

# Overcoming Barriers to Scale: Institutional impact investments in low-income and developing countries

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## Impact Investment: Objectives

### Social impact objectives

Access to **clean water** - Access to **energy** - Access to **financial services** - Access to **education** - Access to **information** - Affordable **housing** - **Agricultural productivity** - **Capacity building** - **Community development** - **Conflict resolution** - **Disease-specific prevention and mitigation** - **Employment generation** - **Equality and empowerment** - **Food security** - **Generation of funds for charitable giving** - **Health improvement** - **Human rights protection or expansion** - **Income/productivity growth**

### Environmental impact objectives

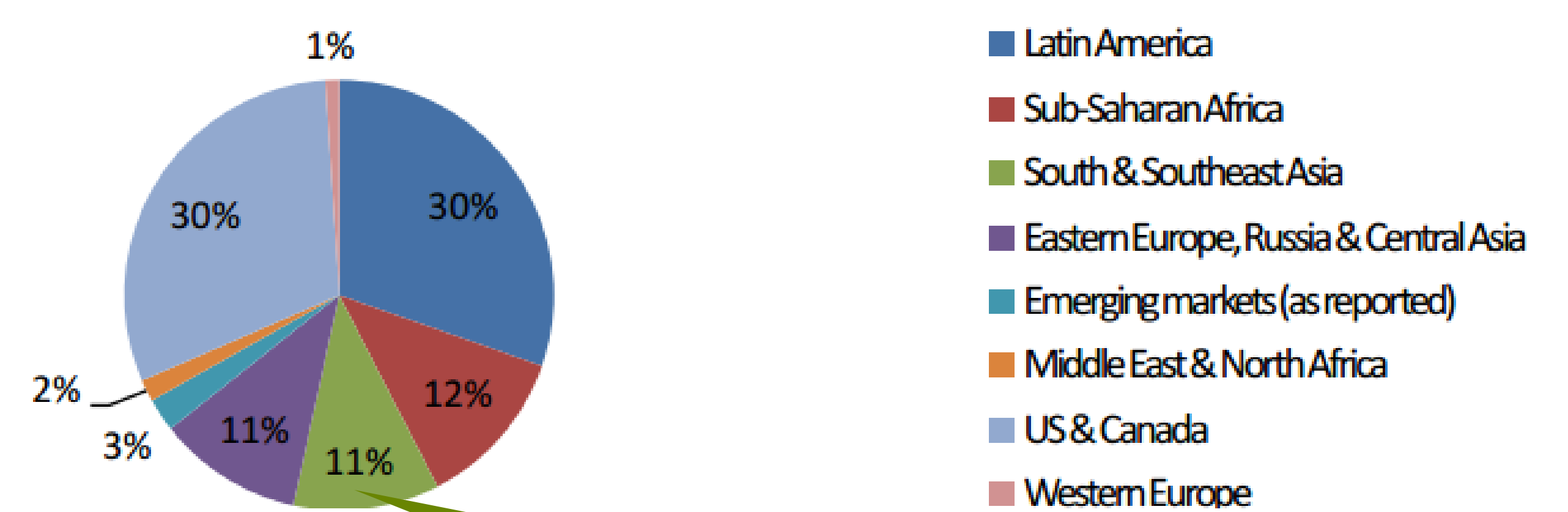
**Biodiversity conservation** - **Energy and fuel efficiency** - **Natural resources conservation**  
**Pollution prevention and waste management** - **Sustainable energy** - **Sustainable land use** - **Water resources management**

## Impact Investment: Key problems faced by institutional investors

PRIMARY PROBLEMS	SECONDARY PROBLEMS
Investment risk/ return profiles	Impact measurement
Investment track records	Blended capital curve
Exit options	Scalability
	Sourcing deals/investment costs

Source: IISD

## Impact investment: Worldwide distribution



Source: J.P. Morgan, 2013

## What can governments do? Impact Investment Policies

- **Strengthen the pipeline**
  - Technical assistance
  - Seed funding
  - Entrepreneurship development
  - Networking
  - Application of successful business models
  - Partnership with capable organizations
- Intermediaries and an impact investment ecosystem
- **Promote and enable blended capital arrangements**
  - Bespoke co-investment
  - Safety net
  - Cautious co-payment
  - Market for externality
- **Tax policies and subsidies**
- **Provide data and impact reporting**
- **Improve general business and investment environment**
- **Consider the fit of local pension and sovereign wealth fund mandates with national impact objectives**

## Case Study: Barriers to the full scaling of the impact sector in India's ecosystem

- Lack of understanding about market specific risks and business-model risks
- More research to meet investors' specific needs
- Need to define field of impact
- Reliable ratings of the real impact of enterprises
- Investor participation in local networks and impact investment forums
- Impact investment products and services provided through a highly networked model
- Investors providing capital for enterprises in the consolidation stage and an exit for early-stage investors
- Government support is highly critical

## Innovative Financing Options: Blended capital arrangements

- **Securitization**
- **Alternative fund structures**
- **Social bonds**

## Product of our analysis: National Impact Investment Readiness (NIIR)

<b>1. National political and economic context</b> (e.g. housekeeping factors such as macro policies, political economy, local financial markets, corporate governance standards; plumbing factors like legal and regulatory frameworks, custody, clearing and settlement and taxes)	<b>2. Impact investment policies</b> (e.g. financial, economic, regulatory, technological, skills and information, relevant infrastructure, institutions and networks)	<b>3. Financial industry initiatives</b> (e.g. availability of innovative financing, financial player's programs for enhancing competitiveness in the impact sector; extent to which complementary resources and services are coupled with funding programs)
<b>4. Ecosystem completeness</b> (e.g. interaction of the parts and interlinkages between ecosystem scales; size of impact investment opportunity set and projected size and robustness of the impact investment pipeline into the future; investment readiness of these enterprises)		
<b>5. Global fitness</b> (e.g. national entrepreneurialism orientation, impact data measurement and reporting, relations to global investor networks)		

## GREEN INFRASTRUCTURE – The future of impact investing?