So, you want to be an impact investor?

LINA SALAZAR AND NORMA ZACARIAS

Investing for social or environmental impact is still a brand-new field. Here's a road map to take you past the pitfalls.

The basic orienting principle is this: capital plus positive social/environmental impact plus profit equals impact investment. A dizzying array of new terms, concepts and actors has emerged within that large, noble and money-making concept. The basic structure is straightforward: banks and other specialized groups provide the capital to support specific investment firms that, in turn, invest in specific sectors, using traditional means of finance or investment—though often with a healthy dose of training and advice along with the financial support. That part's pretty easy to grasp. Within each sector, though, there are multiple actors, and among them are different criteria to select projects, investment standards to certify that investments are meeting social and environmental goals, and sector-specific forums for sharing information and educating financial managers and the public. Here is a handy guide to the exploding, exciting world of impact investment.

The Principle

$ + 😊 + $ = 🌟

CAPITAL + POSITIVE SOCIAL OR ENVIRONMENTAL IMPACT + FINANCIAL RETURN = IMPACT INVESTMENT
The Process

What do you do if you or the fund you manage wants to invest for social or environmental impact? There are several steps to follow. Since this is a relatively new field, unless you’re one of those rare people who handles their own investment decisions, part of this will involve educating your money manager or counselor on what impact investment is and what the options are. Fortunately, to fill this informational void, a number of groups have emerged. One of them is ImpactAssets, a nonprofit financial services company that aggregates and invests assets and has built a database of 50 experienced investment funds. The next step is deciding what type of fund to invest in. There are different options, from coupons that pool investments for larger loans to direct investments in enterprises. And there are a range of investments by theme. There is also the question of rates of return on investment—since, after all, this is not only about doing good, but earning a profit—and those vary. And last, there is the question of where to invest: some funds are multiregional; some focus on developing regions; and others focus on the United States.

The Capital

This is where the money comes from. It includes banks (multilateral, private, commercial), companies, foundations, funds (pension/mutual) and individual or group investors. So far, impact investors have tended to be family foundations and philanthropic endowments that seek to do good with their own investments while still maintaining a positive balance sheet. J.P. Morgan, among the larger banks, has established a Social Finance Unit. Multilateral banks like the World Bank’s International Finance Corporation (IFC) and the Corporación Andina de Fomento (CAF) have also jumped into the fray. Funds like the Calvert Foundation and Partners for Common Good (because they are nonprofits under the SEC’s eleemosynary [charitable] exemption rule) fit into this category, since they offer coupons or notes to pool the investments of smaller investors.

The Investors

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<th>Quasi-commercial banks</th>
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<th>Investment banks</th>
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Financial Products

Below is a basic glossary of the most common financial products used to direct investments.

**Blended debt**
Commonly used to refinance previous loans. A new loan is established with an interest rate higher than the old loan, but lower than the future rate.

**Bonds**
A note sold to an investor. The bond rate is not a fixed interest rate.

**Commodity**
Purchase or support of bulk goods and raw materials, such as grains, metals, livestock, oil, cotton, coffee, sugar, and cocoa. Often used as a way to support agriculture and fair trade.

**Community development venture capital**
Capital raised by local communities to support entrepreneurs and projects in low-income areas.

**Debt investment**
Purchase of bonds instead of stock.

**Deposit**
Capital deposited in a bank for a specific destination—in this case for a social mission.

**Equity hybrid structures**
Specific securities that flow between debt and equity. Also known as hybrid security or hybrid instrument.

**Guarantee**
Issued to guarantee investors or buyers the timely payment of interest and principal.

**Linked deposit**
Deposit with a financial institution to induce support for specific projects.

**Note**
A short-term debt security, usually with a maturity of five years or less.

**Private equity**
Direct investment in private companies, often from retail or institutional investors.

**Quasi-equity**
Debt taken on by a company that has some traits of equity, such as having flexible repayment options or being unsecured.

**Real estate**
A piece of land, the air above and under it, and any buildings or structures on it. For impact investment, affordable housing and sustainable development.

**Social impact bonds**
Initial capital raised by private investors for a new project. The government later repays the investors with bonus.

**Trade finance guarantee**
Guarantee to back credit acquired by businesses for manufacturing, processing and/or distributing.

**Venture capital**
Money invested in firms and small businesses with perceived long-term growth potential.
Impact Investing

It’s a new field, so money managers or investors have to be educated on the options. Websites and groups like ImpactAssets (www.impactassets.org) or Impact Base (www.imactbase.org) provide information on funds, size, areas of investment, management, and current portfolio.

Evaluation

Then there’s the question of evaluating funds and projects. The profit part of the equation of impact investing is easy to evaluate: what is the rate of return? It’s the other side—social and environmental good—that sets impact investing apart. Fortunately, there has been progress on this front. To be able to allow investors to evaluate that side of the equation—and to weed out fakes—the field has developed a series of principles, guidelines and standards—most of which are now voluntary. The best known is the Impact Reporting and Investment Standards (IRIS).

More can be found at the Americas Quarterly website at: www.americasquarterly.org/impactinvesting-principles-guidelines.

Certifications and Third-Party Assessments

Accurate and objective real-time assessments are critical. You can check that funds and projects are meeting basic criteria for impact investment through the following indices: B-Corp; CARS Comprehensive Ratings for CDFI Investments; and the GIIRS Global Finance Investment Rating System.

Investment Platforms and Markets

Vehicles for pooling impact investment funds and deals to raise capital and provide a common framework for reporting and evaluation have begun to emerge. These have included incipient stock markets like the Exchange IIC Asia, Impact Exchange IX, and UK Social Stock Exchange. There are also platforms that perform a similar information sharing function: NeXii Platforms and Mission Markets.

Research Centers and Forums

Like any new field, impact investing has spawned dozens of organizations and networks dedicated to researching, sharing information and improving impact investment. These are just a few: Aspen Network for Development; Global Impact Investment Network; Social Capital Networks (SOCAP); Financial Alliance for Sustainable Trade; Social Venture Network; Conscious Capitalism; Institute for Responsible Investment (IRI) at Harvard University; Social Enterprise Knowledge Network (SEKN); Financial Access Initiative (FAI); and Consultative Group to Assist the Poor (CGAP).
### Funds and Sectors

A Short and Incomplete List

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<thead>
<tr>
<th>Organization</th>
<th>Key</th>
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<td>Absolute Portfolio Management</td>
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<td>ACCION International</td>
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<td>BlueOrchard Finance</td>
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<td>Calvert Foundation</td>
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<td>E+Co</td>
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<td>Elevar Equity</td>
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<td>Global Partnerships</td>
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<td>IGNIA Partners, LLC</td>
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<td>Incofin Investment Partners</td>
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<td>Microvest Capital Management</td>
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<td>One Pacific Coast Bank</td>
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<td>Partners for Common Good</td>
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<td>RSF Finance</td>
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<td>Root Capital</td>
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<td>Sarona Asset Management</td>
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<td>Slow Money</td>
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**Key**

- **Biodiversity**
- **Clean technology, alternative energy, climate change**
- **Community development**
- **Education**
- **Equality and empowerment**
- **Fair trade**
- **Health**
- **Housing**
- **Media, mobile technology**
- **Microfinance, microinsurance, financial services**
- **Natural resources and conservation**
- **Nonprofit social enterprise**
- **Small and medium enterprises (SMEs)**
- **Sustainable agriculture**
**Impact Investing**

**Case Studies**

### Root Capital

**Average rate of return:** 2.5–3%

Since 1999, Boston-based Root Capital has financed farmers’ cooperatives. As of 2011, Root Capital had disbursed over $120 million in loans through more than 250 loans, with a 99% repayment rate.

**Sample Projects**

- **The Society of Small Producers for Coffee Export** represents 650 farmers in Jinotega, Nicaragua. Created in 1997, Root Capital loans (growing from $70,000 in 2003 to $450,000 in 2009) have supported the production of coffee and democratic processes within the cooperative.
- Two spin-off projects, **Jóvenes Ambientalistas** and **Muchachitos Del Café**, work with rural youth to improve educational opportunities.
- **Burkina Mango, Ltd.** was created in 2005 as a private company to export fresh and dried mangos purchased from organized small-scale farmers to whom the company provides technical, financial and social support.

**Average rate of return:** 25%

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**Sample Projects**

- **Distribuidora Mexicana de Agua Purificada en Red S.A.P.I. de C.V. (Aqua)** delivers clean, purified water directly to its low-income clients using its own water grid. Aqua is present in 11 states of Mexico and, thanks to IGNIA’s $2.4 million investment, will expand its water grid.
- **Finestrella** has been a pioneer in providing mobile telephone service to unbanked Mexicans. With a $4 million IGNIA investment, Finestrella hopes to reach 800,000 customers by 2015.

### IGNIA

**Average rate of return:** 25%

Formed in 2008, IGNIA funds long-term development and community projects of approximately 8 to 15 years, all in Latin America, from a total fund of $102 million. Today it has a total of eight long-term investments in agriculture, healthcare, housing, telecommunications, and utilities. IGNIA provides accounting, management and other services.

**Sample Projects**

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### Calvert Foundation

**Average rate of return:** 0–2%

Incorporated in September 1988 as a nonprofit corporation, Calvert Foundation’s current programs emerged in 1995 as the result of a collaboration between Calvert Investments, Inc. (formerly Calvert Group)—the socially responsible mutual fund company—and the Ford, MacArthur and Mott Foundations.

**Sample Projects**

- **Boston Community Capital’s Stabilize Urban Neighborhoods Initiative** purchases homes in foreclosure below their appraised values from mortgage lenders and then finances them for resale to their existing occupants: owners and tenants. Calvert Foundation’s investment to provide affordable housing to those at risk was $500,000 in 2010.
- **Fundación Mundo Mujer**, a nonprofit lending institution based in Popayán, Colombia affiliated with Women’s World Banking (WWB), has 42 offices with over 350,000 borrowers (67% of whom are women) and a portfolio of $275 million. Calvert’s investment of $400,000 has allowed FMM to expand its loans and geographic reach.

Calvert invests through its Community Investment Notes. The full principal is provided as loans to underserved communities. As loans are repaid, the capital is loaned out again. Capital is returned with interest at maturity. Today Calvert has a total fund of $200 million.
Between 1999 and 2010 E+Co has invested $45 million, which it estimates has leveraged $240 million in additional investments.

**E+Co**

Average rate of return: 4.5%

Focuses on environment projects through debt or equity—all intended to leverage the investments of others. Investing in developing markets, E+Co projects are split in thirds between Africa, Asia and Latin America.

**SAMPLE PROJECTS**

**TecnoSol:** E+Co initially loaned the Nicaragua home solar energy company $100,000 in 2003. In 2009, TechnoSol closed a $1.3 million equity investment loan from local investors and began exporting to El Salvador, with plans to expand to Honduras.

**Toyola Energy** is a Ghana-based company that makes environmentally friendly cook stoves. E+Co provided a loan of $70,000 in 2006 to launch the enterprise.

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**Global Partnerships**

Subordinated investors’ average rate of return: 4-5%

Senior investors’ average rate of return: 3%

Raises capital from individual and institutional investors and creates debt funds, lending capital at affordable rates to microfinance institutions and cooperatives.

**SAMPLE PROJECTS**

**Sembrar Sartawi,** a growing Bolivian microfinance institution, provides a complete package of credit-plus-services to rural populations. With a $1.5 million loan, Global Partnerships is supporting Sembrar Sartawi to expand its clients with loans and services such as access to crop inputs, including fertilizer and seeds, discounted farm equipment and technical assistance.

**Fundación Faces** in Ecuador delivers credit in combination with health services, ranging from education to access to medical consultation at negotiated discounts. A Global Partnerships $1 million loan has allowed Fundación Faces to expand its loans as well as provide access to basic business education and assist a pilot project that provides credit to people with disabilities.

**NOTE:** THERE ARE A VARIETY OF ORGANIZATIONS AND FUNDS THAT WORK IN THIS FIELD. THE NAMES MENTIONED HERE ARE JUST EXAMPLES, AND THE USE OF THEM IS IN NO WAY INTENDED AS AN ENDORSEMENT OF THESE SPECIFIC GROUPS.