset class, average return targets were highest among investments in mezzanine finance (23% per annum), followed by investments in private equity (19%; Figure 7).

FIGURE 7: AVERAGE ANNUALIZED GROSS RETURN TARGETS, BY ASSET CLASS
Number of investments by asset class shown above each bar.



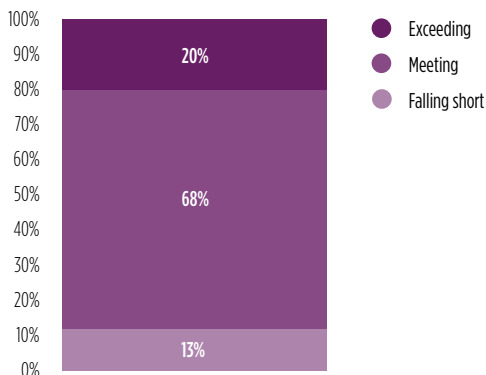
Note: The remaining four investments did not disclose financial return targets.

Source: GIIN

FINANCIAL RESULTS

Respondents also described their financial performance relative to these expectations. One in five indicated exceeding their expectations, and another 68% performed in line with expectations (Figure 8). Eighteen investments also shared self-reported data on realized return figures. Market-rate-seeking investments generated average, gross returns of 15%, and below-market investments 11% (Table 3).

FIGURE 8: FINANCIAL PERFORMANCE RELATIVE TO EXPECTATIONS
n = 40



Source: GIIN

TABLE 3: ANNUALIZED REALIZED GROSS RETURNS, BY RETURN PHILOSOPHY

	Market rate	Below market
n	14	4
Mean	15%	11%
Median	14%	10%

Note: The remaining 22 investments did not disclose realized returns data.

Source: GIIN

In total, investors have exited six of these investments; the remaining 34 are still under active management. Three of these exits were from private debt investments and one from mezzanine debt; in each of these four cases, the loans were successfully repaid. The remaining two exits were private equity investments, one of whom sold its shares to the majority shareholder and one of whom sold shares to other impact funds.

FINANCIAL RISK

Respondents also described the financial risks their investments have faced. The greatest share of respondents cited facing ‘business model execution and management risk’ (53% of investments), followed by ‘country and currency risk’ (50%) and ‘market demand and competition risk’ (42%; Figure 9).

FIGURE 9: FINANCIAL RISKS FACED SINCE TIME OF INVESTMENT
n = 38; investments may face multiple types of risk.



Note: No respondents cited ‘perception and reputational risk.’

Source: GIIN

DEFINITIONS

Business model execution & management risks: The risks of a company generating lower profits than anticipated and ineffective and/or underperforming management.

Country & currency risks: Risks including political, regulatory, local economic or currency-linked risks.

Market demand & competition risks: Risks of low demand for the investee’s products/services or declining revenues from the actions of a competitor.

Macroeconomic risk: Risks including regional or global economic trends.

Financing risk: The risk of the investee not being able to raise subsequent capital necessary to its growth.

Liquidity & exit risk: The risk of being unable to exit the investment at the desired time.

Risks varied in a few ways. About two-thirds of investments through both private equity and private debt faced ‘business model execution and management risk,’ compared to just 38% of investments through mezzanine finance. Conversely, more mezzanine investments faced ‘macroeconomic risk’ (45%) than did private equity or private debt investments (20% and 17%, respectively). Private equity investments, on the other hand, were more likely to face ‘financing risk’ (40%) than were private debt (17%) and mezzanine investments (27%).

By return philosophy, market-rate-seeking investments were more likely to face ‘country and currency risk’ than were below-market investments (56% vs. 30%). ‘Country and currency risk’ was only marginally higher for investments made in emerging market currencies (53%) than those in developed market currencies (48%).

Some investors offered additional color on the specific risks faced, including:

- Adverse weather conditions affected both the amount and quality of harvests;
- Unpredictability of government interventions and policy changes, specifically in India and Mexico;
- Political uncertainty, specifically around elections in Mexico and Kenya; and
- Currency depreciation, specifically in Ghana.

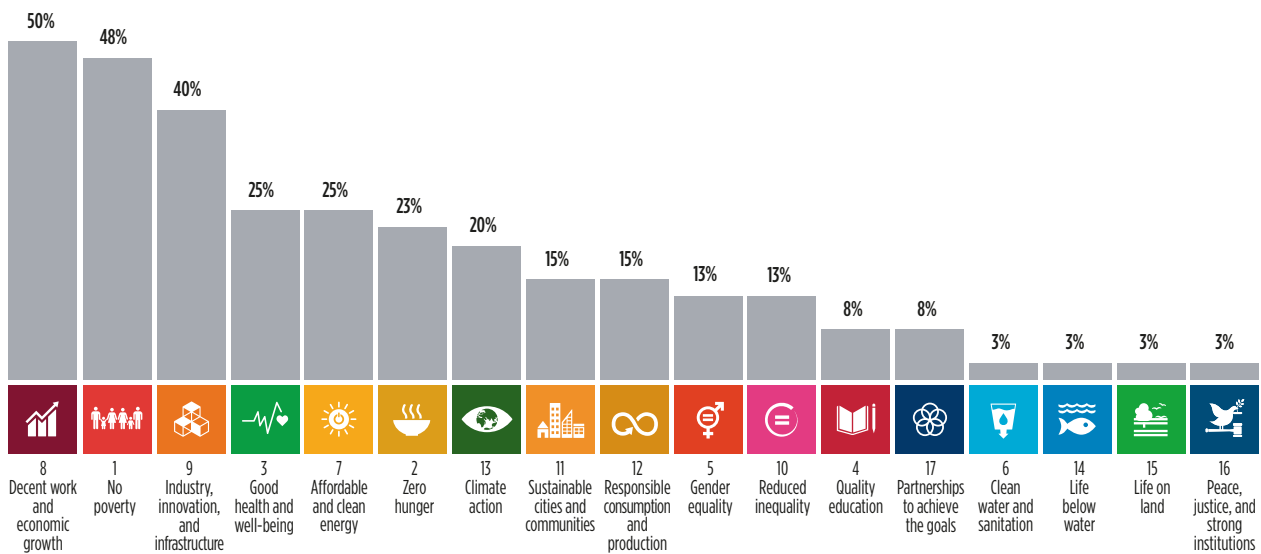
IMPACT TARGETS & RESULTS

IMPACT TARGETS

Over 60% of transactions in the database primarily pursue social impact objectives, and a third target both social and environmental impact objectives. This general focus on social issues reflects, in part, the definition of frontier finance.

To offer additional detail on their specific impact objectives, respondents indicated which SDGs they target. About half of investments target each of ‘decent work and economic growth’ (SDG 8) and ‘no poverty’ (SDG 1); a quarter of investments target both (Figure 10). Forty percent of investments target ‘industry, innovation, and infrastructure’ (SDG 9), and about a quarter target each of ‘good health and well-being’ (SDG 3), ‘affordable and clean energy’ (SDG 7), and ‘zero hunger’ (SDG 2).

FIGURE 10: SDGs TARGETED BY FRONTIER FINANCE INVESTMENTS
n = 40; investments may target multiple SDGs.



Source: GIIN

Respondents also described the specific impact targets of their investments, which reflect the geographies of investees’ operations, the range of stakeholders they seek to impact, and their respective impact strategies (Figure 11).

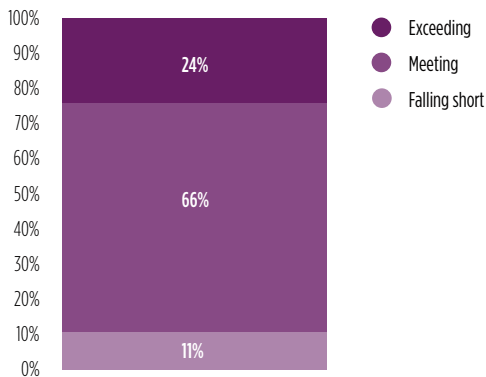
FIGURE 11: EXAMPLE IMPACT TARGETS

<p>“We seek to create an opportunity away from cervical cancer for more than a million Mexican women.”</p> <p>- <i>Onko Solutions, a Promotora Social México investee</i></p>	<p>“We seek to double the provision of quality fingerlings to small fish farmers, thus contributing to alternative protein sources for the Ugandan population.”</p> <p>- <i>AA Fisheries and Aquaculture, a iungo capital investee</i></p>	<p>“We seek to provide reliable news and information to an audience of 30 million people in India.”</p> <p>- <i>Scroll, a Media Development Investment Fund investee</i></p>	<p>“Partnering with Acumen has enabled us to increase the access to markets and provide stable and transparent pricing to indigenous communities and farmers for their agroforestry products.”</p> <p>- <i>Biogaviare, an Acumen investee</i></p>	<p>“We seek to create improved, productive energy access for 5 million households in Africa and South Asia.”</p> <p>- <i>Amped Innovation, a FINCA Ventures investee</i></p>
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IMPACT RESULTS

Nearly a quarter of investments have seen stronger impact performance than expected (Figure 12). Another two-thirds reported impact results in line with expectations.

FIGURE 12: IMPACT PERFORMANCE RELATIVE TO EXPECTATIONS
n = 38



Notes: Excludes one respondent that said 'not sure' and one respondent that declined to answer.

Source: GIIN

Thirty-five respondents offered color on the various factors that indicated how they contributed to impact beyond what likely would have occurred anyway. Most commonly, investors played a hands-on role by engaging directly with the investee companies (29%) by supporting management with key decisions, strengthening companies' governance via participation on the board or refinement of governance policies, or offering technical assistance. Additionally, several respondents cited the favorable terms and conditions of their investment capital (20%), such as flexible repayment schedules, and the resulting ability of investees to expand and strengthen operations. In a couple of cases, respondents also cited their investments' ability to catalyze further investment. Many other respondents cited the specific impact achievements and growth of their investees, in both qualitative and quantitative terms, as detailed in the side bar.

IMPACT RISK

Respondents also described the various impact risks experienced since making each initial investment (Figure 13). A majority of respondents cited 'external risk' (60%), and two-fifths cited 'execution risk.' Some respondents cited specific examples of impact risk incidences, including government electrification programs in India, government-supported healthcare schemes, and delayed processes to procure necessary project permits from regulators.

EXAMPLE IMPACT ACHIEVEMENTS

"BroadReach's programs provide direct healthcare services to more than 6 million people in sub-Saharan Africa affected by HIV, malaria, and tuberculosis, with results suggesting that their proprietary software increases reach by 13% each year vs. the baseline."

- *BroadReach, a PG Impact Investments investee*

"The traditional way of teaching physics is not very engaging. The impact study we conducted showed how changing the dynamics in the classroom can impact students and incentivize them to become scientists or study STEM related careers."

- *Lab4u, a Promotora Social México investee*

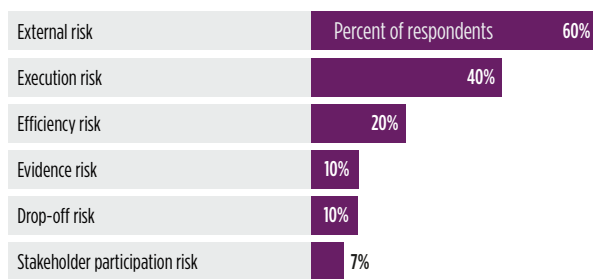
"The capital infused made possible geographical expansion to Tier 2 towns where access to quality healthcare is a challenge."

- *Dr. Mohans Diabetes Specialties, a Lok Capital investee*

"The school has a curriculum and teaching style which maximizes the potential of students with special needs."

- *Zambesi Akademie, a Grofin investee*

FIGURE 13: IMPACT RISKS FACED SINCE TIME OF INVESTMENT
 n = 30; investments may face multiple types of impact risk.



Note: No respondents indicated facing 'unexpected impact risk' or 'contribution risk.'
 Source: GIIN

DEFINITIONS

External risk: The probability that external factors disrupt our ability to deliver the expected impact.

Execution risk: The probability that the activities are not delivered as planned and do not result in the desired outputs.

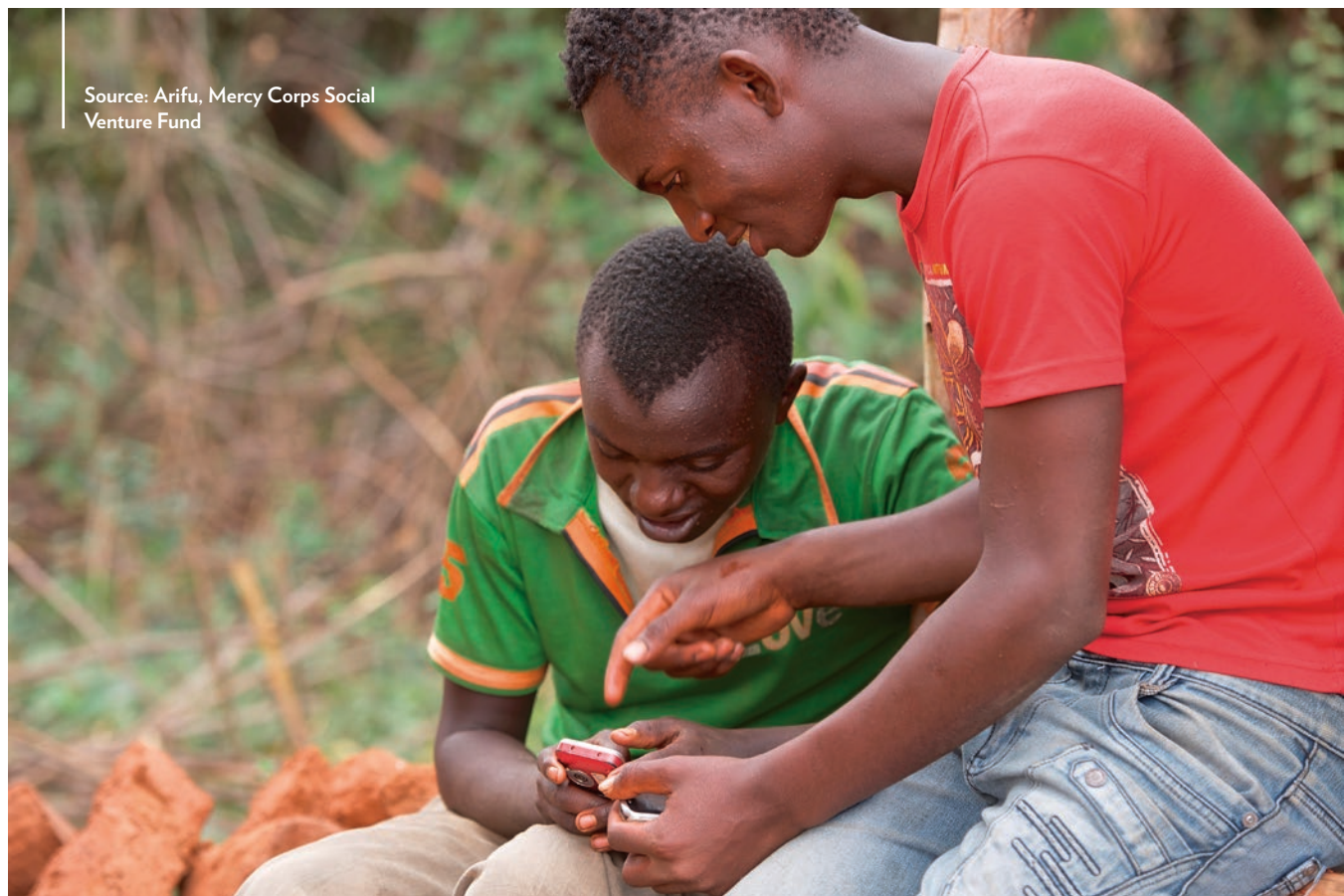
Efficiency risk: The probability that the expected impact could have been achieved with fewer resources or at a lower cost.

Evidence risk: The probability that the evidence on which the strategy is based is not good evidence that the expected impact will occur.

Drop-off risk: The probability that the expected impact does not endure.

Stakeholder participation risk: The probability that the expectations and/or the experiences of stakeholders are misunderstood or not taken into account.

Four respondents (10%) indicated facing a significant impact risk event in the previous year. In three of these cases, the risk event reflected government involvement, including the introduction of government programs tackling the same social issues – specifically related to electrification and healthcare – and delays receiving the requisite permits to advance the development of energy products. The fourth case reflected lower electricity production by the investee than forecasted.



Source: Arifu, Mercy Corps Social Venture Fund

SYSTEMIC CHANGE

One unique feature of frontier finance is investors' commitment to effecting systemic change, specifically by shaping and strengthening market infrastructure, access, and stability. This reflects the often-challenging nature of operating in markets with limited infrastructure and unproven sectors or business models.

SYSTEMIC CHANGE OBJECTIVES

Frontier finance investors articulate a range of objectives with respect to such broad, systems-level change. In many cases, investors perceived this change to occur from their investments catalyzing activity within the sector as a whole. For example, by strengthening water or energy infrastructure, by improving educational systems, or by growing access to quality healthcare across underserved communities, investors believe they encourage further activity by other investors and investees in those sectors. In other cases, investors cited systems change as a result of their strategy to provide non-financial support and access to broader markets.

SYSTEMIC CHANGE RESULTS

Gauging progress toward systemic change can be a daunting effort since this type of impact often occurs in small increments across a dispersed geography over a long time horizon. While there is no single or standardized approach to doing so, many frontier finance investors consider a few factors, namely the emergence of competition in that market, changes in the availability of qualified human capital, and the investee's ability to raise follow-on capital successfully, among others. Notably, since a significant majority of these investments were made since 2016, systemic effects are particularly challenging to gauge and are likely to continue to unfold over the coming years.

Competition

The emergence of competition suggested market development and a broadening perception of market opportunity. Respondents evaluated changes in competition since the time of the initial investment in two regards. First, they considered how the level of competition they face from other investors, particularly when evaluating and selecting deals, has evolved (Figure 14). Over a third of respondents indicated an increase in competition from other investors, and the remaining two-thirds suggested a steady level of competition. Secondly, they considered how competition facing investees has changed since the initial investment. Forty-four percent cited an increase in competition, suggesting development of the markets in which those investees operate. The remaining investments faced the same level of competition. In neither regard did investors or investees see a decrease in competition.

EXAMPLE IMPACT ACHIEVEMENTS

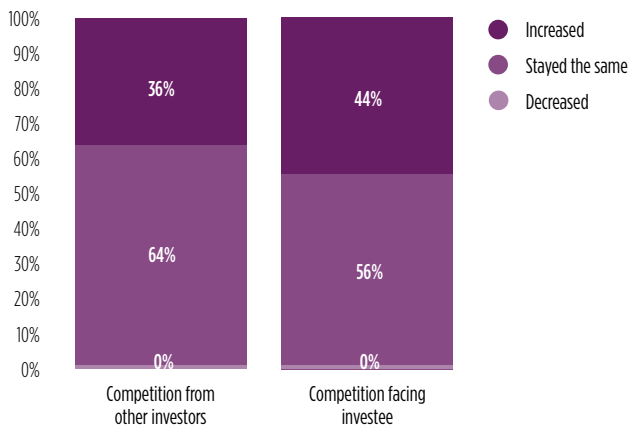
"We try to not only support enterprises directly, but also support the initiatives that strengthen the sector as a whole, such as accelerator programs or network organizations."

- *DOEN Foundation*

"Our funding also opens the door to businesses that typically would have been ignored by traditional banks, hence creating access to capital."

- *Business Partners International*

FIGURE 14: CHANGES IN LEVEL OF COMPETITION FACED BY BOTH INVESTORS AND INVESTEES
n = 36



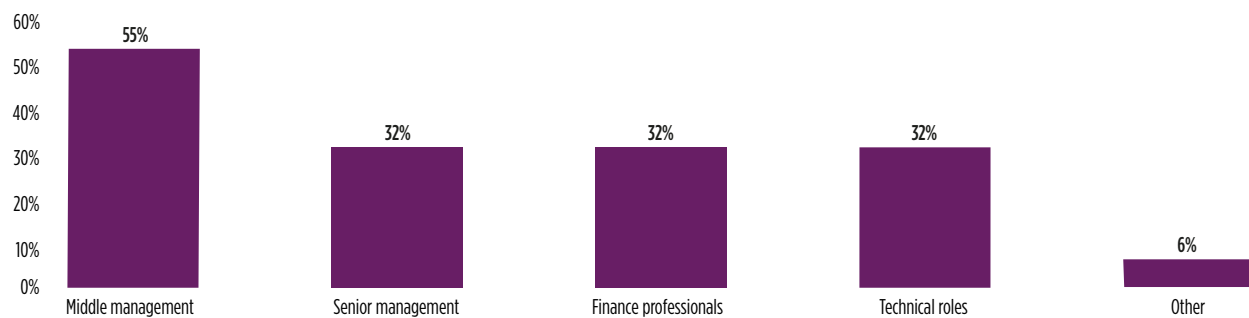
Note: Some respondents selected 'not sure' and are not included in the graph.

Source: GIIN

Human capital

The size and quality of available human capital in a given sector or region can serve as one indicator of market maturity. Over half of respondents indicated improvements in the available pool of middle management talent, and about a third saw improvements in the availability of talented senior management, finance, and technical professionals (Figure 15). One respondent stated that human capital has not improved, in part due to the investee management's lack of focus resulting from multiple competing objectives and, subsequently, an unclear mission and business strategy.

FIGURE 15: AREAS IN WHICH AVAILABLE HUMAN CAPITAL HAS IMPROVED SINCE THE TIME OF INITIAL INVESTMENT
n = 31



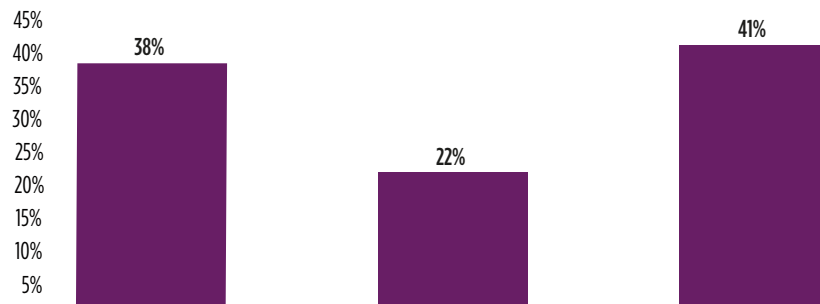
Note: 'Other' includes casual workers and educators.

Source: GIIN

Follow-on capital

Lastly, many investors described their investees' ability to raise follow-on capital as signaling the success and growth of their businesses, and therefore indicating a successful catalytic effect of the initial investment and, in the long-run, on the sector as a whole. A majority of investments had successfully raised follow-on capital since their initial investment, including capital from the initial investor (22%; Figure 16) and capital from other investors (38%). The remaining 41% of investments had not yet raised further capital; notably, of these investments, 75% were made in just the past two years. All but one of the exited investments, on the other hand, had raised follow-on capital.

FIGURE 16: PROPORTION OF INVESTEEES THAT RAISED FOLLOW-ON CAPITAL SINCE THE INITIAL INVESTMENT
n = 37



Note: Three respondents selected 'not sure / not applicable' and are not included in this figure.

Source: GIIN



CHALLENGES

Investors deploying capital into both direct and indirect frontier finance opportunities face several key challenges reflecting of emerging and frontier markets' complex operating environments. These challenges constrict flows of capital and create barriers to success.

Funds often face difficulties raising capital. In cases where frontier finance funds are domiciled in their region or country of investment, they lack the requisite access to asset owners based in developed markets to assess various potential capital sources and attract investment. Those that are able to access capital sources then struggle to compel investment given prospective investors' perceptions of high risk and consequently low returns in emerging and frontier markets. Additionally, fund managers often find a mismatch between investors' time horizon preferences and on-the-ground realities, in which investors often prefer to target a five-to-seven-year time horizon while many frontier finance opportunities require ten years or longer to realize their impact and financial potential. Asset owners, meanwhile, struggle to access sufficient evidence on performance to overcome these risk-return and time horizon perceptions, suggesting a continued need for research, evidence, and examples of successful frontier finance.

Educational gaps persist across the capital chain. Interviewees cited educational needs at the investee, fund, and asset owner levels. At the investee level, many interviewees cited a lack of familiarity with common investment structures, such as private equity, and limited experience with financial modeling and financial management, growth projections, and impact reporting. They also cited certain talent gaps, particularly at the senior and middle management levels. At the intermediary level, interviewees cited a need for further fund manager training, especially for first-time funds, on investment selection, investment and impact management, and governance. Lastly, at the asset owner level, there remains a need for further education and insight into examples of effective frontier finance and the realities of impact and financial performance.

Executing frontier finance transactions is both time-intensive and expensive. Most interviewees cited challenges sourcing viable, investment-ready deals. In some cases, funds' investors had specific geographic or sector requirements which resulted in an even narrower pool of potential investments and further exacerbated deal sourcing challenges. As a result, many frontier finance investors expended resources to offer pre-investment support to strengthen potential investees, into which they later may or may not deploy capital. Complex and opaque legal processes, in emerging and frontier markets as well as pertaining to cross-border transactions, further complicate transaction execution by increasing both time required to execute a deal and legal fees and other costs to do so. Interviewees cited due diligence periods ranging from six months to two years, with this variability reflecting regulatory differences at the country level and differing fund mandates (e.g., single-versus multi-sector).

Funds additionally face high operating costs. In many markets, funds cited challenges navigating complex, bureaucratic regulation to establish and maintain fund operations. Once established, they may then face macroeconomic and political risks. For example, unpredictable or changing regulatory environments create additional legal costs. Political volatility and instability lead to operational challenges for investees. To mitigate against currency fluctuations, investors then incur additional hedging costs. Alternately, in cases where hedging instruments are not used for debt investments, borrowers may face repayment issues in the face of currency depreciation. Investors also expend both time and resources to provide technical assistance or other forms of capacity-building support to address some of the educational gaps described above. Lastly, frontier-finance-focused investors based outside their country or region of investment incur additional costs from operating fly-in/fly-out models; maintaining strong relationships with investees and effective investment management requires frequent travel to each country of investment.

RECOMMENDATIONS

Building from interviews and focus group discussions with study participants, authors identified several opportunities to overcome these challenges, unlock more capital, and deepen the impact of frontier finance investments. These initiatives may be propelled forward by investors, donors, and other field-builders.

Unlock grant capital to support the broader impact investing ecosystem and act as a de-risking mechanism. Grant capital can play a number of critical roles, such as by supporting incubators and accelerators that build and strengthen the pipeline of potential frontier finance investment opportunities. Additionally, it can support the financing of technical assistance or other forms of capacity-building support as investors work with investees to strengthen their financial management and planning, devise robust strategies to enhance their products and services, and deepen their impact on customers, suppliers, employees, and other stakeholders. Grant capital can also de-risk investment opportunities for other investors, and thus catalyze further investment, such as in the form of first-loss capital or guarantees. Notably, such grant financing should address needs that are not otherwise suited for investment capital to avoid distorting markets or contributing to long-term unsustainability.

Test and refine financial instruments and structures to strengthen the appropriateness of investment products. A significant portion of capital allocated to emerging and frontier markets is deployed through traditional investment instruments, such as private equity and private debt. Yet the needs of investees are often complicated and the realities of operating in frontier finance environments require flexibility, suggesting opportunity for innovative investment structures such as revenue-based repayment models, holding company structures, and evergreen funds. Investors can continue to iterate on these products and share lessons learned about when various structures or product features do and do not work.

Expand and strengthen partnerships. Investors described several types of partnerships that had strengthened their financial and impact performance. For example, some described partnerships with local investors that had an on-the-ground presence and both formal and informal networks with prospective investees. Others cited partnerships with co-investors such as through conventional co-investment models and blended capital structures that meet the needs of investors with different risk-return requirements. Additionally, many investors build partnerships with actors such as incubators, accelerators, and business plan competitions that work across the broader enabling ecosystem. Lastly, investors described potential opportunity through pooled facilities that enable investors to collectively navigate regulatory requirements and risk events.

Strengthen forums for investors and entrepreneurs to exchange ideas and share lessons learned. Both investors and entrepreneurs benefit from opportunities to learn from and collaborate with peers. A range of forums could offer value, including broader conferences featuring insights from players operating across markets, smaller workshops to address specific challenges or constraints, and ongoing touchpoints with other individuals operating in similar geographies or sectors. Similarly, such forums can serve as an entry point for asset owners interested in better understanding the range of opportunities in frontier finance.

Elevate and celebrate success stories. Available information on the financial and impact performance of frontier finance investments and their contributions toward broader market developments and systems-level change remains limited. Asset managers and asset owners both can address these knowledge gaps by sharing their own success stories through news and social media, case studies, and participation in the various forums described above. These stories can and should be widely celebrated and leveraged to offer greater insight into various pathways to success available to frontier finance investors while also clarifying the range of opportunities across the risk / return / impact spectrum.

Ultimately, frontier and emerging markets present significant opportunity to investors seeking both financial and impact returns – but also present a range of real challenges. To overcome these challenges and strengthen the pool of opportunity, investors and other partners must work together to collectively build on the lessons learned to date and advance the frontier finance field.





CASE STUDIES

Source: PG Impact Investments AG

FINCA Ventures

	Organization name	FINCA Ventures
	Headquarters locations	Washington, D.C., U.S.
	Fund name	FINCA Ventures
	Target fund size	USD 30 million
	Geographic focus	Sub-Saharan Africa
	Sector focus	Agriculture, education, energy, fintech, health, WASH
	Asset class	Equity or convertible notes
	Deal size & currency	USD 50,000 to USD 500,000

BACKGROUND

FINCA International (“FINCA”), a not-for-profit corporation founded in 1984, is the founder and majority-owner of a global network of 20 community-based microfinance institutions (MFIs) and banks across sub-Saharan Africa, Eurasia, Latin America, the Middle East, and South Asia. FINCA Ventures grew out of FINCA’s mission and belief that access to basic services requires access to finance and that both are essential to alleviating poverty. This impact investing initiative was launched in 2017 to provide seed-stage and series A capital to companies that offer affordable, high-quality, and life-enhancing products and services for low-income families.

FUND STRUCTURE AND OBJECTIVES

FINCA Ventures is an evergreen investment initiative that leverages a global microfinance network to catalyze market-based solutions to poverty. FINCA International is its sole investor, using balance sheet capital to fund investments and operating costs. As a seed- and early-stage impact investor, FINCA Ventures is focused on supporting enterprises delivering basic service innovations in the areas of agriculture, education, energy, fintech, health, and WASH. Specifically, FINCA Ventures seeks to provide basic services to 50 million people by 2024. The investment platform provides patient equity and convertible notes to businesses in sub-Saharan Africa and deliberately targets below-market financial returns.

DEAL SOURCING AND DUE DILIGENCE

FINCA Ventures invests in companies that provide innovative solutions to basic services challenges in sub-Saharan Africa. Countries of priority are those that align with the MFI and bank network: Democratic Republic of the Congo, Malawi, Nigeria, Tanzania, Uganda and Zambia. FINCA Ventures seeks investee companies that drive resilience of low-income populations and improve productivity, building a pipeline from a range of sources that include past co-investors, accelerators and incubators, conference networking, industry ecosystem builders, and inbound requests. In a typical year, FINCA Ventures identifies three to five deals from over 300 pitches.

The organization invests in ‘high-growth ventures,’ especially enterprises that can apply their business model to serve similar customer segments in different regions. For instance, FINCA Ventures invested in [Amped Innovation](#), a U.S.-based company that provides affordable decentralized solar-powered appliances for emerging market communities that are not connected to the energy grid. Amped designs and manufactures productive-use appliances that grow farmer and micro-entrepreneur incomes in more than 20 countries.

FINCA Ventures also invests in ‘dynamic enterprises’ that deploy proven business models in established sectors, often delivering those solutions in an innovative way. [Good Nature Agro](#), one such FINCA Ventures investee, provides agronomical advice through local private extension agents and input lending for small-scale farmers in Zambia. This grower network produces soil-enriching legume seed crops that receive higher pricing in the market, helping farmers triple their incomes and grow from subsistence to small-business in three years.

“We’ve supported microentrepreneurs in some of the world’s most challenging developing markets for 35 years. In doing so, we’ve found that it’s possible to create a sustainable business model serving low-income populations. Through FINCA Ventures, we seek to go beyond access to finance by supporting entrepreneurs solving for access to basic services and help reduce both actual and perceived risk.”

- Ami Dalal, Managing Director, FINCA Ventures



FINCA Ventures evaluates both financial and social impact criteria during due diligence to assess a company's fit. Key evaluative criteria include scale, or size of problem that a company is solving for; depth, or the potential impact on income levels, health outcomes, or other indicators; the socioeconomic level of end-customers served by the company; and the duration of customer engagement.

INVESTMENT STRUCTURING

FINCA Ventures provides equity or convertible notes depending on the stage of business and entrepreneurs' needs. Deal sizes range from USD 50,000 to USD 500,000, with the option for follow-on investment. When structuring these deals, FINCA Ventures requires clear use of funds and sets various business and impact metrics, selected in partnership with the investee, on which the company should report. In some cases, it may include a put option in the agreement which allows FINCA Ventures to sell its position back to the company in certain, narrowly defined circumstances, such as if the company significantly changes its business model or faces a serious reputational risk incident.

Beyond its financial investment, FINCA Ventures engages and advises portfolio companies on a wide variety of post-investment support topics. These include but are not limited to: customer needs, impact evaluation and measurement, business operations management, sales strategy, brand development, marketing and communications, strategic partnership, customer financing solutions, and future capitalization. The team's expertise is leveraged to support portfolio companies and third-party advisors are also called upon to further add post-investment value to investees.

IMPACT AND INVESTMENT MANAGEMENT

FINCA Ventures selects impact metrics together with its investees and co-investors to enhance alignment and reduce companies' reporting burden. Impact metrics are strategically aligned with the SDGs and IRIS metrics⁶. Impact data are collected quarterly and reported to stakeholders and the public annually. FINCA Ventures also has the ability to leverage ValiData, a patented cloud-based research platform developed by FINCA International to collect and analyze high-quality field data for deep customer insights. Finally, FINCA Ventures participates in the corporate governance of its portfolio companies, sometimes as a board observer and other times with a board seat.

EXIT

While FINCA Ventures has not yet had any exits, it is anticipated that many companies will realize strategic exits. The team works with its portfolio companies to bring strategic parties to the table early. Initially, these strategic partners can offer operational competencies to support scaling companies. Another potential path to realizing incremental financial returns is through dividend payments from company earnings.

⁶ IRIS is the catalog of generally accepted performance metrics managed by the GIIN; see iris.thegiin.org.

PERFORMANCE

Given FINCA Ventures made its first equity investment in 2017, it has not yet realized any financial gains. However, a couple of its portfolio companies have raised subsequent rounds of capital at higher valuations, indicating positive unrealized returns. Moreover, its investees are executing on both their business and impact objectives, which will be detailed in a forthcoming impact report.

At the same time, FINCA Ventures has faced a few risks across the markets in which it invests, including limited access to talent, capital constraints, regulatory and political risk, and other market challenges such as poor local infrastructure. FINCA Ventures works closely with co-investors and investees to grow collective networks to improve both access to talent and access to capital. They also encourage companies to factor patience (and its inherent costs) into growth plans.

OPPORTUNITIES IN FRONTIER FINANCE

FINCA Ventures believes that there is opportunity to unlock productivity and improve resilience of low-income populations through frontier finance by supporting entrepreneurs that are developing appropriate yet ambitious solutions to basic service access. In many countries, governments do not have the tax base to deliver basic services to low-income citizens the way that they are delivered in some developed countries. Moreover, the form of these services will not mimic the way these services are delivered in developed economies. Instead, businesses are innovating to bring a version of these services, tailored to the local context, to low-income populations.

“If you have a desire to drive your capital to markets that need it the most, there are sustainable opportunities for investments.”

- Ami Dalal, Managing Director, FINCA Ventures

ADVICE FOR OTHER INVESTORS

According to FINCA Ventures, frontier finance investors must be comfortable thinking from multiple perspectives, including the perspectives of both investees and later stage investors. It posits that early-stage investors can help prepare investees for future rounds of capital by actively helping them develop and refine their narrative and pitch, cultivating relationships with follow-on investors, identifying and separating both real and perceived risks, developing strategies to mitigate those risks, actively supporting companies to build their internal processes in finance and HR, and advising companies on business plans. To address the capital limitations in concessionary capital pools, one option is for frontier investors to establish additional return-focused funds structured to finance more mature companies, thus creating internal capital tracks to support enterprises over the long term.

INVESTEES EXAMPLE: SANIVATION

In early 2018, FINCA Ventures provided seed-stage convertible debt to Sanivation, an East Africa-based waste-to-energy company that helps governments of Tier Two cities solve their sanitation problems. Municipal vacuum trucks deliver waste to Sanivation's waste-to-energy plant where it is dewatered, safely treated, and converted into environmentally-friendly fuel briquettes sold for industrial process heating. Through a waste-to-energy model, Sanivation delivers a low-cost waste treatment solution to Kenyan municipalities and lower cost fuel to local industrial companies. The fuel briquettes it manufactures are more fuel efficient and affordable than traditional firewood used in biomass boilers, and thus have a strong climate mitigation impact. Sanivation is also partnering with informal communities in refugee camps to create affordable, full-service, community-wide solutions for waste and cooking fuel for these communities. With the support of FINCA Ventures, Sanivation is engaging global waste treatment companies as operating advisors and potential investors. It is working with public private partnership experts to prepare for replication and scale.

Sanivation yields both social and environmental impact. FINCA Ventures notes that the company can scale its operations according to the region that it serves, generating revenue in communities as small as 50,000 people and as large as 1,000,000. Since the investment, Sanivation has treated over 100 tons of waste, employed over 80 staff, and sold over 1,000 tons of fuel briquettes, offsetting over 3,000 tons of CO₂eq.

Mercy Corps Ventures - Social Venture Fund



Organization name	Mercy Corps Ventures
Headquarters location	Portland, Oregon, U.S.
Fund name	Social Venture Fund
Funds deployed	USD 1.6 million (as of 2018 year-end)
Inception year	2015
Impact objectives	Provide beneficial products and services to underserved, low-income populations Generate employment opportunities, especially for low-income youth and women Increase income and savings for low-income populations
Geographic focus	Latin America, Southeast Asia, sub-Saharan Africa
Sector focus	Agriculture, financial technology, last-mile distribution and logistics, and digitally enabled youth employment
Asset class	Equity and convertible debt
Deal size & currency	USD 50,000 to 250,000

BACKGROUND

Mercy Corps Ventures (MCV) is the impact investing arm of Mercy Corps, a global development agency that provides aid and disaster relief in over 40 countries. The organization launched the Social Venture Fund (SVF) in 2015 to provide seed- and early-stage funding and capacity-building support to scalable social enterprises that generate impact for underserved, low-income populations living in fragile, frontier markets. The fund leverages the resources and reach of Mercy Corps to vet potential investees, provide non-financial support, and build partnerships to help them scale.

FUND STRUCTURE AND OBJECTIVES

SVF is an open-ended fund that makes equity and convertible debt investments into agriculture, financial technology, last-mile distribution and logistics, and digitally enabled youth employment companies. SVF targets seed- and early-stage investees that serve low-income consumers, micro entrepreneurs, and small-scale farmers. As of the end of 2018, it was invested in 13 companies. At the outset of the fund, SVF set an impact goal of positively impacting one million people in underserved communities – a figure determined by multiplying its expected number of investments by projected company growth rates. Due to higher than expected growth of several companies, this goal was reached in less than two years, at which point SVF revised its impact goal to positively impacting 50 million people by 2030. SVF targets below-market rates of return, ranging from capital preservation to single-digit IRR.

FUNDRAISING

SVF is capitalized by donations from individuals and foundations that it calls “Impact Partners.” Because the fund is open-ended, it fundraises on an annual basis. Investment proceeds are then used to support SVF investments, activities, and related costs. It notes that its Impact Partners are driven to the fund by the shared belief that entrepreneurs are well-suited to develop solutions at scale for underserved populations. As its track record has grown, SVF has perceived increasing donor interest and a correspondingly smoother fundraising process.

DEAL SOURCING AND DUE DILIGENCE

SVF seeks investment opportunities that further Mercy Corps’ mission “to alleviate suffering, poverty, and oppression by building secure, productive, and just communities.” It invests into companies that can benefit not only from the capital invested but also from capacity-building support and partnership opportunities. The fund generally invests in ‘high-growth ventures’, with the potential for considerable growth and scale. For example, it invested in Pula Advisors, a tech-enabled agricultural micro-insurance distribution company operating in multiple African countries, which seeks to insure 1.5 billion smallholder farmers internationally. Additionally, the fund invests in ‘niche ventures’ that create innovative products and services that target niche customer segments.

For example, it invested in Suyo, a public benefit corporation that helps low-income Colombian families formalize their property rights. To date, SVF has reviewed approximately 25-30 companies for every investment made. One of the challenges it faces in deal sourcing in certain markets is finding enterprises that have developed solutions that can be applied across multiple regions, either directly or through replication by others.

Often, SVF is the first fund manager to consider investment in the enterprises in its pipeline. Because its investments are into such early-stage enterprises, SVF may provide pre-investment capacity-building support to the management team to prepare due diligence materials, form a board, and establish financial management processes. Additionally, SVF often plays the role of lead investor to expedite the fundraising process for entrepreneurs. This role, including the provision of capacity-building support, assists the company in securing investment from other investors, commonly angel investors or seed-stage impact investors, alongside with SVF. The fund primarily relies on in-house expertise to provide this support, hiring external consultants on an as-needed basis.

SVF's due diligence for impact revolves around understanding how a venture sees its theory of change and the likelihood of positive impact on targeted underserved populations, such as smallholder farmers, unbanked individuals, under-or unemployed youth, or people living in last-mile communities. The fund often leverages country-specific knowledge from Mercy Corps' local field offices to provide additional color and context.

"We want to see that Mercy Corps adds real value to a company beyond the capital invested. We may see a lot of great companies in the pipeline that are good investments from a financial and impact perspective, but unless we're seeing a real way for us to roll up our sleeves and provide value-added support and partnership opportunities, we are not typically moving forward."

- Scott Onder, Senior
Managing Director

INVESTMENT STRUCTURING

SVF takes a hands-on approach and therefore aims to embed collaboration into the structure of its investments. This approach has proven useful given the time-intensive, costly process to execute equity deals, which can be detrimental for early-stage frontier enterprises which may need investment capital to stay in business. SVF therefore often uses convertible notes, including Simple Agreement for Future Equity (SAFE⁷) notes, to respond quickly to urgent cashflow needs while maintaining its preferred level of engagement. Once an enterprise has been selected for investment, SVF can include various terms in the deal, such as offering specific guidelines for the use of investment funds, establishing impact reporting requirements, and requiring an observer or director board seat. Additional terms may require certain business processes, such as financial processes and reporting and key personnel hires, if they are not already in place.

IMPACT AND INVESTMENT MANAGEMENT

SVF has found that entrepreneurs operating in frontier markets face a unique set of challenges and risks, along with the higher costs associated with operating in environments with less developed infrastructure, supply chains, and other sources of instability. Early-stage companies operating in these markets have limited access to talent, capital, and other forms of support. As a result, SVF believes that they need to provide intensive support to their investees in order to be successful. To do this, SVF integrates post-investment capacity-building support into its management process, leveraging the SVF team's own expertise, Mercy Corps' support, and external consultants. Its capacity-building work is funded philanthropically by donations from foundations.

For example, Lynk, a platform that connects informal sector laborers with employers in sub-Saharan Africa, partnered with a Mercy Corps initiative on the ground that was working with the same population of laborers. The Mercy Corps initiatives assisted Lynk with better understanding its customers, through conducting market research and pilots with refined customer feedback loops, as well as with expanding its platform. Additionally, SVF worked with the company to improve the product, understand the market, and refine its growth strategy as it prepared for the next round of fundraising.

7 A SAFE (simple agreement for future equity) note is a type of convertible security for seed-round investment without interest rates or maturity dates.

While SVF invests in a range of different sectors, several companies have similar impact objectives, allowing SVF to aggregate some impact metrics, such as number of customers serviced, income generated, annual savings, and number of employment opportunities facilitated. It also monitors additional sector-specific impact metrics. SVF uses both IRIS and proprietary metrics and aligns its portfolio impact to the SDGs. Its impact framework examines which stakeholders are affected and the breadth and depth of that impact.

The fund works with each portfolio company to identify and develop its impact thesis and link that thesis to its business model. The two parties work together to select IRIS and proprietary impact metrics, which are tracked annually or bi-annually using data gathered by the company during its regular customer touch points or through third party consultants. SVF then works with the portfolio companies' management teams to manage and improve impact. Because the enterprises evolve during their investment relationship with SVF, the fund allows for evolution of impact measurement and management processes over time. SVF has created a reporting structure that mirrors traditional fund reporting to limited partners. Impact Partners and other donors receive quarterly and annual financial reports, and SVF produces a publicly available annual impact report.

EXITS

SVF expected that it would hold investments for eight to 12 years based on other similar frontier investment funds. While that remains the norm, it has found that there may be more exit opportunities in certain sectors or regions and so the holding period may be shorter for those investments. For example, SVF expects that frontier fintech companies, especially in East Africa, will see acquisitions in the coming years. Despite the expectation of long holding periods, the fund has had one exit, from LiftIt, a distribution and logistics platform in Latin America that optimizes cargo delivered by a network of independent truck drivers. Going forward, SVF expects to sell its shares to later-stage investors or back to the companies.

RESULTS

Overall, SVF has met its financial performance expectations. Eight of its companies have raised subsequent rounds of financing, totaling over USD 25 million. On the other hand, SVF also reported two instances in which investee companies failed and its investment was ultimately written off: Agruppa⁸, a mobile platform in Colombia connecting produce farmers with small businesses in low-income communities; and Wobe, a digital platform in Indonesia enabling smart-phone owners to process sales transactions for prepaid phone credits, utilities, and others.

The fund has also exceeded its impact performance expectations, noting that after two years, the fund hit its five-year goal of supporting its ventures to positively impact one million people in underserved communities. As of 2018, SVF had contributed to the following impact results:⁹

- People – 1.5 million customers receiving products, services, or financing; 1.2 million smallholder farmer customers served by its investees; over 600,000 farmers accessing insurance for the first time
- Opportunities – over 27,000 youth employment opportunities facilitated; 5 female-founded companies financed
- Wealth – USD 40.9 million in income generated by low-income farmers and workers; USD 3.3 million in property value created; USD 3.5 million in savings

SVF believes that it has a role in ecosystem building, especially through investment into companies that improve supply chains and logistics. However, it has not yet found a way to capture these impacts beyond counting units shipped and people served. For example, its investee LiftIt, a technology platform that aims to increase drivers' income and improve logistics for companies serving rural communities, pairs independent Colombian truck drivers with cargo shipments of all sizes. While SVF can count products sold, employment opportunities, and number of rural small businesses benefiting, it notes that broader economic impacts stem from improved rural logistics, which increases rural communities' access to larger markets and companies' access to rural communities. SVF hopes to forge partnerships with academics and find the funding to conduct in-depth studies to better understand these systemic impacts.

⁸ Lessons learned from the investment in Agruppa are described in detail in SVF's 2018 impact report.

⁹ Social Venture Fund 2018 Annual Impact Report, Mercy Corps, 2019, <https://medium.com/mercy-corps-social-venture-fund/fails-exits-and-impact-svfs-2018-annual-report-319699cc422d>.

“For investors, leveraging the expertise, market intelligence, and scaling pathways of other actors – such as governments, NGOs, traders, and input companies – is critical.”

- Tim Rann, Partner



CHALLENGES AND OPPORTUNITIES IN FRONTIER FINANCE

SVF notes that external factors can present major, unexpected challenges in frontier finance. While a company may have a sound business model and generate impact for low-income communities in fragile places, political upheaval, the outbreak of disease, or natural disasters can put an investment at risk of failing. Using its network of in-country Mercy Corps staff, SVF attempts to mitigate some of these risks by understanding the context and nuances of the countries and communities in which it invests.


Yet SVF perceives opportunity across sectors. It believes that patient, risk-tolerant capital has a role to play in nascent sectors, such as ag-tech and ag-fintech. Additionally, SVF sees opportunity for strategic seed capital, particularly for startups focused on small-scale farmers and rural markets in many of the markets where it operates. Many startups in this space raise smaller seed rounds and require bridge rounds given the long product lifecycle.

INVESTEE EXAMPLE: SUYO

Suyo, a public benefit corporation, helps low-income Colombians formalize property rights by determining the type of formalization required, such as a deed, land title, or building permits, and linking them to financial institutions that can finance the cost of the formalizing services. Suyo's service provides an efficient, affordable, and transparent alternative to a process that is typically time-consuming, expensive, and corrupt. The property formalization service allows previously landless Colombians to access certain government services and to obtain long-term stability afforded to land owners. The company seeks to increase financial inclusion for low-income Colombians. Land formalization is also an important part of the peace and reconciliation process in regions deeply affected by the country's decades-long civil war.

The company started out as a pilot project of Mercy Corps Colombia funded by Omidyar Network that was then developed into a social enterprise model by its founders. SVF invested USD 100,000 using a convertible note in 2017. Suyo's model is also deeply aligned with Mercy Corps' goals to increase land tenure and mitigate conflict in Colombia. Together with SVF, Suyo set impact targets of providing 40,000 property formalization services and 15,000 full land titles to low-income households by 2021. As of 2018, Suyo had delivered property formalization services to over 7,000 people, generating USD 3.3 million in property value to individuals at the base of the pyramid.

PG Impact Investments AG

	Organization name	PG Impact Investments AG
	Headquarters location	Switzerland
	Funds deployed	USD 130 million
	Inception year	2015
	Impact objectives	To improve the lives of underserved people
	Geographic focus	Global, with an emerging market focus
	Sector focus	Affordable housing, education, energy access, financial inclusion, food and agriculture, healthcare
	Asset class	Private equity and private debt
	Deal size & currency	USD 2-15 million, with occasional use of other currencies

BACKGROUND

In 2006, Partners Group, a private markets investment management organization, established PG's employee-backed foundation. The foundation served as the organization's first platform for making impact investments. Then in 2015, the firm established PG Impact Investments AG (PGII), a for-profit management company, backed by PG Impact Investments Foundation, focused on addressing social and environmental issues while also generating market-rate returns. PGII remains a separate entity, of which the foundation is the sole owner. Eventually, any profit above an established threshold will feed back to the foundation to be used for additional ecosystem-building activities that aim to grow the impact investing sector broadly, including by supporting early-stage social enterprises and impact fund managers to enable them to attract institutional capital and to develop PGII's own proprietary deal flow.

"We believe there's real opportunity to support financially sustainable companies that directly improve the lives of underserved people."

- Amy Wang, Investment Manager, Direct Investments at PGII

PGII thus has access to the experience and resources of Partners Group, which supports its strategy development, sourcing of potential investees, and all administrative functions.

ORGANIZATION STRUCTURE AND OBJECTIVES

With an overarching mandate of improving the lives of underserved people while delivering market-rate returns, PGII takes a diversified approach to investing. It supports both funds and enterprises across several impact sectors via debt and equity. PGII to date has committed about USD 130 million to over twenty investments.

For direct investments, PGII seeks high-growth enterprises with a proven business model and impact thesis. Following capital deployment, PGII works closely with investees to ensure financial sustainability, value creation, and impact.

PGII's broad mandate enables the organization to be opportunistic and flexible, but it also restricts the organization from developing deep expertise in any given sector or geography. As such, PGII invests in impact fund managers to capitalize on their expertise and to complement PGII's own resources and reach, largely for equity investments. In addition to administrative support functions, Partners Group also supplements and informs PGII's practices in portfolio structuring and risk management.

DEAL SOURCING AND DUE DILIGENCE

PGII invests about 60% of its capital directly into companies based on the "long-term viability and growth potential of business models, value creation opportunities, as well as scale and depth of impact¹⁰." PGII sources direct investments through its own team, the network and reach of Partners Group's 19 global offices, current investees, and other industry experts. An additional 40% of its capital is deployed through fund investments with GP partner organizations.

¹⁰ PG Impact Investing, <http://pg-impact.com/investing/>.



PGII seeks high-growth venture enterprises with opportunities for both impact and financial return at scale. For example, it invested in Credijusto, a small business lender in Mexico. In the past calendar year, Credijusto's asset base has grown by over 170%. Credijusto's disruptive lending model and technology-enabling credit score evaluations and information enabled the company to access a large market of small businesses and therefore scale effectively. PGII also invests in dynamic enterprises operating with proven business models targeting more incremental growth. For example, PGII invested in LOLC Cambodia, a microfinance institution in Cambodia that has been in operation for many years, providing credit, deposit, leasing, and money transfer services to entrepreneurs and families.

PGII employs an initial screen of each investment, examining its theory of change, potential impact, and contribution toward progress in achieving the SDGs. Once it confirms that impact is viable and aligned with the overall mission of PGII, it begins further impact due diligence, employing an impact management assessment tool developed alongside Partners Group. The tool assesses each of the Impact Management Project's five dimensions of impact via a proprietary scoring methodology. From there, PGII develops KPIs with its investees using the Impact Management Project framework and IRIS metrics. These KPIs are reported to investors annually.

INVESTMENT STRUCTURING

PGII invests in funds and directly into companies through both debt and equity. The organization is flexible in terms of investment size and structure since it invests in both high-growth ventures and dynamic enterprises. It aims to understand the specific needs of each investee company before determining the appropriate investment structure. It primarily invests in US dollars, but the firm has offered local currencies when there are hedging counterparties in the investment.

IMPACT AND INVESTMENT MANAGEMENT

PGII's engagement with borrowers, portfolio companies, and fund investees depends on the type of investment and the needs of the investee. It has recently launched its Industry Value Creation (IVC) function, modeled after the Partners Group approach, which supports it in strengthening relationships with management. For example, through this IVC function, PGII can attend and host board and management workshops and build a 100-day plan to enhance buy-in and alignment with management prior to closing. Following closing, the IVC function will seek to identify best practices to implement through finance/controlling and management functions. Furthermore, PGII leverages Partners Group's investment and industry value creation teams as needed and can access Partners Group's proprietary PRIMERA database, an internal database containing information on some 29,000 private markets assets.

Additionally, it tailors its approach to investment management based on the asset class of its investments. For equity investments, it takes a more active role by taking a seat on the board of the company or, when not taking a board seat in the cases of co-investment, helping to build the investee companies' networks and valuable connections. On the debt side, PGII is less actively involved in the governance of its borrowers but does often set impact targets or considerations in loan agreements. The organization's loan covenants, for example, may establish an overall portfolio collateralization level that every borrower must meet.

While PGII does not provide technical assistance directly, it has worked with Credit Suisse, one of its investors, through its Global Citizen program to send consultants to provide advisory services to investees. In one example, consultants supported a mezzanine investment in Cambodia to develop its digital transformation plan and institutionalize its internal audit function. PGII is exploring further collaboration with this program. Additionally, it engages in other forms of market building. For example, PGII is hosting a pitch session for select early-stage enterprises in 2019, the winner of which will receive a modest grant of up to USD 50,000.

Data on progress toward impact targets are collected and reported annually and incorporated into companies' scorecards, which monitor impact over time. The organization aims to report only the impact attributable to its capital in an investment, calculating the pro rata share based on the size of its investment relative to investees' total capitalization. For example, in an equity deal, PGII only reports the delta of the number of quality jobs created (or any alternative impact metric) weighted by the percent of its share in the company. For loans, it bases the impact measurements on the amount of capital raised at the time of the loan's issuance.

RESULTS

PGII realized its first loan exit in 2019, achieving an IRR in the low double digits. Another loan, which it plans to renew, is also nearing the end of its cycle. The equity investments will take more time to realize. PGII expects them to exit to strategic buyers.

As of the end of 2018, PGII had reached 2.2 million underserved people via its investments and estimated its portfolio companies to reach 57.7 million total lives across 25 countries. Through its investees, it had enabled access to financing for 36,000 people, electrified 330,000 households, financed 464,000 housing units, supported 862,000 farmers, and provided healthcare services to 241,000 individuals. Additional details can be found in its 2018 impact report.¹¹

CHALLENGES AND OPPORTUNITIES IN FRONTIER FINANCE

PGII acknowledges that frontier finance can be more difficult than many other types of traditional investing in various ways. For example, frontier and emerging markets investments often face greater risks related to currency depreciation, regulatory unpredictability, and natural disasters, among others. For instance, one of its agriculture deals was significantly affected by El Niño. While it may appear that impact and financial goals do not align, the organization encourages investors considering frontier finance opportunities to keep an open mind and, where possible, find creative ways to meet investor and investee needs, such as by leveraging blended finance.

PGII also faces challenges finding companies with its target risk/return profile and ensuring an appropriate size of investment. The organization has been increasing the sizes of its investments since larger ticket sizes are easier to deploy. However, the organization recognizes that there remains significant need in frontier finance markets for investments under USD 2 million.

¹¹ PGII Annual Impact Report 2018, PG Impact Investments, <http://pg-impact.com/2019/06/26/pgii-annual-impact-report-2018/>.

Omnivore investment into Skymet Weather Services

	Fund name	Omnivore Partners
	Company name	Skymet Weather Services
	Headquarters location	Delhi, India
	Geographic focus	India
	Product or service	Weather monitoring and agricultural risk assessment technology
	Investment instrument	Equity
	Date of investment	First round: 2011 Follow-on rounds: 2012, 2013, 2014
	Size & currency of first investment	INR 45 million

BACKGROUND

Omnivore Partners is an Indian venture capital impact investing fund founded in 2010 that makes investments into Indian startups developing technology solutions for agriculture and the rural economy. Omnivore makes early-stage equity investments into enterprises that seek to improve the lives of low-income smallholder farmers. It targets market-rate financial returns through its two closed-ended funds; Fund I was launched in 2011 and Fund II in 2017. Fund I's investments total INR 2.6 billion across 12 portfolio companies, which include Omnivore's first investment ever, Skymet Weather Services.

Skymet has grown to be India's largest provider of risk solutions for weather and agriculture, including tools that provide critical data for agricultural insurance and credit risk assessment. Skymet uses weather and agricultural data to drive financial inclusion for smallholder farmers, who make up 90% of farmers in India. The company has a vast network of 6,500 Automatic Weather Stations (AWS) in 17 Indian states that enable crop insurance claim settlements, allow banks to calculate credit risk on agricultural loans, and provide village-level weather forecasts that help Indian farmers make informed decisions.

"We see the key to transforming rural India as increasing the profitability, improving the sustainability, and reducing the uncertainty faced by smallholder farmers. We invest in startups that are developing solutions to make that happen."

- Mark Kahn, Omnivore Partners Founding Partner

DEAL SOURCING AND DUE DILIGENCE

When Skymet was raising its first round of seed investment in 2011, it did not have a network of proprietary weather stations, instead relying on Indian government weather data that it analyzed to create forecasts for urban consumers. The founder, Jatin Singh, originally pitched Omnivore his idea of launching a weather television network that would include half agricultural content. While Omnivore was not interested in funding the weather television network, the fund recognized the value of the core business of weather forecasting, especially for smallholder farmers.

During early conversations, Omnivore learned that Skymet was also interested in building a network of weather stations that would be more reliable and accurate than the government stations. Skymet had piloted a few of its own weather stations with promising results. The fund found this second idea much more attractive. Omnivore spoke with crop insurance companies and banks to understand their need for high-quality weather data to serve their customers better. Skymet could eventually provide better weather data necessary for crop insurance and lines of credit for smallholder farmers. Omnivore views Skymet as a high-growth venture given the need for improved weather data and the potential to revolutionize the provision of financial services to millions of smallholder farmers.



“Frontier investments do require longer duration. It doesn’t necessarily compromise returns, but often you need to be more patient.”

- Mark Kahn, Founding Partner, Omnivore Partners

INVESTMENT SELECTION AND STRUCTURING

In 2011, Omnivore invested INR 45 million in standard preferred equity into Skymet, gaining a 33% stake in the company, for the establishment of its AWS network. At the time of investment, Omnivore did not set impact targets. However, the fund subsequently set a target for Skymet to reach 15 to 20 million farmers.

INVESTMENT & IMPACT MANAGEMENT

Omnivore’s investment team has worked very closely with all of its portfolio companies. In addition to having a board seat, the team is in touch with Skymet at least once per week. The fund has assisted with talent acquisition for key senior management positions, business development, and fundraising in subsequent rounds, for example by bringing on larger international investors such as BlueOrchard in the most recent round.

Omnivore invested follow-on equity capital into Skymet in 2012, 2013, and 2014. Over time, the company has grown from a single-founder-driven software company to a team-driven technology company with a vast inventory of hardware in its AWS network.

Omnivore collects impact data annually from Skymet, which includes the number of smallholder farmers that access agricultural insurance and credit through Skymet and the number of weather stations in its network. The fund reports impact data on its full portfolio in a publicly-available annual report.

EXIT

At the time of the first investment, Omnivore expected to exit after five or six years. Although the fund has not yet exited its investment in Skymet, it expects opportunities for a strategic exit in the near future. This investment duration is on par other companies in Omnivore’s portfolio of frontier investments.

RESULTS

When Omnivore first invested in Skymet in 2011, it expected a 5x multiple upon exit. According to current valuations, the investment is likely to beat financial expectations. Skymet faced a few risks at the outset that have been mitigated by working closely with Omnivore. One risk faced was business model and management risk because initially the company managed a single business line. Omnivore worked with Skymet to diversify the business model to include the AWS network, provide data to insurance companies and banks, and build out the management team accordingly. On the flip side, competition risk has been fairly low throughout the lifecycle of the investment.

The company has also faced country policy risk. The data that the company provides are integral to agricultural insurance and banking, a highly regulated industry. In India, government policy changes occur every six to twelve months. Skymet liaises with the government so that it can stay abreast of changes and provide input for policy affecting its business and stakeholders. Overall, Omnivore has found frontier finance investments to face higher perceived risk than actual risk.

The investment has yielded positive impact, facilitating financial inclusion via a crop insurance scheme provided to around 10 to 12 million smallholder farmers over the duration of the investment. In fiscal year 2016-2017, Skymet's AWS network enabled the settlement of 4 million crop insurance claims by farmers.¹² The systemic effects of improved weather and crop forecasting capabilities for India are also significant; Skymet has enhanced the agricultural insurance market across India.

ADVICE FOR OTHER INVESTORS

Omnivore notes that opportunity lies in large populations facing large problems that can be addressed through innovative and sustainable solutions. If those can be provided, a company can experience high growth with correspondingly high impact. As an Indian fund investing in-country, Omnivore has benefitted from a deep understanding of the Indian context and from a strong network with other actors in the ecosystem, including the government, who recognize the fund as local rather than foreign. These factors have benefitted Omnivore's performance in terms of both financial return and social impact.



¹² Impact Report 2017, Omnivore Partners, 2018, <http://www.omnivore.vc/wp-content/uploads/2018/12/omnivore-impact-report2017.pdf>.

DOEN Foundation Investment into SunTransfer



Organization name	DOEN Foundation
Company name	SunTransfer
Headquarters location	Amsterdam, The Netherlands
Geographic focus	East Africa
Product or service	Solar home systems, including appliances
Sector focus	Energy
Investment instrument	Debt transfer
Date of investment	2015
Deal size & currency	250,000 Euros

BACKGROUND

The DOEN Foundation was established in 1991 by the National Postcode Lottery in The Netherlands with the intention of supporting entrepreneurs focused on creating a greener, more socially inclusive, creative society. The foundation now also receives yearly contributions from the other two other Dutch Charity lotteries — the VriendenLoterij and the BankGiro Loterij—and supports sustainable food systems, sustainable energy, circular entrepreneurship, arts and culture in the Netherlands, international culture and media, and innovative community initiatives.

DOEN Foundation, and its investment arm, DOEN Participaties, supports early-stage enterprises and funds through various financial instruments, including grants, loans, convertible loans, and equity, depending on their needs. In addition to providing appropriate early-stage capital, DOEN supports these companies by bringing entrepreneurs together to collaborate and share learnings. DOEN also promotes the work of these enterprises with the general public with the goal of helping them attract follow-on capital, to attract consumers, or to inspire other players in the market.

“These innovators and front-runners are the changemakers of the future, so if you support them now, they set the example, and then the rest of the market will follow.”

- Maarten Derksen,
Team manager,
DOEN Foundation

DEAL SOURCING AND DUE DILIGENCE

DOEN believes that innovation is the key force for change and sustainable development. It sources enterprises in the Netherlands, East Africa, and India through a combination of on-the-ground networking and open applications, available to the public through its website. It has approximately 660 projects in its portfolio; in 2018, DOEN supported over 250 initiatives. In addition to prioritizing innovation across investments, DOEN looks for investees active in three impact categories: green, socially inclusive, and creative. SunTransfer, a company providing solar home systems to customers in rural Kenya, demonstrates relevance to all three categories but fits squarely in the “green” category.

In addition to evaluating relevance to DOEN’s impact categories, DOEN gathers information on the management team and business plan of a prospective investment, its potential impact, DOEN’s ability to expand the impact via investment or grant capital, the current status of funding (i.e., whether there are any additional investors, grantors, etc.), and whether the enterprise or fund operates in a target region. Finally, DOEN relies on its local network of partner organizations to assess the business plan and evaluate competition in the regional market.



SunTransfer submitted an application online, and partners further detailed SunTransfer’s activities directly to DOEN. DOEN considered investment in SunTransfer for three primary reasons. (1) At the time, the business model and strategy of the company was an example of the innovation DOEN looks for in its investees — the company was testing a new system in which they would set up solar home products so as to allow customers to test the products and learn how to operate them before purchasing. (2) Rural Kenya was a target region for DOEN. (3) The company was locally owned and managed, another desired investee characteristic.

INVESTMENT STRUCTURING

Once enterprises or funds enter its pipeline, DOEN evaluates them on both financial and impact metrics during due diligence to assess fit and to determine the appropriate instrument for the investment. Deals via both the Foundation and DOEN Participaties range in size and structure depending on the needs of the enterprise, but generally DOEN prefers to invest in a minority stake.

SunTransfer originally sought grant financing from the DOEN Foundation, but upon further evaluation and discussion, both parties agreed that a loan would be appropriate given the company’s for-profit status and demonstrated ability to pay back a loan. The first three years of this loan were distributed in two installments, each of 125,000 Euros. After a three-year grace period during which the loans charged no interest, a 4% interest rate was added, scheduled for repayment over thirty-six monthly repayments.

When structuring deals, DOEN outlines financial and impact reporting requirements with investees. SunTransfer was set to report twice a year for the first three years of the loan. Since the end of that three-year period, it reports once a year. For SunTransfer specifically, impact targets included providing 30,000 people with access to energy, reducing carbon emissions by 1,500 tons of CO₂, and creating 60 jobs and opening at least 10 additional solar centers in rural Kenya. The terms of the loan, however, are not contingent on meeting these impact targets.

IMPACT AND INVESTMENT MANAGEMENT

DOEN selects impact metrics together with investees to build a shared understanding of success. Upon evaluation of each report, DOEN consults its local network and engages in further conversations with the investee to decide whether to alter the terms of the investment. DOEN also makes an effort to visit and meet with their investees at least once within the duration of the investment.

Every three to five years, DOEN hires an external consulting firm to aggregate the entire portfolio's impact data and DOEN makes said data available to the public. In 2016, DOEN developed a new system for evaluating and communicating impact. Preliminary indicators were established for each of DOEN's impact strategies, and internal systems, such as reports and databases, were adjusted accordingly. The primary purpose of this process was to learn from the findings—DOEN believes that studying its impact enables learning and strengthens due diligence. Additionally, DOEN has increased its effort to communicate said impact and tell the stories of the programs it supports as part of an effort to bring valuable public attention to this work.¹³

DOEN used its enhanced impact performance analysis to develop a theory of change, as well as a five-year plan, which articulates seven “opportunities for change.” The full report can be downloaded from DOEN's website.¹⁴

EXIT

The loan was originally scheduled to begin repayment in 2018 and to be completed by 2020, but after a challenging year in Kenya in 2017 due to local currency inflation and political instability, both parties agreed to postpone repayment and extend the loan. Repayments began in March 2019 and are expected to be completed in 2021.

RESULTS

The loan has not yet been repaid to the DOEN Foundation, but its impact goals were largely met by 2017. Specifically, as of the end of 2017, SunTransfer has met its target of providing 30,000 people in rural Kenya with energy access. Carbon reductions have exceeded targets (at 126%), and the company has provided 46 of the 60 projected jobs. SunTransfer has also successfully acquired additional funding via crowdfunding platforms, other impact investors, and philanthropic foundations.

ADVICE FOR OTHER INVESTORS

With headquarters in Amsterdam, DOEN operates from a distance for many of its investees. With a large portfolio and limited staff, DOEN is unable to closely follow investees and source new deals on the ground. As such, DOEN finds its network in target regions to be particularly helpful in sourcing and evaluating investees. In structuring deals and managing investments, DOEN's regional network also helps it better understand the market and the needs of investees and provide them on-the-ground support. DOEN finds this entire process helps to build trust with its investees and prepares them for acquiring follow-on capital. Because of its strong existing networks in target regions, DOEN commits to direct investments in these areas. If it is to allocate capital to alternative geographies, it invests through funds.

According to DOEN, frontier investors must be patient and understand that early profits for early-stage companies can be volatile or lower than the original projections. The loan restructure with SunTransfer, for example, did not necessarily mean that the company could not be successful. Rather, DOEN recognized that it was important to be flexible in order to give the company a chance to realize success.

“Change doesn't come from the big players, but from people with new ideas that come up with new solutions. If you support them and help them develop the solutions, they can be role models for others as well.”

- Maarten Derksen,
Team manager,
DOEN Foundation

¹³ Annual Report 2017, DOEN, 2018, <https://www.doen.nl/about-doen/annual-report.htm>

¹⁴ 7 Opportunities for Change; Long-Term Plan 2018-2022, DOEN, 2018, <https://www.doen.nl/home-1.htm>

APPENDIX 1. LIST OF PARTICIPANTS

This study was made possible through the participation of the following organizations via the transaction database, interviews, case studies, and/or workshop.

Acumen	iungo capital
AHL Venture Partners	JRT Partners
AlphaMundi	KPMG
Alterfin	Lok Capital
Ameris Capital	MEDA
ANDE	Media Development Investment Fund
ARUN Seed	Mercy Corps Ventures
Asia Value Advisors	Merry Year Social Company (MYSC)
Bamboo Capital Partners	Nemesis
Bank Julius Baer	New Ventures
Bill and Melinda Gates Foundation	Novastar Ventures
Blue Haven Initiative	Nuveen, a TIAA Company
BlueOrchard	Oikocredit
Bridge	Omidyar Network
Brightlight Group	Omnivore
Business Partners International	One to Watch
Catholic Relief Services	Patamar Capital
CDC Group	PG Impact Investments AG
Center for Social Initiatives Promotion (CSIP)	Promotora Social México
Citi	responsAbility Investments AG
Conveners.org	Root Capital
Credit Suisse	SecondMuse
Criterion Institute	Small Foundation
CrossBoundary Energy	Sunline Foundation
DFAT	Symbiotics Group
DOB Equity	The Sasakawa Peace Foundation
DOEN Foundation / DOEN Participaties B.V.	Triple Jump
FINCA Ventures	UNCDF
FSG	Upaya
Garden Impact	USAID
GroFin	Venture Capital Network
IDB Lab (formerly MIF at IDB)	Vox Capital
IIX	
Investing in Women	
Investisseurs & Partenaires (I&P)	

APPENDIX 2. LITERATURE REVIEWED

[Scaling Access to Finance for Early-Stage Enterprises in Emerging Markets \(2019\)](#)

Dutch Good Growth Fund and Open Capital Advisors

This report articulates the challenges that early-stage businesses face with respect to financing, during both pre- and post-revenue stages, and seeks to explore opportunities to improve the scalability and viability of early-stage finance provision. Specifically, the report calls attention to the benefits of refining the approaches of business accelerators, angel networks, early-stage venture capital funds, and non-traditional lenders to improve operations. Additionally, it explores opportunities to build archetypes that blend these different models together and strengthens their crossover links. Lastly, it argues for greater support to further the development of the early-stage finance ecosystem.

[The missing middles: segmenting enterprises to better understand their financial needs \(2018\)](#)

Dalberg Advisors, Omidyar Network, Ministry of Foreign Affairs of the Netherlands, and Collaborative for Frontier Finance

This paper explores the role that small and growing businesses play in catalyzing global development and the USD 930 financing gap they face. In an effort to offer greater clarity to the range of SGB types, the paper presents a segmentation framework that seeks to help investors, intermediaries, and entrepreneurs navigate the SGB landscape in frontier and emerging markets. The resulting four segments include high-growth ventures, niche ventures, dynamic enterprises, and livelihood-sustaining enterprises.

[Accelerating the Flow of Funds into Early-Stage Ventures: An Initial Look at Program Differences and Design Choices \(2018\)](#)

Social Enterprise @ Goizueta, Aspen Network of Development Entrepreneurs, University of Oregon

This report explores the role of accelerators in enabling the flow of funds into participating ventures, elevates differences in program efficacy, and identifies different paths to funding success. It finds that, overall, ventures that participate in accelerator programs attract more investment and generate more revenue than their counterparts. Performance was especially enhanced when programs emphasized access to other entrepreneurs, provided guaranteed investment, and focused on women and minority applicants.

[Innovations in Financing Structures for Impact Enterprises: Spotlight on Latin America \(2017\)](#)

Transform Finance and Multilateral Investment Fund (MIF)

This report outlines specific limitations to traditional financing structures with respect to impact enterprises and identifies innovative solutions to meet the needs of those enterprises. For example, the report articulates how 16 investment funds and deal structures alleviate the capital gap through case studies. Additionally, it elevates recommendations for how fund managers, investors, entrepreneurs, and others can engage with alternative structures to increase impact.

About the Global Impact Investing Network

The Global Impact Investing Network (GIIN) is the leading global champion of impact investing, dedicated to increasing the scale and effectiveness of impact investing around the world. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry.

Read the GIIN's *Roadmap for the Future of Impact Investing: Reshaping Financial Markets* at roadmap.thegiin.org.

Research

The GIIN conducts research to provide data and insights on the impact investing market and to highlight examples of effective practice.

To learn more, visit: thegiin.org/research

Impact Measurement and Management (IMM)

The GIIN provides tools, guidance, trainings, and resources to help investors identify metrics and integrate impact considerations into investment management.

To learn more, visit: thegiin.org/imm

Membership

GIIN Membership provides access to a diverse global community of organizations interested in deepening their engagement with the impact investment industry.

To learn more, visit: thegiin.org/membership

Additional GIIN research

Financing the Sustainable Development Goals:

Impact Investing in Action explores the ways impact investors leverage the SDGs to develop products and manage investments.



Since 2011, the GIIN has conducted an **Annual Impact Investor Survey** that presents analysis on the investment activity and market perceptions of the world's leading impact investors.



Beyond Investment: The Power of Capacity-Building Support

identifies common, effective practices for capacity-building support in the impact investing industry.



Lasting Impact: The Need for Responsible Exits

outlines impact investors' approaches to preserving the positive impact of their investments after exit.





info@thegiin.org | www.thegiin.org | [🐦@theGIIN](https://twitter.com/theGIIN)