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Session: Foundations Journey to Impact Investing and Mission Aligned Investments

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Moderator: Mari Kogiso, Director, Gender Investment and Innovation Department, The Sasakawa Peace Foundation

Speakers:

- Fumi Sugeno, Japan Social Impact Investment Foundation
- Roy Swan, Director, Mission Investments Ford Foundation
- Yanni Peng, CEO Narada Foundation
- Annie Chen, Founder and Chair RS Group
- Gaurav Gupta, Regional Director for Asia Dalberg Global Development Advisors
- Ash Sharma, Managing Director, Amala Paradigm, The Sasakawa Peace Foundation
- Martina Mettgenberg Lemière, Head of Insights and Capacity Building, AVPN

Key Takeaways:

- Balance between social and financial return to be maintained.
- Impact investment depends very much on the regulatory environment and ecosystem building.
- During the workshop key outcomes of the AVPN Report "Leveraging the Full Spectrum of Philanthropic Capital Towards Impact" were discussed. Key challenges for foundations impact investing initiatives as identified in the report are
    - resource constraints
    - unclear regulatory environment
    - lack of adequate investment opportunities
    - asset management returns
    - lack of management interest
    - uncertainty how impact investment translates into social impact

Roy Swan:

- Leads the Ford Foundation's Mission Investments team, dedicated to investing $1 billion of the foundation's endowment in opportunities that generate financial and social returns in the United States and the Global South. Roy also oversees Ford's $280 million Program Related Investments initiative and its Impact Investing grants program dedicated to expanding and strengthening the impact investing field.
- Determination of acceptable risk:
- With help of consultants undertook a year-long assessment to identify areas that are mature enough and have capacity
    - Two areas have been identified: affordable houses in the US and financial inclusion in the Global South
    - For the affordable houses segment, the targeted financial returns are approx. 5% per year, including inflation impacts. Housing is one of strongest asset classes that can provide 6-10% return. Compared to luxury housing, where returns of 20% are advertised but high vacancies level after the financial crises lead to margin pressure, the affordable houses segment is much more stable.

  - For the financial inclusion segment, Ford Foundation looks at financial returns of 7%.
  - Social and financial returns need to be balanced. If an opportunity has an attractive financial return but the social return is not attractive this opportunity is probably passed.

Fumi Sugeno:

- Develops and leads investments in new impact investment funds, products and intermediaries at the Japan Social Impact Investment Foundation (SIIF), which launched last year.
- The impact investing scene in Japan is very diverse and interest is rising. Last year the first two impact investing funds were launched.
- SIIFs main tasks/achievements are:
  - Ecosystem creator i.e. building a community of impact investing leaders.
  - Provision of capital (grants and loans) under consideration of regulatory barriers.
  - Development of new impact investing schemes as role-models/case-studies.
  - Provision of financial and non-financial support / impact investment expertise.
- Determination of acceptable risk
- The biggest challenge is the lack of investment opportunity.
- Although controversial, SIIF includes the approach of shifting conventional investments to more high impact investment opportunities.

Yanni Peng:

- CEO of Narada Foundation, a leading grant-making foundation based in Beijing.
- Narada is focusing on the civil society sector in China as a whole i.e. ecosystem building and individual investment.
- Ecosystem building: Narada has launched the china social enterprise and investment forum in 2015 to promote social entrepreneurship in China and impact investment.
- Individual investment: Over the last nine years Narada has offered different instruments:
  - Supporting social enterprises as a very important force to drive social innovation.
  - Initially via grants (600.000 USD to 24 SEs over a period of 4 years)
  - More recently interest free loans
  - Impact investment fund focusing on areas like education, low carbon, agriculture with an average return per year of 24%.
- Determination of acceptable risk:
  - Both areas, social and financial impact, are important.
  - The return for impact investing is likely lower than for conventional investments.
  - In China, addressing social issues is a market opportunity and often the financial return for impact investments is equal to conventional investments, using technologies as solutions.

Q & A:

Q: *Regarding affordable housing, how do you manage related aspects like location choice, social inclusion and pricing?*

Roy: We have in-house expertise in affordable housing, but also work together with our private equity investors who are experts in affordable housing. We manage a mixed portfolio that not only includes new property but also preservation, where grants can be captured.

Q: *Does focus on mission result in compromise on return?*

Roy: If you aim for a certain level of financial return, social impact probably is reduced. As the affordable housing market is low in volatility and low in risk there is a good overall return.

Q: *Social impact changes over time. Does this imply adjustments on social return?*

Before the investment, Private Equity investors typically perform a due diligence. This can help to set the right expectations on the social returns. It is important to find PE investors who are aligned with the foundations mission and to avoid that high returns are to be delivered at any costs e.g. at cost on the environment or employees.

<u>Workshop: Lack of Opportunities</u>

- Challenges:
  - Missing middle
  - Lack of accelerator skills (Accelerators in SEA e.g. Thailand, Philippines, Cambodia often lack skills and provide awards and grants. Grants might hinder venture capital as they load SEs with money, making reasonable financing models difficult.)
  - Many pitch competitions (The "run from competition to competition" is inefficient, reducing the SEs' capacity to validate and work.)
  - Conservative mind-set (NGOs should start to think more as SEs.)
  - Communication issues. (Different Impact investing is still a very young approach; often not the same language is spoken.)

- Accelerators in combination with venture capital. Example:
  - 100-day boot camp accelerator for setting up the business model, the financial model and fulfil legal requirements.
  - The accelerator is third party funded.
  - During a demo day, the entrepreneurs can pitch their ideas to potential investors.
  - Benefits: identifying interesting entrepreneurs, connecting to international mentors and investors, real financing opportunities for entrepreneurs

- Accelerator for global start-ups driven by MNC. Example:
  - Global expertise and perspective for start-ups i.e. be stepping into the global MNC network

  - Combination with local perspective (governments and local incubators)
  - Nine-month boot camp funded by a foundation.
  - Upon pitching their ideas, start-ups could "win" a grant or a roadshow opportunity to China to test their business model.

- Blended financing. Example:
  - EVPA (European Venture Philanthropy Association) experiences a huge number of SEs attending several competitions, winning awards but not being able to raise money => missing middle i.e. after the initial grant funding follow-up financing is difficult to obtain as investors are rather interested in bigger ventures from € 300.000 upwards.
  - Potential solution: blended approach => aggregating smaller funds (e.g. € 30.000) as bigger investment opportunity and establishing connection with local investors and municipalities for long-term investment.

- Ecosystem building / cooperation with governments. Example:
  - Identification of SEs time consuming.
  - Potential solution: Building an ecosystem e.g. to eradicate poverty in rural areas
  - Collective prototyping, usually with strong support from the government, contracts with government.
  - Actors are individually independent but outwards perform collectively.
  - Scaling possible: implementation in different rural areas with tailoring to specific needs (e.g. education, soil)
  - Top-Down approach i.e. works from market to rural area with the aim to achieve long-term profits.

<u>Workshop Summaries</u>

Management interest

- CEOs and board members of asset management / investment firms are often very conservative and not sufficiently acknowledging developments in the impact investing ecosystem.
- Governments struggle to get management buy in for regulatory changes.
- Suggested solutions:
  - Platforms for CEOs/board members to share their experiences
  - Spread successful case studies
  - Provide date to measure impact

Investment opportunities

- Challenge to get pipeline of investment opportunities
- Suggested solutions:
  - Investors need people on the ground in markets where they want to invest (8 of 10 investors are not operating in their target markets).
  - Need of accelerators supporting SEs to scale and get investment ready
  - Need of accelerators that not only provide capacity building but also actual access to capital i.e. not grants but loans (many SEs "hop" from accelerator to accelerator but still lack capital).

- Assessment management
  - Take time to form your board and define your mission e.g. Ford Foundation 2 years
  - Engage consultants e.g. Ford Foundation engaged three consultancy firms
  - Employ the right staff e.g. with significant investment experience and even more important with values in line with your mission.

Authors: Martina Mettgenberg Lemière and Ash Sharma

- Martina clarifies the difference between PRI = program related investment and MRI = mission related investment. There is ongoing discussion whether both are creating equal value for impact.
- The report covers eight foundations, covering different countries, different legislations, different equity structures and different financing mechanisms e.g. The Happiness Foundation in South Korea, Social Alpha by Tate Trust in India, and charitable foundations from Australia.
- All eight foundations have moved beyond traditional grant-making to embracing the full investment spectrum (debt and equity) as well as non-financial support.
- The foundations can be classified as market catalysts and ecosystem builders.
- Five of the foundations are particularly focusing on mission aligned engagements.
- It was analysed for each foundation why and how they chose their individual path and which solutions were found.
- Particular focus was on understanding financing gaps, e.g. early stage funding is more easily available but funding of later stages is more difficult to obtain.

Q & A:

Q: What were the major insights from looking into the foundations:

Martina: Mostly, the foundations pulled in other players to handle high complexity and to foster their mission. They need to deal with issues like staffing, communicating, navigating the line e.g. towards sustainability and investing into social enterprises. The latter being particular challenging as traditionally the foundations worked with the non-profit sector.

Ash: The research focused on how different types of foundations are building up the infrastructure for impact investing. All of the foundations were transparent about their challenges and the complexity to handle various topics like universities, media, acceleration etc.

Q: *Are foundations focusing more on soft targets and emotional capital?*

Martina: The research found a lot of discipline rather than soft targets. All foundations included in the study are keeping the overall ecosystem in mind, seek to find sound solutions on the ground and apply long-term thinking.

Ash: Foundations play a leading role regarding social and environmental impact but must also ensure not to crucify on the financial side.