Beyond the “Tradeoff”

A New Analytical Framework for the Social Impact Investing Industry

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Introduction

Objective & Methodology

Social impact investing is a young, fragmented industry that is experimenting with a variety of investment vehicles to address global social challenges. Interest in the sector has been fueled by the belief that comprehensive solutions will require "more capital than philanthropic and public resources alone can provide."[1] With limited literature and a plethora of rhetoric, it is not surprising that many practitioners, leaving aside the general public, seek further clarity on the layout of this emerging field. As three MBA students interested in understanding how investment vehicles can be utilized to generate social impact, we set out to map the current state of the social impact investing industry and to offer our recommendations for its development.

The first challenge in analyzing this rapidly evolving space is defining social impact investing. After an extensive literature review and much debate about various funds' objectives, we concurred on a deliberately narrow definition:

<u>Social impact investing</u> *aims to solve specific environmental or social problems through a direct investment vehicle, which, at a minimum, expects to return the principal contributed by its investors.*

This definition excludes:

1) Grantmaking;
2) Traditional private equity funds focused on emerging markets (EMPE funds); and
3) "Socially responsible investing" in publicly traded securities (SRI).

Grantmaking does not qualify as investing because it does not recover its principal. Secondly, although many EMPE funds cite economic development as a positive externality of their work, their investments are not made to actively address social challenges or held accountable to specific social performance measures. While it is entirely possible that purely financially focused EMPE funds can indirectly produce

[1] The Rockefeller Foundation, "Helping Build an Impact Investing Industry. The Rockefeller Foundation website, http://www.rockefellerfoundation.org/what-we-do/current-work/helping-build-impact-investing-industry, accessed October 2009.

significant social impact, we are choosing to define impact investing based on its strategic intent to address a specific inequity. Lastly, SRI funds that apply negative or positive social screens to publicly traded securities are excluded. These funds are generally unable to actively influence the strategy or operations of their investments or unequivocally demonstrate that their returns are a direct result of the social nature of their portfolios.

Our definition does include:

1) Funds capitalized through philanthropic donations, as long as these funds expect a return of principal from their investments;
2) Mission-related investing (MRI) and program-related investing (PRI) activities of philanthropic organizations; and
3) Venture capital (VC) funds focused exclusively on environmental investing, but not generalist VCs that treat the environment as one of many investment sectors.

Philanthropically capitalized funds are included because they expect positive financial returns from their portfolios for future reinvestment in other social enterprises. MRI, which attempts to generate market returns, and PRI, which expects to generate nominal or below-market returns, also qualify based on their financial objectives. Although many social funds, as well as some of the recently raised environmental funds, do not consider environmental investing to be explicitly social, this strategy did start out as a socially motivated activity and its evolution can offer some insights into the industry's development.

After formulating our definition of social impact investing, we compiled a database of fund managers that fit our description using the following sources:

- Capital IQ's private investment vehicle search function[2]
- Aspen Network of Development Entrepreneurs (ANDE)
- Global Impact Investing Network (GIIN)
- Appui au Développement Autonome (ADA) [3]
- Columbia Business School's Research Initiative on Social Entrepreneurship (RISE)[4]
- Venture Capital and Private Equity Funds for Development[5]
- Literature review[6]
- Conversations with practitioners

The result of our search was a database of 315 organizations categorized by their funds' sectors, geographies, expectations of returns, investment stages, and security types (Exhibit 1).[7] While this database is not exhaustive, it is comprehensive and we believe our results can therefore be used for making inferences about the industry's current state.

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[2] Source: [Social or Environmental Investment], Capital IQ, Inc., a division of Standard & Poor's.
[3] Patrick Goodman, "Microfinance Investment Funds: Key Features," (Luxembourg: Appui au Developpement Autonome, February 2005).
[4] Research Initiative on Social Enterprise, "Search Results," RISE website, http://www.riseproject.org/cgi-bin/search_focus.pl, accessed October 2009.
[5] L. van Rhijn, Venture Capital and Private Equity Funds for Development, NCDO Business Development, 2008.
[6] For a full list of readings reviewed by the authors, please see Appendix I.
[7] It is important to note that some of these 315 organizations actually manage more than one investment vehicle. However, in this paper and in our calculations, we only count each organization once and oftentimes refer to fund managers as funds.

Exhibit 1: Characteristics of the Study's Database of Social Impact Fund Managers[8]

Sector Focus	Geographic Focus	Investment Stage *available for 62% of sample*	Security Type *available for 67% of sample*	Expected Returns *available for 47% of sample*
49% Community Development	64% North America	28% Seed	35% Debt	29% Nominal
32% Environment	24% Latin America	62% Early	80% Equity	23% Below-Market
21% Access to Finance	19% Western Europe	68% Mid/Growth	24% Hybrid	48% Commercial
12% Healthcare	14% Eastern Europe (including FSU)	23% Late	6% Guarantees	
9% Housing	27% Africa & Middle East	6% All Stages	3% All Types	
15% Agriculture / Food	18% South Asia			
10% Education	17% East Asia (including Australasia)			
15% Basic Infrastructure	10% Global			
18% Generalist				

In terms of sectors, the above Exhibit 1 characterizes funds by their participation in one or more sectors. The largest proportion of fund managers (49%) invested in community development vehicles focused on a particular underserved geography, in most cases within the United States. Of this, 37% were pure play investors, while a further 12% of the managers were willing to invest in community development in addition to other sectors. The second largest grouping was environmental, with 20% of the organizations being exclusively environmental, and an additional 12% investing in the environment as well as in other areas. The third most common sector focus was Access to Finance (21%). About half of these organizations were fully dedicated to the finance sector, while the other half incorporated financial access as part of a wider portfolio strategy. To better demonstrate that many of the smaller funds were focused on more than three distinct sectors, a designated category of "generalist" was created, comprising 18% of the sample. The remaining sectors included healthcare (12%), housing (9%), agriculture (15%), education (10%), and basic infrastructure (15%). The geographic distribution was heavily skewed toward North America (64%), given that the majority of environmental and community development funds were focused on that market. Africa and the Middle East was relatively well represented, with 27% of fund managers willing to invest in that area, relative to 24% for Latin America, 19% for Western Europe, 18% for South Asia, 17% for East Asia, and 14% for Eastern Europe. Organizations that focused on more than four geographies were designated as global provided that they invested in one developed and one emerging market. They represented 10% of the sample.

[8] Percentages refer to fund managers who are willing to invest in the category, not funds that exclusively invest in that category. Therefore, percentages add up to over 100%. Please see the database for more precise categorizations.

While sector focus and geography were available for the entire database, we were only able to obtain investment stages, investment securities, and expected returns for 50-70% of the sample. About two-thirds of the fund managers were willing to invest in early and growth-stage companies, and about one-quarter were willing to invest in seed and late stages. Although 80% could provide equity, only 35% could provide debt and 24% invested through hybrid instruments. About 6% of the sample could provide guarantees in lieu of direct investments. The largest portion of fund managers reporting their returns expectations represented environmental funds (33% of the sample) seeking commercial returns from equity investments. Commercial returns were defined as greater than 20% for equity and greater than 8.5% for debt instruments. Commercial returns were being sought by 48% of the sample sharing returns information. Twenty-nine percent of the organizations expected nominal returns, defined as below 5% for equity and below 3% for debt. A further 23% of fund managers were seeking below-market returns which fell between these ranges. Because most of the organizations we interviewed did not risk-adjust their returns for their investment geographies, we did not take this into consideration. However, it is important to note that most of the capital behind social investing today originated in the US or Europe. These investors are naturally more sensitive to emerging market country risk than investors using locally-raised capital.

After compiling our database, we conducted 50 interviews with industry practitioners who represented:

- 41 social impact fund managers;
- 12 investors in social impact funds (including 6 funds that also act as investors); and
- 4 industry consultants / industry associations.

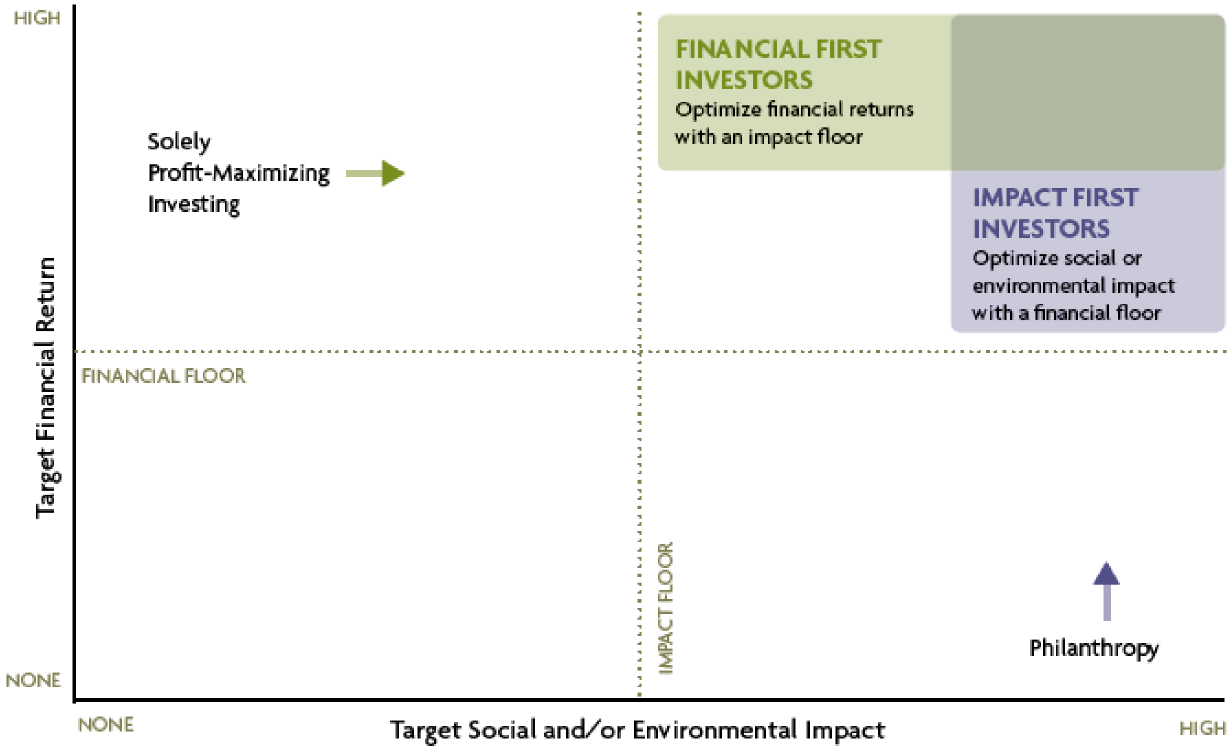
Our fund selection was influenced primarily by our literature review, and enhanced by recommendations from umbrella organizations like ANDE and GIIN, and referrals from funds that we had already interviewed. Although this sample may not be entirely representative, most notably because of its survivorship bias, it does include the majority of the industry's leaders across a wide span of sectors, geographies, and expected return profiles. We hope that this analysis provides a new perspective on the emerging field of social impact investing and that our initial conclusions can continue to be refined as performance data accumulates and the industry matures.

Current State of the Social Impact Investing Industry

A literature review of the social impact investing industry and our interviews revealed that the most common way of organizing the space is to compare a fund's financial returns against its social impact. For example, the Monitor Institute split the industry between "financial first" and "impact first" investors.[9] Monitor's map illustrates the prevalent framework used to describe the space, with most funds attempting to position themselves favorably along the social and economic axes (Exhibit 2).

[9] Jessica Freireich and Katherine Fulton, *Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry* (Boston: Monitor Institute, 2009). P. 31.

Exhibit 2: Monitor's Map of the Social Impact Investing Space[10]



Although this framework is theoretically instructive, it has been empirically impossible to plot actual and even relative fund locations because of disagreements about how to measure each axis. To begin with, no common set of fungible social metrics exists for impact evaluation. Even with financial returns, which are usually easy to track, accounting differences and hidden or disclosed subsidies distort fund IRRs. In the absence of conclusive fund performance data, the framework has oftentimes been misconstrued as promoting the "tradeoff theory," which rests on the premise that achieving high social impact requires sacrificing financial returns. A destructive debate between the proponents and opponents of the tradeoff theory has created confusion about what different social fund managers truly prioritize.

A New Industry Framework Assessing Investors and Expected Returns

Given that it is still unclear whether managing the social or the financial ultimately creates the greatest social impact, we propose a different analytical framework from which to view the industry. We assume that all socially focused funds want to create social impact, an assumption corroborated by our interviews with even the most commercial players. Rather than questioning the funds' sincerity, we analyze the differences in their approaches for creating social impact. Fund structure and limited partner preferences have serious implications for the scope and scale of funds' financial and social returns. Consequently, it is instructive to view the social impact investing industry through the lens of its investors.

[10] Source: Data excerpted from *Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry*, P. 32.

Exhibit 3 serves as a guide to our analysis, categorizing the funds we interviewed into a matrix based on their limited partners (LPs) and their expected financial returns. With notable exceptions, which will be discussed later, as one moves from nominal to commercial returns, the risk tolerance of investors decreases. Single LPs are ultra high net worth individuals who are willing to invest large sums of capital, usually in the riskiest scenarios, with a goal of catalyzing the industry. Governments, development finance institutions (DFIs) and foundations also take on above-market risk; however, they have stringent and oftentimes onerous reporting requirements. The most conservative investors are institutions such as pension funds and endowments that have a fiduciary duty to protect their principal and maximize financial returns.

Our study follows this progression from the upper left to the lower right of the matrix, examining the types of social investing performed by each grouping. The below discussion will illuminate the differentiating features of each category and demonstrate why we believe it is instructive to view the sector in this manner.

Exhibit 3: Interviewed Fund Managers Categorized by their Investors and Expected Returns

	Primary Investors	Nominal Returns	Below-Market Returns	Commercial Returns
Single LPs	**Single LP**	(3 Funds)	(3 Funds)	(4 Funds)
Multiple LPs	**Government, Development Finance Institutions, Foundations**	(5 Funds)	(6 Funds)	(4 Funds)
	Retail Investors	(3 Funds)	(1 Fund)	
	Institutional Investors			(10 Funds)

Nominal Returns Funds

Nominal returns funds expect minimal equity returns of 0-5% and debt returns of 0-3%, which are insufficient to compensate for the risk inherent in these funds' predominantly early-stage investments. Oftentimes, nominal funds are run by foundations that integrate investing with their grantmaking activities. They are capitalized primarily by philanthropic individuals who want to "stretch their charitable dollars" or have "their money do double duty: doing good while earning a return."[11] Funders either donate the money or expect only a nominal return, with goal that their capital can demonstrate a proof of concept or catalyze a particular segment of the market. They do not seek commercial returns because "theoretically, investments that can be expected to generate outsized returns shouldn't have any trouble attracting commercial sources of capital." Instead, nominal funds and their investors strive to fill financing gaps through concessionary capital, and take on above-market risks to grow and develop the social sector.

Nominal funds are often structured as evergreen funds with steady pools of assets which are preserved and reinvested perpetually. For the foundations managing these funds, investing is not a vehicle for financial growth, but a vehicle for financial sustainability with several important advantages over traditional grantmaking. By investing, foundations can recycle their capital and lower their fundraising needs, effectively enabling them to put more money to work. Second, investing allows foundations to capture any incidental financial upside that may result from their seed or early-stage investments. Finally, a repayment obligation usually increases the social entrepreneur's accountability and financial discipline.

Types of Nominal Funds: Single Limited Partner

Single LP funds that deliver nominal returns are managed by foundations and family offices that are endowed by socially-conscious high net worth individuals (HNWIs) who are willing to risk losing their capital in pursuit of their social agendas. These organizations view investing as another lever in the "philanthropic toolkit" that is used to meet their charitable mission.[12] Free from fundraising obligations and investor pressure, single LP funds have greater flexibility to implement their strategies and take on higher levels of risk.

Program-related investing (PRI) has gained traction in recent years, spurred by its use by leading foundations such as the W. K. Kellogg Foundation, the David and Lucille Packard Foundation, the Ford Foundation and the Rockefeller Foundation. PRI allows foundations to provide loan and equity investments "at favorable rates to support activities that have a direct charitable purpose" related to the foundation's mission.[13] According to the United States Internal Revenue Service (IRS), the "production of income or appreciation of property" cannot be a significant purpose of PRI but the investments can count toward a foundation's mandatory 5% annual endowment payout.[14] Foundations expect a return from their PRI portfolios, even if it is nominal, so that they can continue their philanthropic activities.

[11] Shelly Banjo, "Consider it an Investment," *The Wall Street Journal*, November 9, 2009, http://online.wsj.com/article/SB10001424052748704500604574481541506618608.html , accessed October 2009.
[12] Anonymous interview.
[13] GrantCraft, "Program-related Investing," GrantCraft website, http://www.grantcraft.org/index.cfm?pageId=821, accessed December 2009.
[14] Internal Revenue Service, "Program-related Investments," Internal Revenue Service website,http://www.irs.gov/charities/foundations/article/0,,id=137793,00.html, accessed November 2009.

One interviewee who uses PRI explains: "We are comfortable taking risks but we do not go in if we think we might not get our money back. Our Board expects quarterly reports on our portfolio's performance…. It is about social impact as well as getting our money back." To justify the high transaction costs of starting a PRI program, including the legal costs associated with meeting IRS requirements, PRI investments tend to be much larger than grants. For example, while an average grant administered by one leading foundation we interviewed is $200,000-$250,000, its average PRI investment is $2 million.

While the PRI strategies of prominent foundations have gained momentum, small nominal funds run by individual families have struggled to define their vision. Their main challenge is their small size (usually under $10 million), which limits the size of each investment. According to one anonymous interviewee, "Our ticket size easily amounts to the cost of due diligence, transaction fees and ongoing technical assistance," which effectively doubles the loss if the investment is not recovered.[15] Moreover, "exiting micro-equity positions is practically impossible," as these enterprises seldom grow large enough to attract interest from private equity players or strategic buyers, and the entrepreneur often lacks the capital for a management buyout.[16] To mitigate the exit risk, small funds prefer structuring their investments as convertible debt. However, even if a business does pay back its loans, the interest on the small principal and the equity upside is not high enough to cover the high percentage of defaults in the portfolio or return significant capital to the fund's investors. The interviewee concludes, "We see a bunch of deals, but they're completely uninvestable. There's a lot of talk about players like us providing the seed capital for social enterprises that can graduate to commercial funds, but so far there's not enough empirical evidence that these businesses can actually scale to these levels."[17] As a result of the challenges inherent in direct investing in small enterprises, some nominal social impact investors are shifting their strategy from "retail" direct investing to "wholesale" indirect investing through other funds.

Nominal Funds backed by Foundations and Development Finance Institutions

Nominal funds with multiple LPs primarily raise money from donations or nominal interest loans from foundations, DFIs and HNWIs. They use this capital to issue loans, provide guarantees and take equity stakes in social enterprises that require a high degree of on-the-ground technical assistance (TA) as part of their value proposition. These funds rely heavily on TA assistance to build management and human capital capacity. Funds in this category are often founded as vehicles for leveraging philanthropic capital via various investing strategies. Examples include providing access to finance to the "missing middle," those small and growing businesses (SGBs) that are too small to receive commercial loans yet too large for microfinance, and investing in the riskiest tranches of social investments to mobilize capital from more risk-averse investors. To maximize the likelihood of repayment by their portfolio companies, funds have also adopted various risk-mitigating strategies. For example, one interviewee has confronted the challenges of a SGB's credit risk by establishing a network of steady buyers in developed markets and thus can negotiate off-take agreements for the client's products.

Funds have reported a few positive exits as well as positive returns from their investments. However, in some cases, these returns calculations excluded the cost of operations and TA. Furthermore, most of

[15] Anonymous interview.
[16] Ibid.
[17] Ibid.

these funds rely on grant funding to cover a portion of their expenses, which is a challenge to the sustainability of their current structure.

Nominal Funds Backed by Retail Investors

The fundraising challenge faced by nominal multiple LP funds begs the question – can these funds grow significantly larger if they continue relying upon quasi-philanthropic funding from a concentrated pool of socially minded HNWIs? To solve this problem, some funds have begun tapping retail investors. Online platforms like eBay's MicroPlace allows retail investors to make loans as low as $20 through investment vehicles such as Calvert Social Investment Foundation's *Calvert Community Investment Note*, Oikocredit's *Oikocredit GC Note* and Shared Interest's *Shared Interest Note*.[18] Investors can direct funds to specific organizations such as Root Capital and ACCION through notes like the ones listed above.[19]

In summary, the function of nominal returns funds is not only to provide low-cost capital to underserved social entrepreneurs, but also to provide a high level of TA to achieve greater impact. Despite their noble aspirations, nominal funds' financially unsustainable investment models require constant philanthropic fundraising to subsidize their operations, which in turn limits their fund sizes to approximately $30 million. Their primary fundraising solutions include accessing capital from prominent foundations and tapping retail investors. In order to attract these socially conscious investors, multiple LP nominal funds have developed the most advanced frameworks for measuring and communicating social impact.

[18] MicroPlace, Inc., "Find Investments," MicroPlace website, https://www.microplace.com/investments, accessed November 2009.
[19] Ibid.

Below-Market Returns Funds

Below-market funds are willing to sacrifice some financial returns in order to catalyze social change. As with nominal funds, many investors in below-market funds envision their capital as a vehicle to crowd in commercial players. However, unlike their philanthropically-oriented nominal returns counterparts, below-market funds have a more financially-oriented approach and are unwilling to fund deals whose best-case scenario is only to break even. Although below-market funds may accept some subsidies to cover their operating costs, they generally attempt to account for the full transaction and TA costs in their expected return. As a result, below-market funds target larger deals, focus on growth-stage, in addition to seed, investments, and have an affinity for more proven sectors such as microfinance, community development and the environment.

Below-Market Funds with a Single Limited Partner

Single LP social funds with below-market expectations of returns are primarily driven by the visions of their funders. Their focus is not to maximize financial returns, but to demonstrate that social impact can be achieved with meaningful financial upside. Unlike prominent foundations that engage in PRI, these funds are not beholden to large boards and bureaucratic processes. They are therefore more likely to invest directly rather than via intermediaries. Given their founders' higher risk tolerance, single LP funds are able to deploy large amounts of capital to test breakthrough social ventures and crowd in commercial investors

Below-market funds tend to use private equity-like financial screens such as minimum investment sizes and exit options. However, they choose to remain below-market where their capital is more needed because they believe that social impact becomes negatively impacted when financial returns become extraordinarily high. As one interviewee explains, "there is a wide continuum between recovering the fund's principal and maximizing financial return."[20] Therefore, his fund tweaks its investments' business models to generate a maximum IRR of 25% instead of shooting for 30-40%+ returns. Rather than lending at a nominal interest rates, or even at prevailing local market interest rates, its portfolio companies lend at a reasonable market premium which is enough to make the business achieve market-like returns. Although there is room to increase rates further and make the business even more profitable, the fund does not take advantage of this opportunity. This unwillingness to generate above-market returns prevents it from building a cushion to cover inevitable losses from some of its investments. Therefore, when the fund's portfolio is averaged, the fund delivers below-market returns, although some of its individual subcomponents may actually produce commercial IRRs.

Smaller below-market single LP funds have found it more difficult to play a catalytic role. One fund we interviewed provided £30,000-100,000 loans to social businesses but ultimately did not succeed. While some of its seed-stage loans were made to social enterprises that could eventually become self-sustaining, the majority of the portfolio was comprised of small-scale, high-touch community ventures that required high training costs that had to be funded through grants. As a result of such investments, the fund consistently lost money because the 5-6% IRRs from the winners were not able to cover the losses from the write-offs. As a result, the fund managers eventually changed the fund's strategy to 100% clean

[20] Anonymous interview.

technology, which showed "the only positive correlation between financial and social returns."[21] While this story is our study's only example of a social fund model that did not survive, it represents many of the challenges mentioned by small family offices as well as larger players, regardless of their nominal or below-market returns expectations. Small funds and small transaction sizes are currently not economically feasible, but players focusing on larger ticket sizes are unable to secure sufficient deal flow.

Below-Market Funds backed by Development Finance Institutions, Governments and Foundations

A major source of funding for below-market funds that do not have generous individual LPs are DFIs, governments and foundations. Because of their social mandates, these LPs oftentimes impose geographic constraints as well as burdensome social and environmental reporting requirements. They tend to be more patient and flexible with financial terms than commercial investors and provide larger investment tickets than HNWIs. These funds are structured in a traditional manner with a management fee (usually in the range of 2-3.5%) and carry; however, due to their low assets under management (AUM), management fees only cover a fraction of the funds' operating costs.

Below-market funds backed by DFIs tend to be heavily weighted to microfinance, community development and the environment, though some funds do pursue generalist strategies. Microfinance investing has developed a fairly standardized investing process, which can be applied to evaluate banks across many regions with minimal due diligence costs. Moreover, MFIs have demonstrated incredible growth potential, increasing the probability that the costs inherent in making small initial investments will be spread over follow-on investments. Community development gained momentum after the 1977 Community Reinvestment Act required American financial institutions to increase their lending of deposits to moderate and low-income communities, creating large pools of low-cost capital for these regions.[22] Environmental investing has also been driven by government funding and incentives, prompted by high fuel prices, concerns about national security and climate change.

Although DFIs and governments are a source of more patient capital, they also influence investment strategy. In addition to following their geographic priorities, accepting funding from these LPs leads to inevitable red tape. For example, anyone accepting DFI funds has to follow the World Bank and International Finance Corporation's environmental and social guidelines, which require the collection of employment and income statistics, as well as a myriad of negative screens. Although the intention of these rules is noble, executing upon these requirements imposes a heavy burden on start-ups. Oftentimes, negative screens only serve to give the LPs peace of mind rather than providing them with the necessary data to demonstrate that actual impact has been created. Funds that must hold themselves to high standards in corrupt environments often miss opportunities. As one fund puts it, "It is quite impractical to wait for a perfect world before investing, and SME development will eventually lead to better legal and economic infrastructure."[23] In other words, raising capital from DFIs and foundations imposes immense financial and labor burdens on funds, who would rather deal with less bureaucratic private or commercial

[21] Anonymous interview.
[22] Community Reinvestment Act, "FFIEC Community Reinvestment Act," FFIEC, http://www.ffiec.gov/CRA/, Accessed October 2009.
[23] Anonymous interview.

investors. However, given that DFIs and foundations are the only LPs willing to invest large chunks of capital to yet unproven investment models, social impact funds cannot afford to ignore them.

In summary, below-market funds look for high-impact opportunities, but have stricter financial guidelines for the size and growth prospects of their investments. As such, they tend to focus on more developed areas of social investing like microfinance, community development, and the environment. Below-market funds generally accept the social-financial tradeoff imposed by their small sizes and TA requirements, but look for creative ways to subsidize these costs to deliver meaningful returns to their LPs. Because of their financial focus, having extensive commercial deal experience and a strong finance background are prerequisites for below-market fund managers.

Commercial Returns Funds

In contrast to nominal and below-market funds, commercial funds do not believe in the social-financial tradeoff for a particular subset of social enterprises. From the available universe of social businesses, commercial funds choose to invest only in those that can scale quickly with minimal operating overheads. In addition, they do not artificially limit the profitability of their businesses like some below-market funds. Instead, they believe that above-market returns can actually deliver greater social impact by attracting large-scale commercial capital, which creates entire industries that can serve an exponentially larger pool of clients. Moreover, they expect the competition created by new industry entrants to lower the prices of the goods and services produced by social enterprises, enabling even greater access.

As a result, the investment process followed by commercial funds tends to be fairly different from those of nominal and below-market funds. It generally starts with a rigorous social screen to determine whether a particular investment, if scaled, can produce meaningful social impact. If the answer is yes, the fund attempts to build a purely financial case for the business to ensure that it will hit commercial IRRs of at least 20% for equity and 8.5% for debt investments. Unfortunately, the majority of social enterprises do not pass the commercial test. Those that do are managed primarily on the basis of their business model, with less attention dedicated to tracking social indicators that are not aligned with key business drivers. In other words, social impact is necessary to pass the initial screen, but once the investment is made, most decisions are made to maximize the financial health and survival of the business. As a result of their commercial mandate, fund sizes usually exceed $100 million with minimum initial investments of $2 million in a mix of seed, early, growth and late-stage investments that can adequately cover their transaction costs.

Commercial Funds with a Single Limited Partner

Commercial funds with single LPs have the greatest flexibility in trying innovative social models that can deliver the highest financial returns. They aim to maximize their profits because they believe that the economic success and sustainability of their portfolio companies will lead to a multiplier effect that creates even greater social returns. Because they do not face the same fundraising or investor pressures as multiple LP funds, they generally have no specified investment period or holding period.

Venture Capital / Private Equity

Funds in this category subscribe to the theory that investing is more powerful than philanthropy in solving social challenges. They believe that "business is development" and entrepreneurship can be more effective than government and foreign aid at addressing social problems in a sustainable and profitable way. These funds pride themselves on their ability to tackle the most pressing social needs; however, they only consider investments that promise to return top VCPE returns. One fund commented that because their goal is to generate great financial and social return, they seek to "identify commercially scalable and potentially profitable companies than can deliver great bottom lines while addressing social problems."[24] In other words, they look for investment opportunities where there is no tradeoff and the ability to achieve double or triple bottom line returns are "linked together and not mutually

[24] Anonymous interview.

exclusive."[25] They often invest with the intention of crowding in competitor funds, by demonstrating their ability to generate outsized financial returns through their socially-oriented investments. Despite their strict financial return hurdles, these funds have the flexibility to hold investments for long periods if this is necessary for achieving outsized social or financial returns. They are looking to apply Warren Buffett's long-term value investing approach to businesses that create substantial financial and social value for their communities. The large sizes of these funds enable them to make investments of $5-20 million, putting them in a completely different league from other social investors. As such, these funds often compete against traditional PE funds for existing businesses that are looking for expansion capital but also have a social dimension.

Mission-Related Investing

Mission-related investing (MRI) is an investment strategy used to grow a foundation's endowment assets through the use of deposits, debt and equity investments that deliver market rate returns as well as significant social benefits. It is driven by the belief that using only the minimum 5% annual distribution of a foundation's assets limits its impact and ability to generate positive social change.[26] In contrast, PRI only allocates part of a foundation's minimum 5% annual program disbursement to investment activities, and in general, targets nominal or below-market returns. The common thread between MRI and PRI is that both strategies utilize investing as a tool to further foundations' social missions, via direct or indirect investing. According to practitioners such as the F.B. Heron Foundation, W.K. Kellogg Foundation and the David & Lucille Packard Foundation, MRI broadens the "philanthropic toolkit" to include socially-conscious deposits, fixed income securities, loans, equities and private equity investments, often done through intermediaries, allowing foundations to use more of its capital to support its mission.[27]

Commercial Funds backed by Development Finance Institutions, Governments and Foundations

One of the newest frontiers in social investing is commercial investing outside of microfinance, community development and the environment. The goal of these funds is to discover the next promising areas of social investing that do not face a financial tradeoff. However, because they have yet to demonstrate their proofs of concept, these funds have been unsuccessful in fundraising from conservative institutional investors. Instead, they rely upon patient capital from DFIs, foundations and governments to demonstrate their viability and hope to graduate to institutional investors in the near future. In addition to accepting higher risks, these relatively patient LPs offer the funds flexibility in terms of structures and financial incentives.

One generalist commercial fund we interviewed targets IRR above 25%, and uses a social screen consisting of depth and breadth impact metrics. If the social impact is sufficiently large and a commercial case for the business can be built, it invests and begins managing the business to optimize its financial health. The founder explains:

[25] Ibid.
[26] Rockefeller Philanthropy Advisors, "Mission-Related Investing in an Era of Scarcity," Rockefeller Philanthropy Advisors website, http://rockpa.org/wp-content/uploads/2009/02/mri2.pdf, accessed December 2009.
[27] Anonymous interview.

> Our social screen is very similar to that of a foundation; however, the difference manifests itself when unexpected conflicts between the social and the economic arise after the investment is made. Let's consider an example of a producer of mosquito nets. If post-investment, the company encounters difficulties in ramping up sales to our targeted low-income customer segments, we would temporarily change course and market these nets to more affluent customers, to ensure that the business gets off the ground. A different fund, which does not have a commercial mandate, may decide to wait for longer or continue propping up the company with more philanthropic capital.[28]

To ensure that social enterprises are not unnecessarily rushed to execute their business plans, this fund chose a longer-than-average fund life of twelve years. It is targeting investments of $2-7 million so that their transaction costs are adequately covered.

Two of funds we interviewed in this category deny the tradeoff theory, and are confident in their abilities to identify businesses that deliver high financial and social returns. However, their fund structures (AUM below $15 million) and investment strategies (target investment size below $500,000 to seed-stage social enterprises) do not address many of the challenges inherent in making small investments, casting doubt over whether these funds will hit their fundraising and returns targets. Nevertheless, the importance of discovering the next breakthrough social opportunity that offers no financial tradeoff has attracted DFIs, governments and foundations to these pilot funds.

Commercial Funds backed by Institutional Investors

Commercial funds are the only funds that have been able to attract institutional capital to date, because institutional investors have a fiduciary duty to their clients and can only invest on commercial terms. Like single LP commercial funds, commercial funds with institutional investors also concentrate on the three most developed social sectors – microfinance, community development and the environment. However, only the environmental funds have completely succeeded in convincing institutional investors that no tradeoff exists between financial and social, or in their case environmental, returns. Given the availability of historical data, microfinance and community development funds have found traction with some progressive institutions; however, most institutional investors remain skeptical that high financial and social returns are not mutually exclusive. As such, they continue to contribute to these funds from their philanthropic pockets, while reserving the lion's share of their assets for traditional investment strategies. In order for commercial social funds to access the remaining 95%+ of institutional capital, they must demonstrate consistent market-rate returns. [29]

Microfinance

Although the microfinance industry is over thirty years old, it took a full fifteen years for the first MFIs to break even. Over the next fifteen years, the microfinance business model was improved by nominal and below-market investors who were able to demonstrate a series of financial milestones which eventually attracted commercial players.[30] These include the 6.61% returns delivered in 2005 by Profund, one of the

[28] Anonymous interview.
[29] Ivo Knoepfel and Pete Sparreboom, "Ends Meet: Current State and Future Prospects of European Pension Funds' Investments in Microfinance," *Geneva Papers on Inclusiveness,* No 9 / August 2009, P. 3.
[30] Michael Chu, "Commercial Returns at the Base of the Pyramid," *Innovations,* Winter and Spring 2007, PP. 130-133.

first microfinance funds with top-quartile EMPE returns for its vintage,[31] and the 100%+ IRR achieved by ACCION on Banco Compartamos' 2007 initial public offering.[32] Today, there are over 100 distinct microfinance investment vehicles managing $6.5 billion of assets.[33] Commercial microfinance funds target Tier 1, and increasingly Tier 2, microfinance banks with 3+ years of operating history in regions with relatively developed microfinance industries. Tier 1 MFIs are a group of roughly 150 mature, regulated, and demonstrably profitable organizations that comprise only 2% the microfinance sector.[34] As competition for Tier 1 investments has intensified, commercial funds have begun targeting the next 8% of the industry, Tier 2 MFIs which are younger, smaller, and unregulated, but with potential for future profitability.[35]

By focusing on $1-10 million deals in the first two tiers of microfinance, funds protect themselves from risky seed investments in markets distorted by DFI and government subsidies. Although both social and financial returns are important to them, only financial indicators are currently managed on a day-to-day basis. Social metrics are reported to investors once or twice a year, usually through easily collected data such as female versus male borrowers, rural versus urban loans and average loan size. Deeper assessments of the impact of microloans on their borrowers' lives are rare, even in below-market and nominal microfinance funds, due to prohibitively high monitoring and evaluation costs. To enable commercial returns to be achieved and transaction costs to be fully covered, commercial microfinance equity funds are generally structured in a traditional VCPE manner with sizes of $100+ million.

Community Development

The oldest form of social investing – community development – gained momentum in the United States as a result of government legislation. The 1977 Community Reinvestment Act required American financial institutions to increase their lending of deposits to moderate and low-income communities.[36] In addition, local governments began offering financial incentives such as tax credits and foundations began providing grants and subsidies for community development projects.[37] The success of community development private equity funds in generating market-rate returns has enabled this sector to attract leading institutional investors, including pension funds, banks and insurance companies. Since 1998, the US has invested over $6 billion in community development funds mostly focused on relatively safer real estate investments rather than SME investment strategies.[38]

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[31] Ibid., P. 124.

[32] Richard Rosenberg, "CGAP Reflections on the Compartamos Initial Public Offering: A Case Study on Microfinance Interest Rates and Profits," Economic Development Unit website, http://edu.care.org/Documents/CGAP%20Reflections%20on%20the%20Compartamos%20Initial%20Public%20Offering--%20A%20Case%20Study%20on%20Microfinance%20Interest%20Rates%20and%20Profits.pdf, accessed December 2009.

[33] Our database includes 67 fund managers investing in microfinance; however, many of them manage more than 1 fund. This is consistent with CGAP's December 2008 estimate of 104 distinct investment vehicles. Reille, Xavier, and Jasmina Glisovic-Mezieres. "Microfinance Funds Continue to Grow despite the Crisis." CGAP Brief (Apr. 2009): 1.

[34] Mark Young, Lindsey Liddel, Sandra Mai Hamilton, "Microfinance: Its Success could be its Biggest Risk," PowerPoint Presentation, August 6, 2008. Fitch Ratings IAMFI Teleconference, London, UK. P. 6.

[35] Ibid.

[36] Community Reinvestment Act, "FFIEC Community Reinvestment Act," FFIEC, http://www.ffiec.gov/CRA/, Accessed October 2009.

[37] Steiger, Anna, Tessa Hebb, and Lisa Hagerman, "The Case for the Community Partner in Economic Development," *Community Affairs, Discussion Paper 07-5*, (Boston, MA: Federal Reserve of Boston, November 2007). P. 4.

[38] James Nixon, Joseph Gross, Deborah J. LaFranchi, Belden Hull Daniels, and Erin Flynn, "The Double Bottom Line Handbook – A Practitioner's Guide to Regional Double Bottom Line Investments Initiatives and Funds," SDS Group, 2007, P. 8.

Environment

The only area of social investing to completely cross over to an institutional LP base is environmental investing. Its institutional acceptance is very new, helped by high oil prices and favorable regulation. As recently as 2002, it took one fund a full three years to raise £24 million. But after just three years of operations and no exits, it managed to raise almost £120 million for a second fund.[39] This fund has been joined by an explosion of new entrants managing AUMs of $100-200 million, as well as heavyweights like Kleiner Perkins Caufield & Byers, with a $500 million *Green Growth Fund*. The majority of these funds were raised in the last three years from conservative institutional investors looking to diversify their portfolios. Because of high energy prices and government subsidies for clean technologies, investors have stopped thinking of environmental investing in tradeoff terms, even though these funds have yet to demonstrate their economic potential. Instead, a simple logical argument has been constructed that equates financial results with social impact: "If clean technologies are not cheaper than the status quo, they will not be marketable, no financial gains will accrue, and no social or environmental impact will be created."[40] Institutional investors have piled in, looking for the best fund managers to execute the environmental strategy. As a result, all environmental funds have been structured in a very generic way to make them directly comparable to other VC strategies: 10 year fund lives with 5 year investment periods, 2-3% management fees depending on fund size, 20% carry and a negotiated hurdle rate of approximately 8%. Their minimum fund size of $100 million is not a coincidence. Not only does it represent the minimum AUM to sufficiently cover operating expenses through management fees, but it is also the cut-off for the majority of institutional investors. Most endowment and pension fund managers require at least a $10 million investment to make monitoring a fund worthwhile, and they do not want to own more than 10% of any fund's equity.

Despite the hype, clean technology investments have not yet demonstrated either financial or social results. Given the high cost of environmental reporting and the fact that the carbon-reducing potential of start-ups is skewed toward the future, it is still unclear whether any significant social impact has been generated. Since most funds were started 2-3 years ago, there are few exits to corroborate financial returns. The latest 2009 estimates show the majority of clean technology VC funds delivering only 5% IRRs.[41] With too much money chasing too few truly commercial deals, clean technology may prove to be the next financial bubble.

Because large-scale social problems require large-scale capital infusions, commercial social funds are fixated on attracting institutional investors who control the largest pools of assets. Although the majority of these institutions are based in developed markets, there are also opportunities to attract local players. It is becoming increasingly evident that institutional investors do care about social returns; however, because of their fiduciary duties to preserve their capital, they must make their decisions based on economic terms and cannot afford to trade off financial returns for social impact.

[39] Anonymous interview.
[40] Anonymous interview.
[41] Liebreich, Michael, "Global Trends in Clean Energy Investment Activity; ICTRA Overview," PowerPoint presentation, September 21, 2009. New Energy Finance, Ruschlikon, Switzerland. P. 17

Conclusions

The social impact investing industry is in its nascent stages with continuing experimentation around social enterprise models and investment vehicle structures. We hope that our framework of categorizing funds by their expected returns and investor profiles provides a new tool for understanding the sector. Our findings show that, in general, nominal returns funds struggle to attract sufficient capital to be sustainable without reliance on grants. The majority of their funding comes from quasi-philanthropic HNWIs, foundations and, increasingly, retail investors. As such, nominal funds have instituted the most comprehensive social measurement systems for their donors, though the efficacy of these metrics beyond marketing and fundraising purposes is still unclear. Like nominal funds, below-market funds are willing to sacrifice some financial returns in order to catalyze social change. Although they have a more financially rigorous investing approach, they do not attempt to maximize their economic returns and rely on HNWIs, DFIs, governments, and foundations for their capital. Commercial funds, on the other hand, believe that financial and social returns are inextricably linked because scaling social impact requires substantial profits and large pools of capital. They are beginning to attract institutional investors, and hope to eventually access the goldmine of institutional assets that is currently reserved for traditional investing.

Although we were able to interview only 41 fund managers from our database of 315 organizations, we can draw the following rough conclusions about where the rest of the sample would fall within our framework. We extrapolate that approximately 20% of fund managers focus exclusively on environmental issues, expecting to deliver commercial returns to their primarily institutional investors. Given that a typical environmental fund of $150 million has 3-7x larger AUM than a typical social fund, we expect that environmental investing represents over 50% of the current capital raised by social investment funds. [42] Another 37% of fund managers focus exclusively on community development investing at below-market or commercial rates with funding from governments, foundations, and some institutional investors. Of the 43% of remaining organizations, a little over half are seeking nominal returns for their quasi-philanthropic investors, and one-third is seeking below-market returns for HNWIs, DFIs, governments and foundations. Only 13% of the remaining social fund managers are commercial. Although only 11% of our database is exclusively dedicated to microfinance and 18% is considered generalist, our interviews indicate that the overwhelming majority of the generalist portfolios is still dedicated to below-market microfinance investments. Moreover, since MFI investments tend to have ticket sizes that are 3-5x larger than other social enterprises, we suspect that the majority of non-environmental and non-community-development AUM are still dedicated to the microfinance sector.

Outside the microfinance, community development and environmental sectors, very few truly scalable and commercially viable fund models currently exist. The latter two sectors benefitted enormously from favorable regulation, which substantially lowered the costs of investing in environmental and community development projects. In the absence of such regulation for other social causes, risk-tolerant HNWIs, DFIs and foundations are experimenting with commercially promising pilot funds. They are beginning to look beyond microfinance to find the next transformational social industry that can deliver attractive financial returns. One of their main priorities is to determine whether a no-tradeoff model is feasible, and if so, on what terms. Do traditional VCPE fund structures work for social impact investing, or are

[42] The 50% AUM figure was derived by probability weighting the 64 environmental funds in our database at 5 times the AUM of the remaining 251 funds.

evergreen funds without maturities more appropriate? How can an enterprise scale quickly without compromising its social impact? How do the non-financial impacts created by social enterprises get priced into their valuations, if at all? We hope that further research can illuminate these questions as the sector evolves.

The challenges facing the social impact investing industry stem largely from its desire to combine a traditionally commercial methodology – investing – with a traditionally philanthropic objective – social impact. This combination has revealed a variety of inconsistencies, which are amplified when one examines investor motivations and fund structures. Not only do funds disagree on what qualifies as economic sustainability, but they also have different definitions of social impact.

Challenges:

Lack of Investment Opportunities versus Insufficient Funding in the Sector

Raising capital was a major challenge for many social impact funds, particularly those expecting to deliver nominal returns to multiple LPs. Yet, another commonly cited challenge was a lack of investible opportunities, resulting in too much money chasing too few "home-run" deals that have sizeable tickets, experienced entrepreneurs and high growth potential. Funds report trouble finding viable deals and several interviewees are experiencing difficulties deploying their large pools of capital. Part of the problem is geographic – it is much harder to access deal flow in Africa or India while sitting in the US or Europe. For this reason, many large global funds have started investing through local intermediaries, which have better networks and lower due-diligence costs.

The recurring deal breaker for social investment funds has been a lack of human capital and management talent, which necessitated substantial TA and resource-intensive "handholding." Most funds argued that the only way to properly incubate social enterprises is through patient and flexible capital which sacrificed economic returns for maximum social impact. We had trouble reconciling this argument with the fact that most traditional EMPE and VC funds also consider substantial TA as part of their business models. EMPE funds often face talent shortages in their focus regions. Even the Silicon Valley funds have to spend time and money on sourcing outside talent or converting their biotech and computer scientist founders into business professionals. Similarly, many early-stage VCs start with small investments of $500,000. The difference, however, is that they only invest in companies that have the potential to grow through staged investments and spread their initial transaction and TA costs over subsequent rounds of funding. Social funds using the staged investing approach also view TA as economically enhancing rather than financially debilitating. One fund found that for half of its investments, $1 of TA led to $3 of subsequent funding beyond the initial investment, because of the business's increased probability of survival.[43]

Another strategy for lowering the costs of participating in smaller deals is to create a community of small funds that share a due-diligence platform run by 2-3 local consultants. Invested Development, a due diligence outsourcing service that charges a 10% commission, is one example of this solution. In this model, the deal due-diligence is subcontracted to a lower-cost local player and shared by funds, rather than replicated by small organizations that lack the staff, experience, or time to properly evaluate foreign

[43] Anonymous interview

investees. Such a solution would involve an unprecedented level of collaboration and sharing of potentially sensitive deal information; however, it would significantly lower costs.

Our interviews indicated a strong correlation between how fund managers define financial sustainability for their investments and for their funds. Funds that subsidized their investments often received subsidies themselves. This created confusion about how to compare the economic returns in the industry. As one interviewee explains, "It very difficult to know whether a social enterprise's growth has been organic or aid-driven. Can this business be truly sustainable once the grant funding runs out?"[44] Though most fund managers recognize the value of TA, and subsidies seem like a satisfactory solution, they also mask the true costs of their investments and complicate exits. To enable their portfolio companies to attract increasingly commercial investors, nominal and below-market social funds must demonstrate that their social enterprises are financially viable without subsidies. They must also grow them to a size that is of interest to commercial players and prove that these businesses are capable of thriving with less patient capital.

Insufficient Social Metrics and Difficulty Communicating the Value of Impact

Many investors are putting their capital into the sector, and some are even willing to accept lower economic returns because they seek double or triple-bottom-line results. However, most social funds report difficulties measuring and communicating their social and environmental impacts for conceptual and financial reasons. The most significant challenge in creating effective social metrics is finding ones "that portfolio companies can easily track and manage while trying to survive."[45] They must not be financially burdensome or distract the entrepreneur from executing the business plan. In other words, they must be adequately integrated into the key drivers of the business's health.

It is currently impossible to compare social impacts across funds. Some funds, especially those focused on integrating low-income individuals into global supply chains, are able to measure the resulting increase in people's incomes. Community development funds generally report employment statistics and direct and indirect capital flows. Most microfinance funds track basic metrics such as female borrowers, rural borrowers and average loan sizes. However, even the metrics that appear to be simple, such as microfinance lending rates or jobs created have different methods of calculation. Are the jobs full-time or part-time and for what length of time were the individuals employed? Moreover, it is exceedingly difficult to estimate the actual impact of social initiatives on a person's quality of life and demonstrate "outcomes" rather than "output."[46]

Currently, there is little agreement about what metrics accurately portray impact. One solution being designed by Acumen, B Lab, Rockefeller and GIIN, is IRIS. IRIS allows funds to select relevant metrics to monitor and measure their investments' performance, and to voluntarily report their results to a data aggregator. In developing a set of standardized social measures which can be used to communicate and compare funds' social impacts, Rockefeller hopes to improve the transparency of the industry, increase communication among its practitioners, and use the data to attract larger, institutional investors. But given the diversity of existing opinions on how and what to measure, the creation and implementation of

[44] Anonymous interview.
[45] Anonymous interview.
[46] Anonymous interview.

IRIS faces many challenges. As our database demonstrates, the lack of a common yardstick has not precluded 315 social funds from raising capital with very different levels and accuracies of social reporting requirements. If a customized set of metrics makes the fund look attractive to socially conscious LPs, why would it jeopardize its fundraising edge by switching to a common platform that may understate its core competencies? Even if funds did convert to IRIS after its completion, it may take up to another fund cycle to gather enough data to draw any conclusions.

The Social-Financial Tradeoff

The confusion behind what constitutes a sustainable social enterprise and the lack of proven results have fueled the debate about whether a tradeoff exists between financial and social returns. Commercial funds point to business models where the ability to make a profit is dependent on the enterprise's ability to scale and reach many people. Nominal funds, on the other hand, believe that what is commercial is inherently incapable of being social. As Muhammad Yunus warns, "When institutions with a social mission move towards a commercial mission, the commercial mission will take over and the social mission will get lost."[47] We wondered whether this fear of mission drift actually influenced funds' assessments of their investments' commercial viability. Were funds that subscribed to the tradeoff theory simply unable to identify the growth opportunities inherent in their portfolio companies or unwilling to raise their growth expectations? Or did those growth opportunities not exist? We look forward to more research that can document how ideology influences social funds' investment processes.

In the absence of conclusive performance data, the tradeoff dispute has detracted attention from the message that all social impact funds, regardless of ideology, are looking for ways to deploy larger pools of capital than are currently available through philanthropy. Unlike environmental funds that have united behind the same cause with a clear, consistent message for their investors and the general public, social impact funds remain fragmented by their ideological divides. This may actually hinder the industry's progress as funds attempt to discredit one another before any actual demonstration of results. We hope that our study offers an alternative perspective on how to segment the social impact investing industry, which will guide readers away from the tradeoff debate and toward an understanding that different types of social enterprises require different types of funding at different stages of their development.

The Financing Continuum

Ultimately, there is no one correct strategy to implementing social investing. Given the spectrum of investment opportunities and the nascent stage of the social impact investing industry, all types of capital – philanthropic, concessionary, patient and commercial – are necessary. Many organizations provide multiple types of capital based on the needs of their portfolio companies. Foundations can make grants and engage in PRI and MRI. Even commercial players believe that there are non-commercial social enterprises that are worth funding. They have developed separate below-market funds to invest in such opportunities. One commercial fund reserves 1-2% of its capital for particularly impressive deals that do

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[47] Michael Chu and Muhammad Yunus, *Is it fair to do business with the poor?*, debate moderated by Richard Rosenberg, World Microfinance Forum Geneva, October 1-2, 2008, World Microfinance Forum Geneva, available on website, http://www.microfinanceforum.org/cm_data/WMFG_Symposium_Special_Issue_Is_it_Fair_to_do_business_with_the_Poor.pdf, accessed October 2009.

not meet its financial hurdles and another has recently established a separate below-market fund for social enterprises. All of these players recognize that having a continuum of capital provides them greater flexibility in generating the social impact they seek.

Looking Forward

The next critical step in the industry's evolution is to bring mainstream investors into the financing continuum for social enterprises. The ultimate goal of the social investment sector is to tap the global pool of institutional capital and channel a portion of it into social investments that deliver double or triple-bottom-line returns. To do this, the industry must build a track record and demonstrate proof of concept. One of our interviewees explains:

> If you believe the solution to every problem is not a grant and you want to deploy other forms of capital, you need a framework and discipline. Environmental and social benefits do not preclude you from making quantitative and qualitative financial assessments. You cannot leave business acumen at the door.[48]

Financial underperformance is a concern for all social impact investors and fund managers, as early failures may cause investors to lose their appetite. Therefore, social impact funds must develop rigorous investment processes for identifying and developing high potential social enterprises that can meet and exceed their LPs' financial and social expectations.

[48] Anonymous interview.

Appendix I

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