venture philanthropists & impact investors

A Toniic Institute report

with support from the Shell Foundation

TONIIC

Founded in 2010, Toniic is the global action community for impact investors, with members in 26 countries. Toniic provides family offices, high net worth individuals, institutions and corporations with access to tools and thought leadership as they grow their impact investing practices. Toniic leverages its global member expertise in impact investing to produce open-access e-guides on topics such as crowd investing, early-stage investing, and impact measurement. Toniic ImpactU provides transformational learning opportunities for impact investing around the globe for both members and non-members. For more information, visit www.toniic.com.

SHELL FOUNDATION

Shell Foundation is an independent charity, established in 2000 by the Shell Group. We work to create and scale new solutions to global development challenges by applying business thinking to major social and environmental issues linked to energy and mobility. Learning from both success and failure we have gradually developed a new "enterprise-based" model to catalyze lasting social and environmental impact on a global scale. This sees us deploy a blend of financial and non-financial resources to accelerate transformative innovation and harness private markets to deliver public benefit at scale.

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I. Executive Summary

Throughout the developing world, there are an increasing number of entrepreneurs providing solutions to poverty, and there is also an increasing number of investors willing to allocate capital to these entrepreneurs in order for them to scale their operations, since only at scale can they realistically seek to meet their social missions.

However, more investment capital is needed if early stage impact enterprises are to scale and thrive. In this report we take a close look at where venture philanthropists and impact investors are working together, and where gaps remain, so as to provide a practical and user-friendly guide to make the case for impact investors to invest earlier and more often.

Our research uncovered numerous examples of collaboration and, although this report is by no means exhaustive, we believe that we have identified a range of practical solutions that can be replicated.

The actionable solutions identified troughout this report are categorized as:

- Blended funding solutions: the strategic use of development finance and philanthropic funds to attract private capital flows to emerging and frontier market enterprises. Venture philanthropist participation alongside private investors not only encourages private capital into impact enterprises by lowering the risk/return hurdles, it often enables pilot or innovative programs and activities to be undertaken as well as ensuring that the social objectives of the enterprise are not compromised.
- Structural enhancement solutions: an increasingly common approach by venture philanthropists to mobilize investors into enterprises that would otherwise be too high-risk is through the provision of financing structures such as loan guarantees and first-loss facilities. Although some impact investors are willing to moderate their return expectations when investing in impact enterprises in order to achieve a balance of economic and social return, many find it difficult to assess the risk of failure and therefore seek downside protection.
- Impact accelerators: the funding of accelerator programs by venture philanthropists enables impact enterprises to become ready and able to accept private funding, with some accelerators accommodating private co-funding into their programs.
- Technical assistance facilities: the provision of technical assistance funding and solutions by venture philanthropists, either directly to the enterprise or via third-party providers, builds capacity within the enterprise and strengthens the enterprise in order for it to become attractive for investment.
- Information & knowledge sharing: can take many forms, from sharing due diligence materials that cuts down the time and cost for investors, to partnering in deal sourcing and screening as well as reporting best practices.

- Innovation: as part of our research, we identified a number of innovative solutions to enhance collaboration, from a new online portal facilitating co-investment in blended finance solutions to an innovation fund supporting new business models and sector-specific hubs created to share best practices.

We hope this report will encourage venture philanthropists, impact investors, and other players within the early-stage social impact-funding ecosystem to proactively undertake the solutions that have emerged as a result of this report's research.

This report is a "call to action" for all such participants to continue to test, scope and roll out collaborative efforts (be they partnerships or other mechanisms) in order to catalyze impact investment capital.

The reward for greater collaboration can be a higher volume and quality of investment activity, which will attract greater, smarter impact capital into the marketplace, ultimately enhancing the viability of impactful solutions for the world's toughest problems.

I. Introduction

I-A. Rationale for this Report

This report stems from a point of view shared by Toniic and Shell Foundation: that venture philanthropists and impact investors actively collaborating can increase the amount of impact investment capital into early-stage impact enterprises.

Quoting from the Shell Foundation's Enterprise Solutions for 2030 report released in September 2015, "much time has been wasted in recent years trying to address two issues in parallel: persuading foundations to provide the higher-risk, more flexible, longer-term capital that early-stage enterprises urgently need and calling for impact investors to change their risk perceptions around early-stage pioneers." The report further states that foundations and impact investors should collaborate in meaningful ways to ensure different investors are able to meet their varied expectations for risk, return and impact across different time horizons through the use of blended models.

To accelerate such collaboration, we sought to produce an actionable roadmap supported by case studies to be used as a catalyst for greater levels of collaboration. This report has been developed and published in partnership with Shell Foundation, to further the research in this field. These conclusions are a result of a twelve-month joint research and consultation programme with Toniic members.

I-B. Objective of the Report

The objective of this report is to provide a practical and user-friendly guide primarily for impact investors to encourage them to deploy their investment capital directly or indirectly (via financial intermediaries and funds) into impact enterprises at an earlier stage. In particular, we have targeted individual investors and family offices, akin to the profile of membership organisations such as Toniic.

We highlight a number of blended capital solutions that have been recently implemented, as we believe that an approach that employs the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets is a key collaboration driver. We also look at structural enhancement solutions (e.g. first loss guarantees) and ancillary solutions (e.g. sharing of pipeline and due diligence), all of which point to a greater alignment of activities between venture philanthropists and impact investors enabling greater flows of capital.

The reward for a higher level of collaboration between venture philanthropists and impact investors is the movement of greater private investment into impact enterprises. Successfully scaled impact enterprises can then potentially attract institutional investors, who control the lion's share of global capital.

I-C. Methodology & Acknowledgements

The key outcomes and recommendations outlined herein follow a research partnership with Shell Foundation over a twelve-month period. Two roundtable discussions took place in 2015 where Shell Foundation shared its methodology and approach. The participants identified potential actionable solutions that strengthened collaboration between venture philanthropists and impact investors, particularly those with a focus on energy access, sustainable mobility, and job creation in emerging markets.

Thereafter, Shell Foundation assisted in the development of the report structure, provided guidance on how they tackled the collaboration gap and provided access to their many partners.

We then conducted a desktop review of numerous transactions and interviewed entrepreneurs, venture philanthropists and impact investors to identify key challenges, opportunities, and actionable solutions to strengthen collaboration between each group. In addition, we have drawn from the recent thinking and analysis from the Global Impact Investing Network (GIIN), Rockefeller Foundation, Monitor Institute, OECD, World Economic Forum, and other leading institutions.

Acknowledgements

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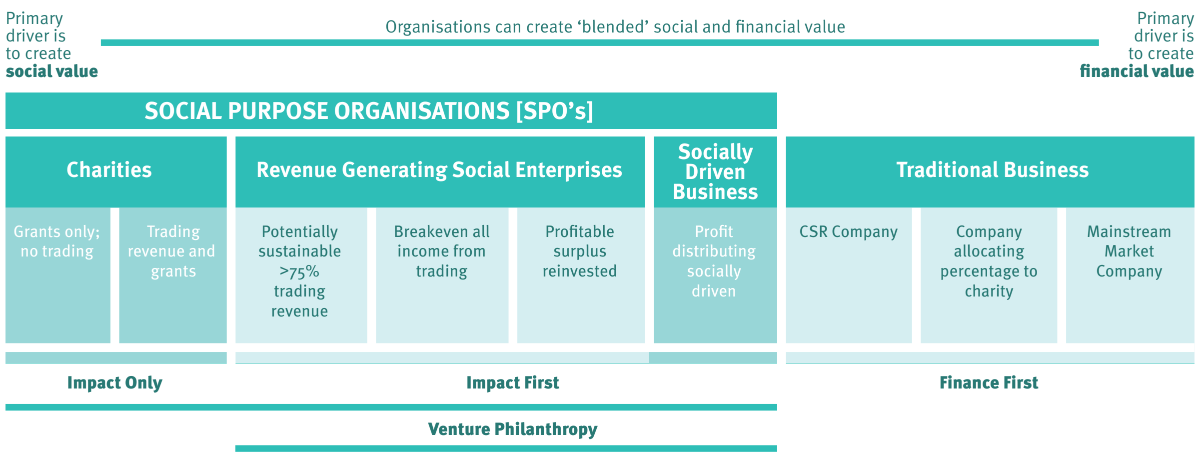
We are also grateful to Lisa Kleissner and Jenna Nicholas for their inputs into the report.

I. Identification of the Issue:
Insufficient Collaboration Between Philanthropists and Impact Investors

In this section we outline the similarities, acknowledge the differences and pinpoint the major collaboration gaps between venture philanthropists and impact investors.

II-A. Definitions

The figure below, created by the European Venture Philanthropy Association, illustrates their view of how venture philanthropists and impact investors fit into the funding spectrum.



Source: EVPA

What is venture philanthropy?

The European Venture Philanthropy Association (EVPA) defines Venture Philanthropy as an approach to build stronger investee organisations with a societal purpose by providing them with both financial and nonfinancial support in order to increase their societal impact. The venture philanthropy approach includes the use of the entire spectrum of financing instruments (grants, equity, debt, etc.) and pays particular attention to the ultimate objective of achieving societal impact. The approach includes both social investment and high engagement grant making.

What is impact investing?

The Global Impact Investing Network defines Impact Investments as investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market, to market rate, depending upon the circumstances.

II-B. Similarities and Differences

Both venture philanthropists and impact investors share an emphasis on high engagement with their "investees", seeking to provide financial and non-financial support (albeit at different levels) to assist organisations achieve financial sustainability and social goals. In addition, both venture philanthropists and impact investors share a rigorous approach to sourcing, diligence and ongoing management of their investments.

In recent times, some venture philanthropists have taken a more dynamic, hands-on approach in partnering, providing capacity building and developing management expertise within the organisations they support, as have impact investors.

There are however, many differences in the approach and desired outcomes between venture philanthropists and impact investors. Some are fundamental, while others are not so divergent. Primarily, their risk & return objectives differ. Venture philanthropists often seek an impact outcome with little or no expectation of financial return while impact investors seek a range of financial returns and have a relatively lower tolerance for risk (in terms of business model, sectors, geographies, stage of maturity etc). In addition, some impact investors have a shorter 'investment' horizon, seek clearly defined exit strategies and are less willing to provide flexible forms of finance solutions. Although both share an emphasis on engagement beyond their capital injection, the venture philanthropists, especially larger foundations, tend to provide significant non-financial support. This support is often provided at the enterprise level (technical assistance, enhancing management teams, grants for innovative pilot projects etc) and more broadly (influencing policy, sector research etc).

In summary, venture philanthropists often have a greater risk appetite and provide more early-stage risk capital than impact investors, albiet the gap has narrowed in recent times.

II-C. The Collaboration Gap

The differences outlined above highlight why there is a collaboration gap.

Venture philanthropists are critical for providing early-stage risk capital, grants, and other forms of support to social enterprises. They seek to support the early-stage enterprises that are pioneering new business models, particularly in bottom of the pyramid (BoP) environments.

Quality enterprises suitable for venture philanthropy support are difficult to find. When they are found, these firms face significant uncertainty as they struggle to validate their models. Furthermore, once found and supported, venture philanthropists are sometimes constrained in the extent of support they can provide to the enterprise in terms of investment advisory, intermediation and business support services that a startup incubator or early-stage impact investor would inherently offer.

As a result, many worthy enterprises struggle to become "investor-ready" for impact investment, and are therefore unable to attract the capital needed to scale.

The **impact investor** landscape suffers from both supply-side and demand-side constraints.

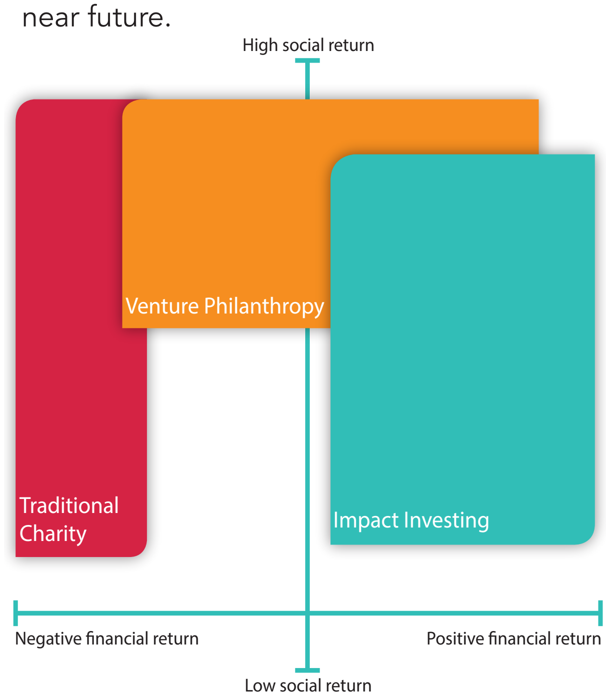
An impact investor can provide the risk capital needed to scale an effective social enterprise. However, because they have a variety of economic return hurdles, risk tolerance, preferred investment structures, liquidity requirements and desired impact outcomes, their participation in many developing enterprises is limited. As such, relatively patient impact investor capital with a higher tolerance for risk (given the early-stage nature of many opportunities) is often unavailable.

Furthermore, for enterprises able to attract impact investment, the impact investors are sometimes constrained in the extent of support they can provide to develop the surrounding infrastructure and policy changes required to advance the enterprises' cause.

On the supply side, it is often challenging to find impact enterprise opportunities. Although there are an increasing number of intermediaries in the marketplace, such as financial advisory firms, early-stage incubators and on-line matching portals, it is still challenging for many impact investors to find opportunities in particular geographies and sectors. A greater visibility of deal pipeline is important to enable impact investors to prospect for future opportunities. At present there is a gap in such partnerships, albeit there are a couple that have emerged recently which we outline in Part III.

In our view, the collaboration gap can be narrowed.

The diagram below summarizes where we see the 'overlap' in terms of the relative risk and return requirements of each group. With a level of innovation and flexibility on behalf of both venture philanthropists and impact investors there is good reason to believe this collaboration gap can be reduced in the near future.



III. Actionable Solutions

We analyzed over 75 transactions in order to identify and categorize successful solutions that would be useful for impact investors seeking to understand how to invest in impact enterprises at an earlier stage, while still meeting their risk and return requirements. We have focused on providing solutions with examples that are relatively easy to replicate. Our proposed list is by no means complete and we have excluded some solutions that we considered challenging to implement or required significant time and resources to structure.

Relevant case studies in the following three categories are presented in this report:

- Blended financing solutions
- Structural enhancement solutions
- Ancillary solutions

III-A. Blended financing solutions

Blended finance refers to "the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets."[1]

In other words, it is the use of development finance and philanthropic funds to attract private capital into deals that drive social, environmental and economic progress while also providing risk-adjusted financial returns for private investors in line with market expectations.

Venture Philanthropists can play a vital role in early-stage or validation-stage enterprises by deploying capital alongside impact investors. Such funding is commonly in the form of one-off grants however we have seen donor capital structured as recoverable grants, convertible-into-equity grants and restricted/milestone grants.

For the early-stage impact investor, the injection of grant capital into an enterprise alongside equity capital can often enhance the economics sufficiently to generate a forecast return that meets the investors hurdle rate of return for a given risk profile. For the venture philanthropist or grant-maker, its capital not only enables the enterprise to attract the desired level of private funding and accelerate growth, but also can be directed towards pre-agreed programs and activities to ensure the social objectives of the enterprise are not compromised.

As an example, d.light, a manufacturer of solar lanterns and solar powered lighting systems, has been the beneficiary of donor funding on multiple occasions alongside impact investor capital. d.light has deployed these grant funds towards R&D and other programmes that without subsidy capital would not have enabled them to continue to innovate and deploy improved solar lighting systems for their developing market customers. "The grants have supported the funding of our innovation engine" says CEO Ned Tozu. And these funds ensure they don't drift too far from their mission in search of profits." Note: the enterprises' mission is "to improve the lives of people worldwide through affordable, reliable energy."

1 Blended Finance Vol. 1: A primer for Development Finance and Philanthropic Funders. World Economic Forum report. September 2015

Shell Foundation and DOEN Foundation provided grant funding to M-KOPA (an African off-grid energy solutions provider) to support a one-year pilot in Kenya to test the application of an embedded mobile payment technology in a portable solar lantern.

Equity investors were not willing to undertake the high-risk pilot. The pilot was ultimately unsuccessful; however, the failed pilot prompted M-KOPA to pivot their business model, which was ultimately necessary to enable them to scale – a prudent use of philanthropy to test drive innovation.

Case Study

!InspiraFarms

!InspiraFarms provides turnkey, modular and affordable agricultural processing and value addition platforms to the small-scale fruit, vegetable, coffee and dairy industries in South America and East Africa allowing them to meet global food-safety certification and quality standards for the supply of healthy and nutritious food to local and international markets.

The Challenge:

Like most early-stage enterprises, they found it somewhat challenging to identify and secure investment capital due to the untested nature of the market they were seeking to enter. Existing investors were not willing to provide additional capital investment and some potential investors were wary of participating until the new market was validated.

The Solution:

The enterprise sought and successfully obtained a convertible loan and grant funding, alongside the founders' equity capital injection. The grant was provided by Doen Foundation to support the build-out of an off-grid dairy chilling facility. The grant was released in two tranches; the first to construct the facility, and the second when the enterprise was able to sell the unit to a farmer co-op in Kenya. Root Capital financed the purchase of the unit for the farmer co-op such that the second tranche grant funding became available. "It is a good approach – the way they made the grant accessible and businesses oriented," said Tim Chambers co-founder of !InspiraFarms .

Lessons Learned:

Where impact investors are only willing to support core operations, venture philanthropists enable an enterprise to innovate/test/pilot new products and services in existing or new geographies. In this case, the willingness of a grant-maker (along with founders' equity) to fund an innovation for an unproven market enabled the enterprise to gain traction in a new geography. Some impact investors might avoid such risks. The success of the pilot enabled further funds to be released and generate greater cashflows for the business in order to service the convertible loan (if not converted) and returns to investors. "Aligning grant and investment capital to commercial objectives makes the company more disciplined and drives sustainability," noted Tim. Similarly to the d.light example above, the donor's engagement also facilitated alignment of all parties to the social mission of the enterprise.

III-B. Structural Enhancement Solutions

One of the more common approaches we have seen to encourage impact investors to invest in enterprises that would otherwise be deemed too high risk is the use of loan guarantees and first-loss facilities.

Although many impact investors are willing to moderate their return expectations when investing in impact enterprises in order to achieve a balanced economic and social return, many investors find it difficult to assess the risk of success/failure. This is especially true in developing markets and even more so where products and services have not been market tested.

Even Shell Foundation, with its considerable experience, has found it difficult to operate effectively in the developing market space. It acknowledges that it takes time and considerable effort to understand low-income markets, gain comfort with risk and failure, build a team with the right skillset and improve partner selection. Source: Enterprise Solutions for 2030: Shell Foundation September 2015.

As such, Shell Foundation sees a key role for market-building foundations to identify and support promising financial intermediaries, and provide first-loss "anchor" investment to mobilize impact investors. It has used this approach with financial intermediaries such as GroFin, responsAbility and IntelleGrow which, as a result, have had tremendous success raising private funds, significantly amplifying their impact.

In particular, GroFin recently launched a new pan-Africa fund, using a tiered structure. This structure is designed to reduce risk allowing impact-first investors to take slightly more risk for greater impact, less liquidity and a slightly higher return and attract private capital. The structure makes it easier for GroFin to offer short-term debt options to enable investors to build confidence in their business. Shell Foundation provided an anchor investment of $15m and also contributed to a grant facility to offset business support costs until the fund reaches critical mass. GroFin aims to grow the fund to $150m in order to generate 33,000 jobs over the next 10 years. The diagram below outlines the four tiers, enabling private investors to participate in the lower-risk elements of the financing.

		Protection	Return	Investors
Notes	N Debt	✓✓✓✓	✓	Institutional Investors Privat Investors SRIs, PRIs, HNWIs Some DFIs
Capital	A Senior	✓✓✓	✓✓	
Capital	B Mezzanine	✓	✓✓✓	DFIs
First Loss Capital	C Shares		✓✓✓✓	DFIs, SF, Dev. Agencies, Manager

There are other organisations such as ICCO Investments (the impact investment vehicle of ICCO Cooperative) who provide guarantees and underwriting support as a means to encourage private investment into impact intermediaries and enterprises.

ICCO's globally operated guarantee fund provides access to financial services from social investors, western and local banks (in equal parts) for SMEs and MFIs involved in the production, processing and trading of agricultural produce. The fund has issued 300 guarantees to operations in 25 countries in rural Africa, Asia and Latin America. During the fund's 15-year track record, €120m of loans were leveraged by shouldering €44m in liabilities, a leverage factor of 1:3.

For example, ICCO Investments supported Triodos Sustainable Trade Fund (TSTF) in its financing of Tolaro's new cashew processing facility in Benin. Historically, approximately 95% of the total raw cashew nut production left Benin for processing in India and Vietnam, without any value-add taking place in Benin. The enterprise now works with over 11,000 local farmers and produces finished product that is sold directly into European markets. All of the additional value now stays within the local communities, providing jobs and more stable incomes for the farmers.

In another example, M-Kopa was able to access a significant loan facility for its working capital needs based on a guarantee provided to the lender by a venture philanthropist.

Case Study

INSITOR IMPACT FUND

The Insitor Impact Asia Fund (USD 24 million in size) finances social businesses in the emerging and frontier markets of Cambodia, Myanmar, India and Pakistan. Insitor plans to invest in 10 to 15 startups and early-stage businesses with potential to improve the lives of low-income families and rural communities in South and Southeast Asia. Insitor has local teams in each of the four countries, to be able to source appropriate deals and manage the fund's portfolio actively and effectively. The fund's first close was recently achieved with USD 19m committed from DFID Impact Fund (managed by CDC, a UK DFI), Anthos Asset Management and a European Family Office.

The Challenge:

The Fund had difficulty attracting investors as many were hesitant based on the perceived risks, as investing in start-ups and early stage companies in 4 frontier markets.

The Solution:

Anthos Asset Management was initially encouraged by DFID Impact Fund's stated desire to assist in catalyzing private funds into such riskier funds, by taking on more of the risks to prove the fund's approach works after which more private parties would be willing to step in. In this particular case, DFID Impact Fund provided private sector impact investors a 20% first-loss reserve facility, applicable to potential losses related to Insitor's investments in Myanmar, India and Pakistan

Anthos Asset Management, who were somewhat worried about the risk profile of the fund, took advantage of this enhancement to the deal. In the event the fund is unable to provide a full cash return to Anthos, the shortfall (on a portfolio basis) will be partially covered by DFID Impact Fund.

Margot Quaegebeur, Impact Investment Manager from Anthos Asset Management, commented that "this guarantee from CDC was a major factor in getting us over the line" and "the first loss facility provided us with the necessary risk mitigation we were looking for." CDC will enjoy greater participation in the returns above benchmark as compensation for providing downside protection – a fair commercial outcome.

Another major reason Anthos Asset Management was able to invest into the fund within a reasonably short period of time was the close collaboration with and sharing of due diligence findings by DFID Impact Fund.

Lessons Learned:

Venture philanthropists and development organisations can catalyze significant private sector capital with structured transaction support. This efficient use of donor capital can potentially result in a multiplier effect on capital deployed by engaging more impact investors.

III-C. Ancillary Solutions

In addition to direct grant funding and underwriting support, venture philanthropists and impact investors have the ability to work together in other ways.

a. Impact Accelerators

Funding impact accelerators (an intermediary organization or platform working to scale impact enterprises) enables these organisations to provide specific services to bring forward a company's development and its ability to raise investment capital.

Some accelerators accept private funding from impact investors, and in return those investors enjoy first-rights to invest in the underlying enterprises once they are investment-ready. For example, Village Capital is a nonprofit impact accelerator that serves entrepreneurs across the globe. Village Capital delivers business assistance programs that facilitate relationships with strategic partners and investors and provides expert coaching on business strategy. Impact enterprises selected by Village Capital commit to a 12-week program, which revolves around three in-person sessions each lasting four days. During the sessions, entrepreneurs attend lectures and participate in small group learning forums.

Entrepreneurs spend approximately 20% of their in-person sessions in lectures. These sessions focus on business model refinement, team management, financial management, and overall business strategy. The lectures provide a concise framework for each topic, as well as case study examples that facilitate understanding of how frameworks have been applied under different circumstances. Entrepreneurs spend the remaining 80% of their session time in small group learning forums with the intent to apply topics covered in lectures to their own businesses and to receive guidance and feedback from peers and mentors. Source: Accelerating Impact: Exploring Best Practices, Challenges, and Innovations in Impact Enterprise Acceleration. February 2015. Monitor Deloitte.

b. Technical assistance to Impact Enterprises

Venture philanthropists and impact investors can also provide technical expertise in many forms. For example:

- Funding particular costs or services of an enterprise directly (e.g. funding a founder's salary so he/she can focus full-time on the enterprise rather than having to supplement income via part-time work). For example, a donor, Andrews Charitable Trust, provided a convertible-loan to !nspirafarms to enable the executive team to focus on building the enterprise rather than spending considerable time on consulting engagements in order to finance their enterprise. The USD $300k loan is split in different tranches over a two-year period, and every six months there are certain milestones to reach in order for the release of the next tranche.

- Funding the cost of third-party providers to undertake specific actions (e.g. a marketing consultant to write a marketing plan). For example, a Manocap investee received technical support for the development of their business plan, the creation of a proper accounting framework, and support for IT and legal costs to help simplify their complex corporate structure.

- Providing in-house expertise (e.g. an internal IT team to review the IT requirements and capacity of an enterprise). A Manocap investee was the beneficiary of such assistance.

- Providing skills via joining Boards. A Toniic member joined the Investment Committee and Board of the Aqua-Spark Fund (a global investment fund that makes investments in sustainable aquaculture businesses) to provide both investment and social impact experience to the Fund Manager.

The following examples demonstrate the range of collaboration in the marketplace today:

Example 1: Iluméxico, a provider of affordable solar home systems in rural Mexico, was seeking private investment as their government grants were coming to an end and they needed a finance structure that would solve for the cashflow needs of their business model. A Toniic member provided assistance to create an innovative redeemable preference share structure and worked with Iluméxico to negotiate and close the transaction with the investor, Engie, a French multinational electric utility company.

Example 2: Collaboration is not just limited to venture philanthropists and investors. For example, Kenya's Safaricom (a communications company) provided M-Kopa with technical services and assistance by way of introductions to customers, development of distribution and payment channels along with executive mentoring – all as valuable as an injection of capital.

Example 3: Collaboration in the form of recognition of the importance of high-quality technical skills. All the Insitor Impact Fund investors (both private investors and development institutions) recommended an increase in the management fees so the manager could apply quality asset management throughout the fund's life. "It is a relatively small additional cost for ensuring the right people are selecting and managing the portfolio's investments so that we'll achieve the impact we are looking for," said Margot Quaegebeur.

Example 4: Providing technical assistance alongside an impact fund can be enormously beneficial. The Grassroots Business Fund (GBF), for example, incorporates a grant component that supports advisory services to impact enterprises. Due to the relatively high cost of management of the Fund's investments in the challenging and geographically diverse sectors of agriculture and artisanal manufacturing, GBF established a separate grant fund (~20% of the total capital) to enable the manager to employ skilled executives and/or consultants from due diligence through to post-investment monitoring. This particular grant fund goes further than monitoring, as it supports the entrepreneurs with technical consultants and additional services.

Case Study

ManoCap is a private equity fund manager that makes equity investments in small to mid-cap enterprises in West Africa. It currently manages the Sierra Investment Fund (SIF) and the ManoCap Soros Fund (MSF). SIF is a multi-sector fund with a mandate to invest in Sierra Leone, Liberia and Ghana. MSF invests in agribusiness and related services in Sierra Leone.

The Challenge:

The Fund Managers knew they would have to dedicate significant time to their potential investee enterprises before they would be suitable for investment. The challenge was to find a funding source for the pre-investment work as Fund investors were not willing to provide this much needed capacity-building capital.

The Solution:

DIFID provided a technical assistance facility to work alongside the fund in order to get enterprises to a point where they could engage with impact investors.

CEO Tom Cairnes (Toniic member) said, "The Fund would not have been able to work with many young businesses that needed assistance before they could become investment ready without the technical assistant facility (by DFID). As a result, half of our initial investees came out of the technical assistance facility programme. Most young companies don't have the required resources, even though the underlining businesses are viable."
Manocap used the grant funding in three key areas: accounting (to facilitate complete and accurate financial reporting and forecasting), legal structuring (to ensure the businesses were properly registered, owned assets, IP etc) and for technical expertise (specific skills were engaged to review and enhance each business solution).

Lessons Learned:

Technical assistance programmes, properly structured, can be of enormous assistance to those looking to fund early stage enterprises. They enable investors or fund managers to enhance the business models of enterprises so as to make them more attractive early-stage investments.

Such facilities often accelerate the enterprises' development so they can attract investment capital earlier. However, funding should not be used for general operational expenditures, it should be for the provision of third-party advice to accelerate investment-readiness.

c. Information & Knowledge Sharing

Sharing, although a relatively simple concept, needs more focus to underscore its full potential.

Sharing can take many forms:

- **Sharing of due diligence materials.** For example, CDC's willingness to share its complete due diligence files with Anthos Asset Management (Anthos) in relation to its Insitor Impact Fund investment resulted in a faster approval process for Anthos and a benefit for the Fund as they were able to close the first tranche.

- **Reporting experiences** and communicating best practices to the marketplace. For instance, Shell Foundation in its Enterprise Solutions for 2030 report provided salient details on all its activities, including investment challenges and shortcomings.

- **Partnering** between venture philanthropists and impact investors. Blue Haven Initiative partnered with Shell Foundation to share funding opportunities, due diligence and market learnings in order to strengthen the capacity of both organisations. Blue Haven Initiative executives spend time with each of Shell Foundations portfolio managers to ensure they are in sync on recent investment developments.

- **Board level participation** by both venture philanthropists and impact investors facilitates broader collaboration. For example a Toniic investor in Grassroots Business Fund joined the board and was active in setting the direction and investment strategy of the Fund.

- **Inclusion of venture philanthropies in impact investing networks:** Presently, some investor networks only welcome members who employ return-seeking capital. These networks would benefit from having venture philanthropists as members to increase deal flow, develop more robust sourcing pipelines, and reduce uncertainty since many investment candidates have already been vetted.

- **Inclusion of impact investors in venture philanthropies networks:** The European Venture Philanthropy Association and the Asia Venture Philanthropy Network encourage impact investors to participate as either members or as guests in their numerous outreach activities, providing another bridge for networking, knowledge sharing, and co-investment opportunities to its members.

A recent example of how this is working in practice is D. Capital's support of a leading international non-profit organization ("NPO") that specializes in health, livelihoods and national resource management. They provide capacity building to local social enterprises, promoting good governance and strengthening local economies. This NPO is seeking to play a leading role in facilitating increased impact investing activities with these types of enterprises, and has already begun by establishing a forum where international non-profits working in the impact space can learn, collaborate and conduct joint research.

In this light, the NPO set up an initiative that aims to offer a suite of products and services to impact investors, leveraging their global footprint, their proprietary assessment toolkit for social enterprises and their experience in capacity building.

D. Capital helped the NPO think through how they could modify their product and service offerings in order to attract impact investors to support investments into the Social Enterprises the NPO supports. D. Capital is interviewing a number of ecosystem actors to solicit feedback on the suite of products and services under consideration.

d. New Initiatives

Four new initiatives are also worth mentioning here:

1. Convergence, launched in January 2016, is a platform that helps public and private investors find and connect to co-invest in blended finance deals in emerging and frontier markets.

The platform aims to identify, encourage, and support blended finance investments, as well as provide over $7M USD in grant funding to practitioners to design innovative finance products that would otherwise be too risky or complex to pursue. It also plans to ease the investment process for both new and experienced investors through a range of practical tools and resources on how to structure blended finance transactions and streamline the investment process.

2. The Global Innovation Fund (GIF) is a nonprofit fund recently established to overcome barriers such as scattered deal-flow pipelines, low absorptive capacity of capital, and grant dependency. To accomplish this, GIF provides a flexible range of financing options tailored to the needs of social enterprise. For example, GIF's £150,000 convertible debt investment will support PoaPower, a social enterprise providing clean and affordable electricity to off-grid, low income consumers in Kenya through a unique a 'pay-as-you-go' (PAYG) business model. The funding will enable PoaPower to test the business model, assess whether people value the service and determine what customers are willing and able to pay for solar power.

In addition to funding, GIF provides other resources including technical assistance and access to their global network of innovators, experts, and funders. GIF connects successful innovators with partners and follow-on funding to support their growth.

3. The PACE Investment Readiness Program, supported by USAID, enables Open Capital Advisors (a leading strategic/financial advisory firm) to review over 200 early stage businesses in East Africa with the intention to propose 60 to be provided with pre-investment advisory support. Eleos Foundation, the Blue Haven Initiative, and several other early-stage investors are participants in the program. This is an excellent example of the partners addressing certain pain points in the early stage impact investing space by finding promising social businesses that have not received attention or funding and providing them the advisory support they need to be attractive to institutional seed investors like Eleos and Blue Haven.

4. Eleos Foundation is targeting an initial closing on its new East Africa fund in Q2 2016, structured as:

> (i) A $5 million investment capital pool (no fees, no carry, targeting return of capital plus a modest return); and
>
> (ii) A separate philanthropically-supported pool of capital to cover all the costs of advisory support and fund operating expenses.

In order to enhance the risk profile for investors, Eleos Foundation will invest a $1 million first-loss layer beneath the $4 million in outside investment capital, a structure that is somewhat similar to the GBF example, but even more tailored with hybrid capital appropriate for early stage ventures.

IV. Collaboration Summary and Call to Action

As part of our research for this paper, over 75 transactions were analyzed in order to identify and categorize successful solutions that could be useful for impact investors seeking to understand how to invest in impact enterprises at an earlier stage while meeting their risk and return requirements. Our proposed list is by no means complete and we have excluded some solutions we considered challenging to implement or that required significant time and resources to structure.

Practical solutions to enhanced collaboration

Solution	Recent examples include:
Blended Funding Solutions • Grant funding to support pilot projects • Grant funding for R&D • Grants linked to performance milestones	• M-Kopa • d.light • InspiraFarms • Simpa Networks • Sustaintech
Structural Enhancement Solutions • Tiered funding structures • Guarantee facilities • 1st loss reserve facilities	• GroFin • Insitor Impact Fund • ICCO • M-Kopa
Ancillary Solutions • Impact Accelerators • Technical Assistance Facilities • Information and Knowledge Sharing • Innovation	• Village Capital • Ilumexico • M-Kopa • GBF • ManoCap • AquaSpark • Blue Haven • Shell Foundation • Convergence • Global Innovation Fund • PACE • Eleos Foundation • World Bank

Call to Action

We encourage venture philanthropists, impact investors, and other actors within the early-stage social impact-funding ecosystem to proactively undertake the solutions that emerged as a result of this report's research. Although that may require a higher degree of collaboration and systems-level thinking than the status quo, we believe these pioneering efforts will pay impact and financial dividends over time.

We believe there is an opportunity for communities of practice (such as Toniic and EVPA/AVPN) to support these collaboration efforts. PACE and the Shell Foundation/Blue Haven initiative demonstrate the effectiveness of formal collaboration programs but there is more that can be done to connect the actors in a programmatic fashion.

Collaboration can support a higher volume and quality of investment activity, which in turn will attract greater, smarter impact capital into the marketplace, ultimately enhancing the viability of impactful solutions for the world's toughest problems.

Glossary of Terms

BLENDED FINANCE: refers to "the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets." Source: Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders: An overview of the strategic use of development finance and philanthropic funds to mobilize private capital for development. September 2015. World Economic Forum.

CAPACITY BUILDING/TECHNICAL ASSISTANCE: An in-kind award to an organization to support the building of organizational capability and capacity, and/or enable project delivery. This might take the form of business advisory services, technical advisory services, research services, organization-building activities or facilitation of linkages with partners.

IMPACT INVESTOR: Investors who actively place capital in businesses to generate social and/or environmental good and at least earn a nominal return on principal.

INCLUSIVE BUSINESS or IMPACT ENTERPRISE: A business that provides a product or service that is clearly socially beneficial to the BoP, based on a business model that is commercially viable and ideally scalable.

PHILANTHROPIC FUNDER/DONOR: An organization that provides grants and/or capacity building to achieve social and/or environmental impact objectives. This would include private or public philanthropic foundations, aid donors (bilateral or multilateral), and development finance institutions.

SOCIAL IMPACT: The effect of an activity on the social fabric of the community and well-being of the individuals and families.

SOCIAL INVESTING: Social investing generally refers to investing that considers social and environmental issues. This type of investing excludes "harmful" activities and don't correspond with investors' value that don't have a positive social or environmental impact.

SOCIAL ENTERPRISE: Two primary characteristics distinguish these organizations from typical for-profits or non-profits: a commitment to social outcomes and a reliance on earned income. For the purposes of this report, social enterprises are broadly the recipients of funding from venture philanthropists and impact investors.

VENTURE PHILANTHROPY: Venture philanthropy works to build stronger social organizations by providing them with both financial and nonfinancial support in order to increase their social impact. The organizations supported may be charities, social enterprises or socially driven commercial businesses, with the precise organizational form subject to country-specific legal and cultural norms

Resources

Enterprise Solutions for 2030. September 2015. Shell Foundation.

The Value of Being Human: A Behavioral Framework for Impact Investing and Philanthropy. September 2015. Barclays Wealth Management and Investment.

Accelerating Impact: Exploring Best Practices, Challenges, and Innovations in Impact Enterprise Acceleration. February 2015. Monitor Deloitte.

OECD (2014), "Venture Philanthropy in Development: Dynamics, Challenges and Lessons in the Search for Greater Impact", OECD Development Centre, Paris. 2014.

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