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Impact Investing

The role of Finance in changing the world (for the better)

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ABSTRACT

Title: Impact Investing: The role of Finance in changing the world (for the better)
Author: Isabel Almeida e Brito

The purpose of this dissertation is to evaluate the potential of tackling the world's most pressing social and environmental problems through financial investment practices more specifically, through impact investing. With such purpose in mind, the research questions were defined as: "What is impact investing?" and "How is the impact investing industry characterized?"

According to the Global Impact Investing Network (GIIN), impact investments are defined as "investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return." The original aspect of this activity is the specific desire and intention to generate both financial and social returns. Impact investing has emerged as an answer to solving poverty and critical social and economic issues that neither governments nor charity alone could solve. Thus, it fills in the gap between the market and philanthropy.

The structure adopted is a mix between a traditional dissertation and a case study. After introducing in further detail the purpose of the dissertation, we will review and discussed the concept of impact investing and its main characteristics, based on current literature. Then, we will characterize the impact investing industry, distinguishing its funds and companies. We will also present two organizations that illustrate the impact investing practice, through two short case studies. Finally, we will present the key conclusions of this dissertation.

RESUMO

Título: Investimentos de Impacto: O papel das Finanças para mudar o mundo (para melhor)
Autor: Isabel Almeida e Brito

O objectivo desta dissertação é avaliar a possibilidade de resolver os problemas sociais e ambientais mais urgentes do mundo através de práticas de investimento financeiro, mais concretamente, por meio de investimentos de impacto. Com este objectivo em mente, as perguntas da pesquisa foram definidos como: "O que são investimentos de impacto?" e "Como é caracterizada a indústria de investimentos de impacto?"

De acordo com a Global Impact Investing Network (GIIN), os investimentos de impacto são definidos como "investimentos feitos em empresas, organizações e fundos com a intenção de gerar impacto social e ambiental mensurável para além de um retorno financeiro." O aspecto original desta actividade é a intenção específica e concreta de gerar simultaneamente um retorno financeiro e social. Os investimentos de impacto surgiram como uma resposta para resolver problemas críticos de cariz económica e/ou social que nem os governos nem as instituições de caridade por si só conseguem resolver. Assim, esta prática preenche a lacuna entre o mercado e a filantropia.

A estrutura adoptada é uma combinação entre uma dissertação tradicional e um estudo de caso. Após uma apresentação mais detalhada do objecto desta dissertação, iremos analisar e discutir o conceito de investimento de impacto e suas principais características, baseando-nos na literatura actual. De seguida iremos caracterizar a indústria de investimentos de impacto, nomeadamente os seus fundos e empresas. Iremos também apresentar duas organizações que ilustram esta prática, através de dois breves estudos de caso. Finalmente, iremos oferecer as principais conclusões desta dissertação.

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PREFACE

While reading Jacqueline Novogratz's book *The Blue Sweater: Bridging the Gap between Rich and Poor in an Interconnected World*, I quickly understood that Acumen's practice would be something that I would like to know more about and understand better. The reason for my excitement was related with the possibility to combine two aspects that usually tend to be separated: finance and people. Moreover, I was also moved by Acumen's different way of doing business; using the market as a listening device, treating poor people as customers, and focusing on dignity not dependence.

For this reason, when the moment to choose my thesis' topic came, it was clear that I would want to write about impact investing. What I find very appealing is the opportunity to combine traditional finance practices with the concern regarding the social impact investments can promote; in other words, I am interested in the idea of an organization whose results are measured in financial and social terms.

The ultimate goal of this dissertation is the promotion of impact investing as a possible way of employing capital to generate financial returns and social impact.

ACKNOWLEDGMENTS

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CHAPTER 1: INTRODUCTION

The main purpose of this dissertation is to evaluate the potential of tackling the world's most pressing social and environmental problems through financial investment practices. Hence, the chosen theme was "The role of Finance in changing the world (for the better)".

This theme will be addressed based on the understanding of the recent practice of impact investing. According to the Global Impact Investing Network (GIIN), impact investments are defined as "investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return." The original aspect of this activity is the specific desire and intention to generate both financial and social returns.

Therefore, the two research questions that will be addressed in this dissertation are:

1. What is impact investing?
2. How is the impact investing industry characterized?

To answer these questions, the structure adopted is a mix between a traditional dissertation and a case study:

Starting with *Chapter 2: Literature Review*, the key concepts will be reviewed and discussed, throughout five sub-chapters. First, it will be discussed why has impact investing started and the current definitions of this type of investments, with a special focus on its key characteristics. Then, the profile of impact investors will be analyzed, including their return expectations and impact goals. Third, the focus will go towards the concept of social enterprises, as the receivers of impact investments. Afterwards, the challenges regarding accountability and metrics of social impact will be discussed. Finally, the concept of crowdfunding will be briefly reviewed.

Then, in *Chapter 3: The Impact Investing Industry*, the main characteristics of funds and companies in this industry will be highlighted. Then, existing estimates of the potential impact investing market size and our own estimation of current market size will be presented. Finally, two organizations that illustrate the impact investing activity will be presented, through two short case studies.

To finish, in *Chapter 4: Conclusion, Limitations and Future Research*, the key findings and challenges of this dissertation will be presented.

CHAPTER 2: LITERATURE REVIEW

In this chapter, based on the current academic literature, the key concepts to be discussed in the dissertation will be presented. First, in sub-chapter *2.1. Impact Investing*, there will be an explanation of why has the practice of impact investing started, as well as a brief discussion on the current definitions of this type of investments, with a particular focus on its key distinguishing factors. Then, in sub-chapter *2.2. Impact Investors,* it will be analyzed the profile of impact investors, their expected returns and impact goals, as well as further specific characteristics of this type of capital. Third, in sub-chapter *2.3. Social Entrepreneurship and Social Business*, the focus will go towards the concept of social enterprises, as the receivers of impact investments. Afterward, in sub-chapter *2.4. Metrics and Accountability*, the challenges of accountability and metrics will be discussed, starting with an explanation of why it is important to measure the social impact of these investments, the specific difficulties it poses and also what the current industry trends are. Finally, in sub-chapter *2.5. Crowdfunding*, the concept of crowdfunding will be briefly discussed as well as some examples of its practice.

As a result of being an industry still in its first years, the interest of the academia on impact investments is emerging, existing only few published papers on such topic. Consequently, this literature review is mostly based on reports from industry players and experts.

2.1. Impact Investing

Impact investing is emerging as an alternative way to deploy capital for social benefit. According to Clark et al. (2012), "the old antithesis between society and business is dissolving" as a result of the growing recognition that social conditions are relevant to business success and that business opportunities can often be found in solving social problems.

In this sub-chapter it will first be discussed how the practice of impact investing has started. Afterwards, definitions of impact investments will be presented, with the goal of understanding its key distinguishing factors. Finally, it will be briefly discussed what impact investing is not.

2.1.1. Between philanthropy and traditional investments

The world faces pressing social and environmental challenges, such as the preservation of natural resources and the mitigation of poverty, which both governments and charity alone are failing to solve.

O'Donohoe et al. (2010) defend that government resources and philanthropic contributions are not enough to tackle the world's social and environmental problems, since "even well-functioning governments and well-resourced philanthropies will always be limited by resources

and scope". That is, the authors argue that government and philanthropy cannot reach the necessary scale to solve the problems society is confronted with due to its limited resources.

Simon and Barmeier (2010) argue that business and international development professionals with several years of experience defend that "neither ODA [Official Development Assistance] nor nonprofits are effectively or efficiently tackling poverty reduction in the developing world" and that such efforts have, in fact, "stunted growth by subsidizing goods and services that should be provided by the local government or private sector". In other words, such experts argue that, instead of channeling resources to something that is productive, these initiatives are failing to address the social challenges and contributing to minor advances. The authors also state that, as a result of this, the same professionals "have turned to business as a more sustainable strategy to achieve development goals", as they strongly believe that "poverty alleviation will never be achieved through hand-outs and government props".

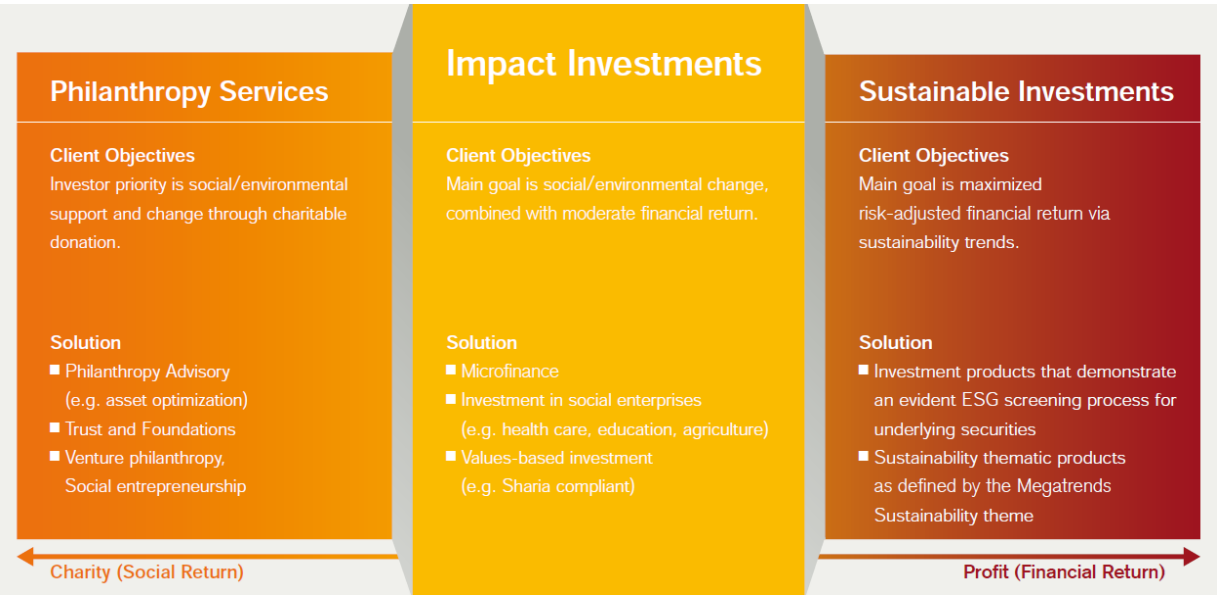
Recognizing that neither government or philanthropy alone are enough to solve problems as global poverty and climate change, both Clark et al. (2012) and O'Donohoe et al. (2010) defend the critical role market-based solutions can play in complementing the work of government and philanthropy. According to O'Donohoe et al. (2010), by "harnessing more efficient, competitive business models to deliver better, cheaper and more widely-available services to poor communities", the tested theories and practices of market capitalism can be used to address such pressing social and environmental challenges. The same authors argue that impact investments can, in fact, free governments and philanthropy from some of the obligations they have been fulfilling ineffectively, therefore "allowing government and philanthropy to concentrate their limited resources on reaching the poorest of the poor who cannot participate in market-based solutions".

It is in this landscape, where market-based solutions can be used to complement the work of government and charity that impact investing plays its role. Simon and Barmeier (2010) argue that social and environmental challenges not addressed directly by current international development efforts or investment opportunities, will be the aim of impact investments. The authors state "like nongovernmental organizations (NGOs) engaged in development, impact investments focus on sectors that have a significant positive effect on recipients' quality of life", which means that, like philanthropy, the main goal of impact investing is to tackle an existing social problem. However, the authors also state that, unlike charity, "impact investments are made with the expectation of an explicit financial return, and are not largely dependent on external subsidies to sustain operations".

Hence, impact investing is something between philanthropy and traditional investments (see Figure 1). As Simon and Barmeier (2010) state, impact investors "have married the efficiency of the private sector with a social purpose that allows them to take risks that purely financially

driven investors do not". In a similar way, O'Donohoe et al. (2010) argue that "impact investment introduces a new type of capital merging the motivations of traditional investments and donations".

Figure 1: The responsible investment and philanthropy services framework



Source: Clark et al. (2012)

When blurring the frontiers between traditional investments and philanthropy, impact investing is revolutionizing the way capital is deployed since, as O'Donohoe et al. (2010) argue, "by convention, capital has traditionally been allocated either to investments designed to optimize risk-adjusted financial return (with no deliberate consideration of social outcomes), or to donations designed to optimize social impact (with no expectation of financial return)". Also in this line of reasoning, Bugg-Levine and Emerson (2011) defend that impact investing "is disrupting a world organized around the competing beliefs that for-profit investments should only produce financial returns, while people who care about social problems should donate money in an attempt to solve these problems or wait for government to step in". Moreover, both Clark et al. (2012) and Freireich and Fulton (2009) argue that there is an increasing number of investors that want to be provided with other solutions than just traditional investment and pure philanthropy, therefore rejecting the notion that they face a binary choice.

2.1.2. No common definition

Until a few years ago, the impact investing market was fragmented and disorganized, with isolated players not seeing themselves as part of a broader industry. However, in 2009 Freireich and Fulton (2009) argued that "recently it has become possible to see the disparate and uncoordinated innovation in a range of sectors and regions converging to create a new global industry, driven by similar forces and with common challenges". In other words, actors hoping to obtain both social and financial returns on their investments had started to recognize each other as partners with resembling intentions and difficulties, leading to the rise of a new industry. O'Donohoe et al. (2010) also defended this point when stating that "in recent years, participants in the impact investing market have recognized the common threads across their respective activities and a larger movement has begun to emerge".

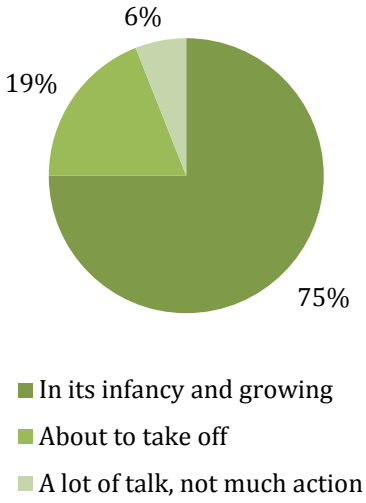
For this reason, Freireich and Fulton (2009) also argued that the impact investing industry had reached a turning point in its development, moving from "uncoordinated innovation" to "marketplace building", which means that the market is in its early growth stage and giving the first steps towards building necessary infrastructures (see Figure 2). Also in this line of reasoning, in 2011 Saltuk et al. (2011) reported that 75% of their surveyed impact investors had described the industry as "In its infancy and growing" (see Figure 3).

Figure 2: A critical transition point for impact investing
Phases of industry evolution

Source: Freireich and Fulton (2009)

Figure 3: The state of the current impact investment market

52 respondents chose one answer



Source: Saltuk et al. (2011)

As a result of being an industry still in its early growth stage, there is not yet a commonly accepted definition for impact investments. In fact, according to Simon and Barmeier (2010), "there is no common definition of impact investing among individuals, financial advisors, or even those currently in the impact investing universe". Therefore, it is worth taking a closer look to some of the positions in the academic and technical literature, in order to understand their similarities and differences, as well as some questions they raise.

The definition by O'Donohoe et al. (2010) "investments intended to create positive impact beyond financial return", underlines that such type of investing seeks to achieve both social and/or environmental impact and financial returns, one does not exclude the other. Simon and Barmeier (2010) define it in a similar way: "investment specifically targeted to create development outcomes in addition to a financial return"; the only difference is that the positive impact corresponds to increased development.

Freireich and Fulton (2009), by describing impact investing as "actively placing capital in businesses and funds that generate social and/or environmental good and at least return nominal principal to the investor", emphasize social returns as the number one priority of these investments. In addition, Clark et al. (2012) stress the importance of being able to measure the impact generated: "investments made with the primary intention of creating a measurable social impact, with the potential for some financial upside".

These definitions identify the core distinguishing characteristics that set impact investing apart from other types of investments.

To begin with, impact investments have as their main goal to generate both financial return and social impact; in this scenario the creation of positive impact is a specific purpose, not an unexpected result. According to O'Donohoe et al. (2010), this "differentiates impact investments from investments that have unintentional positive social or environmental consequences". Moreover, as Freireich and Fulton (2009) state, impact investors go "beyond "negative screening" to invest in companies actively doing good". This means that there is, in fact, a

proactive intention to create positive social results as opposed to a passive attitude of screening out investments in companies or industries that generate negative impact.

Consequently, according to Simon and Barmeier (2010), impact investments' "explicit social or environmental mission is their core purpose and is fully integrated in their core business models". This means that creating social impact is not only a proactive intention of the investors but also essential to the company or fund receiving the investment. Similarly, concerning the investee company, O'Donohoe et al. (2010) argue that "positive social and/or environmental impact should be part of the stated business strategy and should be measured as part of the success of the investment".

Since generating social impact is a specific goal for the investors and central to the company receiving the investment, measuring impact will be a key activity. According to Bugg-Levine and Emerson (2011), impact investors "treat impact measurement as a central business practice, rather than as an afterthought to use for external reporting and marketing". Therefore, the results of the organization will be measured in financial and social terms, which means that, in case the social return achieved is not the expected, the company will change its processes and procedures, as what happens with financial results.

Despite the similarities in respect the distinguishing characteristics of impact investing, there are also small differences in these definitions. The first one concerns financial returns, as the consensus sets these at equivalent to the nominal principal; beyond that, there is no standard calculation of the value of the expected financial return. Likewise, the way the desired social impact is stated varies: "social and/or environmental good", "development outcome", and "positive impact". Finally, the relationship between the two types of return is not always the same, which means that sometimes the primary intention is to generate social impact, while other times it is to achieve financial return.

From such differences three important questions arise: How much is the expected financial return? How is social impact defined? How to balance social and financial returns; which is the first priority?

These questions will be addressed in more detail further on, as they are significantly related with the impact investor's expectations and intentions.

In this dissertation, we define impact investing using the definition employed by the Global Impact Investing Network (GIIN) as: "investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return"[1]. This definition was chosen for the reason that it is straightforward, simple, and reflects all the key distinguishing factors. Moreover, it is a recognition of GIIN's work in

[1] http://www.thegiin.org

standardizing the language, in order to create a common identity for the impact investing industry and therefore contribute to its further growth and development.

2.1.3. What impact investing is not

The impact investing industry is still in its early growth stage, with different players having only recently started to organize themselves into a coordinated industry. However, both Bugg-Levine and Emerson (2011) and O'Donohoe et al. (2010) argue that investing with the goal of generating social impact is not a new practice. In fact, according to Bugg-Levine and Emerson (2011), impact investing "reconnects with a centuries-old tradition that held the wealthy responsible for the welfare of the broader community". Moreover, the authors also state that "in one form or another, aspects of impact investing have been playing themselves out on the global stage for centuries".

For this reason, as Freireich and Fulton (2009) argue, "a variety of terms have been coined to articulate different ways in which financial capital can be harnessed to achieve a positive social or environmental impact" (see Figure 4). This means that there is confusion in terminology, with different terms used to refer to the same concept, and also with the same terms used to refer to different realities.

Figure 4: Terms currently used

Socially Responsible Investing
Social Investing
Mission-Driven Investing
Sustainable and Responsible Investing
Blended Value
Values-Based Investing
Mission-Related Investing
Ethical Investing
Responsible Investing
Impact Investing
Program Related Investing
Triple-Bottom Line
Environmental, Social, and Governance Screening

Source: Freireich and Fulton (2009)

In order to build and mature the impact investing industry and amplify its potential as an alternative way to tackle the world's most pressing problems, it is critical to standardize the language. Thus, it is necessary to clearly understand what impact investing is and is not.

Most authors distinguish impact investments from socially-responsible investments (SRI). According to Freireich and Fulton (2009), "social investing includes investments made with the intention of having a positive impact, investments that exclude "harmful" activities, and investments that are driven by investors' values and don't necessarily correspond to having a positive or social environmental impact". This means that SRI seeks to invest in companies that do not damage society or the environment, but that do not necessarily generate a positive social

impact. Also in this line of reasoning, Clark et al. (2012) argue that SRI "applies positive or negative screening to a universe of publicly listed companies, but does not provide capital directly to enterprises that use it to achieve targeted social objectives". When comparing this practice with impact investing, O'Donohoe et al. (2010) state that SRI "generally seek to minimize negative impact rather than proactively create positive social or environmental benefit". This means that, according to these different authors, socially-responsible investments is a practice with a passive approach to impact creation, since generating positive impact is not the primary goal.

Simon and Barmeier (2010) also state that impact investments "are not corporate social responsibility (CSR) initiatives that seek to augment the purely commercial activity of a firm with a philanthropic pursuit, nor are they socially oriented arms of firms with a primary focus on profit".

Ultimately, the key characteristic that determines whether or not the practice corresponds to impact investing, having in mind that these are "investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return", is the fact that these investments proactively seek as a primary goal to generate a positive social result.

2.2. Impact Investors

Impact investing is practiced by different kinds of investors, as O'Donohoe et al. (2010) argue: "a variety of investor types participate, including development finance institutions, foundations, private wealth managers, commercial banks, pension fund managers, boutique investment funds, companies and community development finance institutions". The one common characteristic among impact investors, according to Freireich and Fulton (2009), is the belief that "some level of financial return and social/environmental impact can be achieved together". Other than this, the authors argue that "many differences must be confronted".

In this sub-chapter it will be analyzed in further detail the particular characteristics of impact investors, namely their return expectations and impact objectives, as well as the most common funding structures.

2.2.1. Return expectations

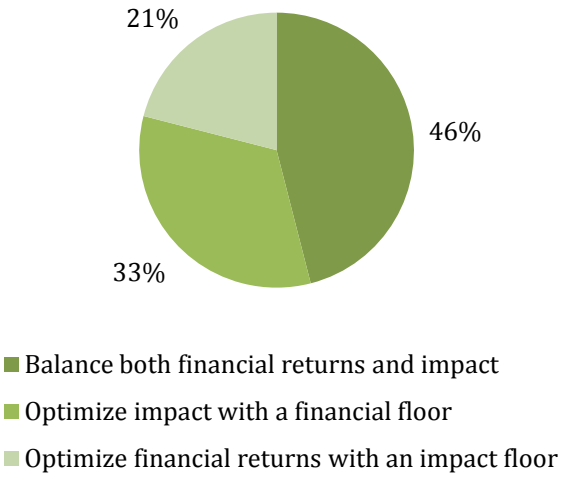
Expected returns are a key factor in any investment decision. When considering impact investing, they acquire an even more significant importance, since impact investors aim simultaneously at financial and social returns. In fact, Saltuk et al. (2011) defend that, in order for impact investing to succeed, "one needs an understanding of the relationship between

financial returns and impact". However, impact investors approach this relationship in different ways.

According to Saltuk et al. (2011) some investors "believe, for example, that financial performance and impact are dependent variables in inverse proportion, implying that increasing one should decrease the other. Others feel that the two are independent, which would allow for both to increase together". As a result, some impact investors prefer to optimize one type of return while maintaining a minimum target for the other, whereas others prefer to balance both financial and social returns simultaneously.

Saltuk et al. (2011) also argue that some investors "will swap return for impact, but don't think it's generally necessary". Actually, the authors reported that 62% of their surveyed impact investors would sacrifice financial returns for greater impact, and yet 60% of respondents do not believe that a tradeoff is generally necessary between impact and financial returns. In respect to how the surveyed investors approach the relationship between financial return and impact, the authors state that 46% indicated to balance both; the remaining respondents optimize one while setting a floor to the other: 33% optimizes impact with a financial floor, while 21% optimizes financial returns with an impact floor (see Figure 5).

Figure 5: Investment thesis
52 respondents chose one answer



Source: Saltuk et al. (2011)

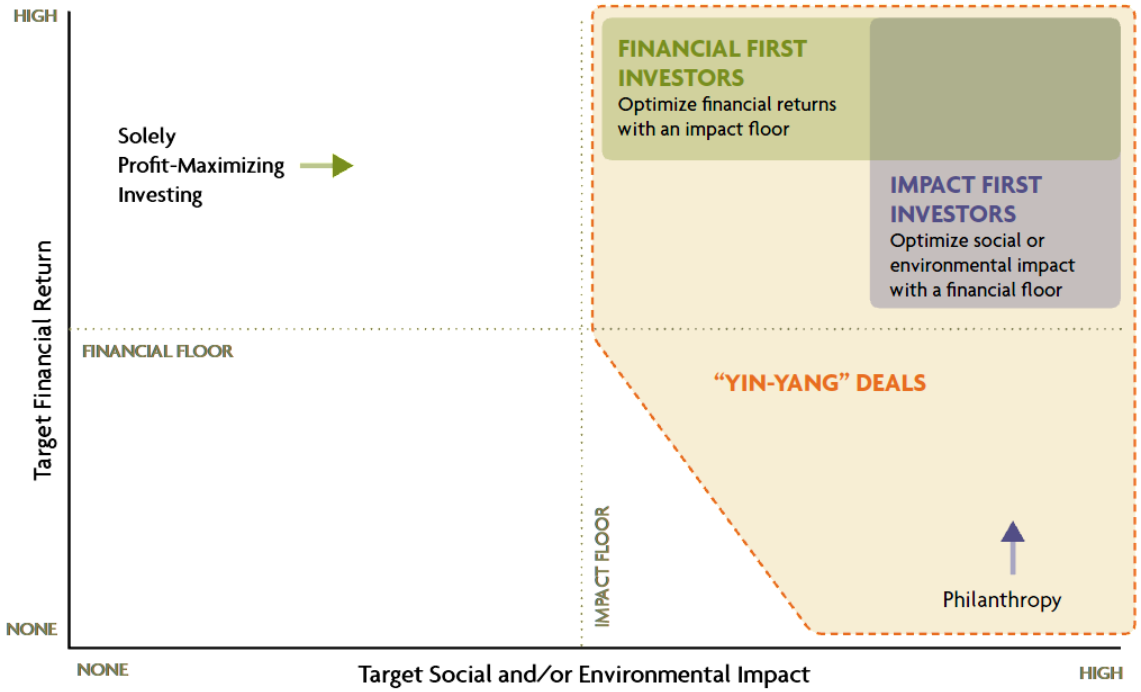
Hence, impact investors can be classified according to their approach to the balance between financial and social returns along a continuum. At one end, stand those investors who are mainly concerned with social returns, seeing financial returns as almost a collateral effect of their investment; at the opposite end, there are those investors who seek primarily financial returns, and only secondarily social returns. Between these two extreme categories, we find the impact investors that strive to put financial and social returns on an equal footing.

Indeed, Freireich and Fulton (2009) broadly classified impact investors in two groups, according to their primary objective: "impact first investors, who seek to optimize social or environmental impact with a floor for financial returns" or "financial first investors, who seek to optimize financial returns with a floor for social or environmental impact". According to these

authors, impact first investors have as a primary goal to generate positive social or environmental return, and are often willing to tradeoff some financial return if necessary. Moreover, the authors argue that "impact first investors are typically experimenting with diversifying their social change approach, seeking to harness market mechanisms to create impact". Regarding financial first investors, Freireich and Fulton (2009) state that these are usually commercial investors seeking subsectors that offer market-rate returns and generate some positive social or environmental result at the same time. The authors explain that "they may do this by integrating social and environmental value drivers into investment decisions, by looking for outsized returns in a way that leads them to create some social value, or in response to regulations or tax policy".

Additionally, the same authors state that sometimes these two types of investors work together in "yin-yang deals", this is "deals that combine capital from impact first and financial first investors and sometimes add in philanthropy as well" (see Figure 6). Freireich and Fulton (2009) stress that such deal structures combine two elements that are different and yet complementary when put together, and therefore "enable deals that could not happen without the blending of types of capital with different requirements and motivations". Moreover, the authors argue that yin-yang deals can increase the success of deals that each type of investor would pursue alone, since "much more capital can flow to deals that otherwise only impact first investors would pursue. And much more impact can occur through deals that financial first investors would pursue but where they might not be willing to invest more to ensure the impact".

Figure 6: Segments of impact investors



Source: Freireich and Fulton (2009)

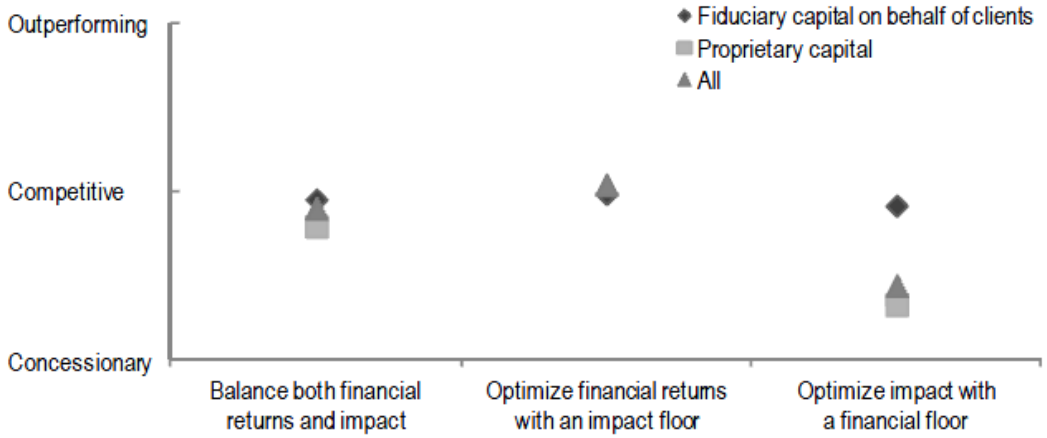
As a result of having different approaches when setting the balance between financial and social returns, impact investors will have different return expectations.

In respect to impact investor's financial return expectations, O'Donohoe et al. (2010) state that they "vary dramatically: while some impact investors expect to outperform traditional investments, others expect to trade-off financial returns for social impact". For this reason, O'Donohoe et al. (2010) as well as Saltuk et al. (2011) argue that impact investor's financial return expectations can be outperforming, competitive or concessionary, when compared with financial returns from similar investments that do not target social impact.

The different return expectations are also a result of the way the investor relates to the funds he or she is using: a manager of someone else's money tends to work towards a specific financial return, whereas a philanthropist can seek a social impact with some disregard for financial returns. O'Donohoe et al. (2010) illustrates this idea when arguing "some impact investors, such as pension fund managers, are constrained by a fiduciary duty to the clients whose money they manage. These investors will have to prioritize the pursuit of a competitive financial return". In a similar way, the authors argue that foundations will demand higher social impact, as a result of its social duty, which means that they will usually prioritize social impact over financial return, which in turn results in investments that "can acceptably deliver less competitive rates of financial return".

Also in this line of reasoning, Saltuk et al. (2011) have further investigated the relative financial return expectations, by adding information about how investors set the balance between social and financial returns, and also about the type of capital managed (see Figure 7). The authors concluded that "most respondents pursue what they believe are competitive returns, regardless of whether they balance returns and impact, or optimize returns". In respect to the type of capital managed, the conclusion was that "those investors that classify their investment thesis as one that "optimizes impact with a financial floor" are generally more concessionary in the returns they expect, unless they manage purely fiduciary capital". This conclusion is in line with what O'Donohoe et al. (2010) argued in respect to the fact that investors who prioritize social impact over financial returns tend to expect lower financial returns.

Figure 7: Return expectations by investment thesis, relative performance view and capital type



Source: Saltuk et al. (2011)

Regarding social return expectations, these are more difficult to quantify. This is so since measuring the social impact created is a challenging and hard task. Nevertheless, social return expectations will be linked with the investor's impact objectives.

With this discussion regarding return expectations, we have answered two questions raised in the previous sub-chapter: How to balance social and financial returns; which is the first priority? How much is the expected financial return?

The answer, however, is it depends. Both the relationship between social and financial returns and the value of expected financial return vary according the investors' characteristics, preferences and goals. Investors can either be financial first investors or impact first investors, and they can have outperforming, competitive or concessionary return expectations.

2.2.2. Impact objectives

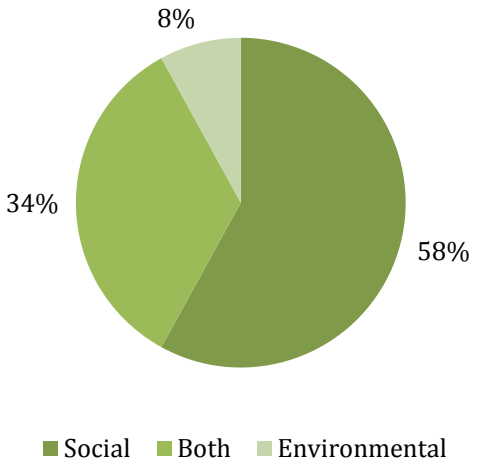
Impact investing aims for different social goals. It is necessary to stress this fact, since the common misperceptions that confuse impact investments with charity blur the understanding of the variety of activities, big and small, that get this type of funding.

Defined as "investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return", impact investments have as a distinguishing characteristic the intention to generate a positive impact in addition to a financial return. However, the impact aimed at will vary according to the investors' preferences. This means that impact investors do not put their money only into systems to take clean water all over Africa; they can also bet on small scale activities that would still cause a positive social impact, such as investing in a small family-owned company that would take the owners out of poverty.

In this line of reasoning, O'Donohoe et al. (2010) argue that investor's "impact objectives can range from mitigating climate change to increasing incomes and assets for poor and vulnerable people". In a similar way, Saltuk et al. (2011) state "some promote general economic growth or the delivery of products or services to underserved populations, while others are focused on addressing environmental issues for the broader population".

In respect to impact objectives, Saltuk et al. (2011) also reported that 58% of the surveyed impact investors prioritizes social impact, whereas 34% pursues both social and environmental goals; the remaining 8% aims at environmental impact (see Figure 8). The authors add that "94% of investments reported were made into businesses that are intended to benefit low-income populations", which means that serving low-income populations was a goal shared by almost all the surveyed impact investors.

Figure 8: Primary impact objective
52 respondents chose one answer



Source: Saltuk et al. (2011)

When talking about the goals of impact investing and return expectations from impact investors, we must therefore adopt a broad frame of mind. Different investors have different preferences, which will be translated in different goals and expectations.

This way, the definition of social impact will depend on the investor's impact goal. Hence, a new and even more pertinent question arises: How is social impact measured? Such answer will be addressed in a following sub-chapter, when discussing impact metrics.

2.2.3. Funding structures

Traditionally, investment structures take the form of equity and debt, as well as guarantees and deposits. According to O'Donohoe et al. (2010) impact investments can take these different traditional forms or some more innovative investment structures, where returns are linked to metrics of social performance. The authors add that "publicly listed impact investments also exist, though they are a much smaller proportion of the transactions being made today". Moreover, the authors argue that "the existence of such innovative structures allows investors with different (social and/or financial) return and risk appetites to invest via the vehicles that best align with their goals".

The different structures used will have different implications for the investor and for the investee company. For instance, the repayment, the duration of the investment, and the annual payments will vary according to the chosen investment instrument (see Figure 9).

Figure 9: Comparison of financing instruments

Financing instrument	Term sheet		Implications for social enterprise
Grants	Duration: Annual payments: Repayment:	Short-term None None	- Usually restricted use for predefined projects - High fundraising costs - Low entrepreneurial flexibility
Debt capital	Duration: Annual payments: Repayment:	Long-term (3–7 years) Interest payments (variable) Yes	- Annual interest payments require low-risk business model - No dilution of ownership - Far-reaching rights of capital providers in case of default - High entrepreneurial flexibility in the use of capital
Equity capital	Duration: Annual payments: Repayment:	Unlimited Dividend payments (variable) No	- Dilution of ownership - Social investor receives control and voting rights - Profit participation for social investor - Potential impact on corporate culture
Mezzanine capital	Duration: Annual payments: Repayment:	Long-term (3–7 years) Interest payments (variable) Yes	- Annual interest payments require predictable cash flows - Dilution of ownership only if converted into equity - Mandatory repayment - Profit participation for social investor
Hybrid capital	Duration: Annual payments: Repayment:	Long-term (3–7 years) None Depends upon structure	- Inexpensive financing instrument - No dilution of ownership - Risk sharing with the social investor - Great structuring flexibility

Source: Clark et al. (2012)

Concerning equity investments Clark et al. (2012) argue that investors will "share the risk of the venture and add value beyond capital". This is so, since the investors acquire a part of the company in which they have invested. How significant is this part of the company depends on the stake they hold, as do the possibility of having a voice and vote concerning management, participating in the definition of strategies, and so forth. For the investee company, the advantage will be the fact that interest payments will not be required, with the disadvantage of the ownership dilution. According to Clark et al. (2012), "equity is provided by business angels and venture philanthropists, some foundations and specialized impact investment funds".

In respect to debt investments, Clark et al. (2012) argue that "while a traditional bank loan is often out of reach for young social enterprises due to the lack of security and weak cash flows, foundations, venture philanthropists, and specialized funds provide unsecured debt with interest holidays, affordable rates, and bullet or royalty-based repayment mechanisms". According to Saltuk et al. (2011), the downside of debt investments is linked to the required regular coupon payments. However, the authors also refer the benefit that such structure will not dilute ownership.

When trying to understand the criteria that determines which is the preferred funding structure, the answer will once again be linked with the investor's type, preferences and goals.

2.2.4. Patient capital

Some investments made by impact investors can be characterized as patient capital. This is a very effective expression used by Jacqueline Novogratz, the founder and CEO of Acumen, to point to the differences between traditional investments and those aiming at a social impact. Novogratz is one of the few authors who use this expression, and yet we chose to draw attention to it, because it conveys very well the specific characteristics of such investments.

Acumen[2] defines patient capital as "a debt or equity investment in an early-stage enterprise providing low-income consumers with access to healthcare, water, housing, alternative energy, or agricultural inputs". According to Kennedy and Novogratz (2010), patient capital has at least four different characteristics. First of all, the time horizon for the investments is longer (ten years or even more). The second characteristic is risk-tolerance, since that in order to achieve the desired social change there will be a preference toward experimentat2ion and action, as opposed to conservation of capital. Thirdly, the goal of the investment is maximizing social impact, rather than financial returns". Finally, the authors argue that patient capital is accompanied by intensive management support for social entrepreneurs as they grow their enterprises. Acumen adds a fifth characteristic: "the flexibility to seek partnerships with governments and corporations through subsidy and co-investment when doing so may be beneficial to low-income customers".

The rationale behind these characteristics is that patient capital is deployed both as seed or growth capital to social businesses which, as a result of having as a mission to tackle a social problem, need more time to mature. Therefore, the aim is to jump-start the creation of such enterprises and, as Kennedy and Novogratz (2010) sate, enable entrepreneurs to "take risks they might not otherwise take". In fact, Overholser (2006) argues that patient capital is "the money that pays the bills while an organization learns to fend for itself", allowing them "to make productive mistakes".

However, it is necessary to underline that, as Kennedy and Novogratz (2010) state, "patient capital is not a grant; it is an investment intended to return its principal plus interest, which may be at or below the risk-adjusted market rate". Patient capital is also not "easy capital"; the investment is done only when there is the belief "in a company's ability to become self-sustaining and to serve low-income markets at scale". Moreover, when investing, there is the expectation of accountability and the requirement of repayment on agreed-upon schedule.

According to Novogratz (2007), "capital must be patient because there are no easy solutions" when trying to solve the pressing problems society is faced with. The author also argues that "it

[2] http://www.acumen.org

is by providing patient capital in such a manner – and not by offering charity – that philanthropy can, and must, play a new role in meeting the challenge of poverty on a global scale".

2.3. Social Entrepreneurship and Social Business

This dissertation focuses on impact investing, so naturally it pays more attention to the investors than it does to those who receive the funds invested. However, we cannot understand the goals, behaviors and gains of investors without paying some attention to the entrepreneurs who thrive because of the funds invested.

For this reason, in this sub-chapter the concepts of social entrepreneurship and social business will be discussed, since they correspond to the most common receivers of impact investments. However, it will be a brief analysis, as these topics are complex and with information enough to write a dissertation only about it.

2.3.1. Social Entrepreneurship

Social entrepreneurship is a specific type of entrepreneurship. In fact, according to Dees (2001), "social entrepreneurs are one species in the genus entrepreneur. They are entrepreneurs with a social mission".

Dees (2001) builds his definition of social entrepreneurship on the theories of entrepreneurship of Jean Baptiste Say, Joseph Schumpeter, Peter Drucker and Howard Stevenson. According to the author, social entrepreneurs have five characteristics through which they "play the role of change agents in the social sector". Such characteristics are: the adoption of a mission to create and sustain social value (not just private value); the recognition and determined pursuit of different opportunities to serve that mission; the engagement in a process of continuous innovation, adaptation, and learning; acting boldly without being limited by resources currently in hand; and exhibiting heightened accountability to the constituencies served and for the outcomes created. Dees (2001) also argues that social entrepreneurship "combines the passion of a social mission with an image of business-like discipline, innovation, and determination".

However, Boschee and McClurg (2003) argue that Dees' definition does not include a critical element: earned income. The authors stress that organizations need to generate earned revenue from its activities, in order to avoid becoming financially dependent on others and, in turn, achieve sustainability or self-sufficiency. Boschee and McClurg (2003) argue that sustainability "can be achieved through a combination of philanthropy, government subsidy and earned revenue", whereas self-sufficiency "can be achieved only by relying completely on earned

income". For this reason, the authors define social entrepreneurs as "any person, in any sector, who uses earned income strategies to pursue a social objective".

This pursuit of a social objective is the key differentiating characteristic of social entrepreneurship. As stated by Dees (2001), "adopting a mission to create and sustain social value is the core of what distinguishes social entrepreneurs from business entrepreneurs even from socially responsible businesses". Massetti (2008) goes further, and argues that "it does not appear that there is a distinguishing set of traits that delineate social from traditional entrepreneurs. Rather, the differentiating factor appears to be the nature of the mission the entrepreneurs select for their businesses. Social entrepreneurs focus more on social concerns while traditional ones focus more on market-oriented ones". Also in this line of reasoning, Austin et al. (2006) notes that "the distinction between social and commercial entrepreneurship is not dichotomous, but rather more accurately conceptualized as a continuum ranging from purely social to purely economic".

In this dissertation, social entrepreneurship and social entrepreneurs will be defined as according to Boschee and McClurg (2003): "any person, in any sector, who uses earned income strategies to pursue a social objective".

2.3.2. Social Business

According to Yunus (2008), "a social business is a company that is cause-driven rather than profit-driven, with the potential to act as a change agent for the world". Moreover, the author also argues that the key objective and criterion according to the organization should be evaluated is "is to create social benefits for those whose lives it touches".

This way, as with social entrepreneurship, the first distinguishing factor of a social business is the pursuit of a social objective. According to Alter (2007), purpose is the characteristic that separates social businesses from for profit companies. The author explains that whereas for profit companies have as main purpose to generate profit, "social impact is the primary purpose of social enterprises".

Yunus (2008) also argues that "social business and social entrepreneurship are not the same thing". The author defends that "social business is a subset of social entrepreneurship. All those who design and run social businesses are social entrepreneurs. But not all social entrepreneurs are engaged in social businesses".

The difference is that social businesses need to be financially sustainable; it has to be able to cover operational costs while achieving the social objective. In fact, Yunus (2008) argues that "as long as it has to rely on subsidies and donations to cover its losses, such an organization remains in the category of a charity. But once such a project achieves full cost recovery, on a sustained

basis, it graduates into another world—the world of business. Only then can it be called a social business."

Thus, as Massetti (2008) states, "social businesses differ from traditional not-for-profit institutions in that the social businesses must have profits to successfully function. And, they differ from traditional profit-based businesses in that their profits are used to support social causes rather than to increase the wealth of investors, managers, and owners".

2.4. Metrics and Accountability

Measuring returns is fundamental to evaluate whether or not the initial goals of the investment are being attained, and at which cost. In other words, these measurements inform investors of the efficacy and efficiency of their investments, and whether or not they have been successful.

In this sub-chapter, it will first be discussed the main challenges and difficulties with measuring social impact. Then, after understanding what it is going to be evaluated, it will be presented and discussed some of the key organizations and initiatives created to build the impact investing industry's infrastructures and standards.

2.4.1. Challenges with measuring social impact

In the case of measuring the performance of impact investments, both financial returns and social impact need to be evaluated. Authors as Clark et al. (2012), O'Donohoe et al. (2010) and Trelstad (2008) argue that while it is quite straightforward to measure financial results, the key challenge is to measure the social impact. According to the authors, determining the financial performance is simpler since it is possible to use traditional metrics and evaluate investments against standard risk and financial return parameters. However, measuring social impact is complicated and difficult, since it is a somewhat abstract reality that tends to extend itself into the future, producing innumerable and unexpected ripple effects.

In fact, according to Trelstad (2008) there are three main challenges with measuring the social returns of impact investments. The author states that the first challenge is "defining what specifically we mean by "social impact""; in other words, Trelstad (2008) considers that defining what the social objective of the investment is and what threshold of outcomes are aimed at is actually the first challenge. The author argues that the definition of social impact may range from a proof of concept of the model to knowing that the investments are moving low-income people out of poverty. After defining the desired social impact, Trelstad (2008) argues that the second challenge is to actually prove and measure anything, indicating the possibility to count outputs or demonstrate outcomes. Finally, the third challenge according to Trelstad (2008) is to

measure the "economic multipliers or unintended consequences" of the impact investments. These economic multipliers are related with the ripple effects that impact investments can have, causing a virtuous cycle. The author illustrates: "if the textile mill creates 5,000 jobs in Tanzania, what sort of impact does this have on the local or regional economy or national tax receipts?"

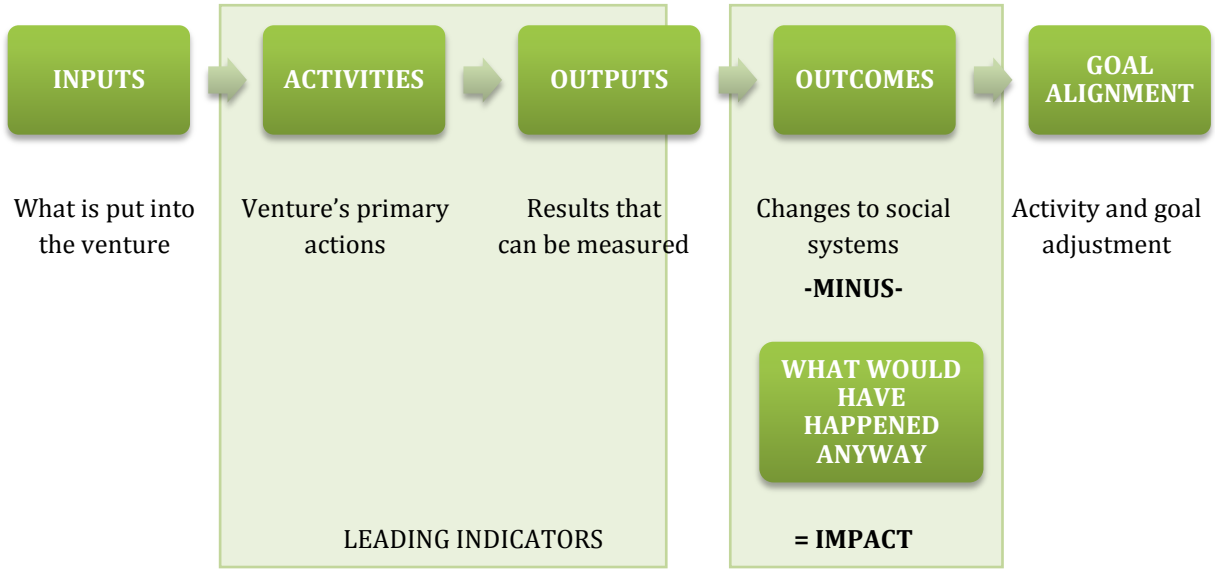
Summing up, social impact is less tangible and more unpredictable than financial returns, hence harder to be accurately measured. It presents a double problem for investors: to figure out what to measure and how to measure it. These problems will be discussed in the following sections.

2.4.2. Defining what to measure

When thinking about measuring the performance of the investment, the first step to give is to exactly define what we are looking to measure. As we have just discussed, with impact investing such task can be quite complicated.

O'Donohoe et al. (2010) defines social impact as "a broader set of outcomes, such as increased income and assets for the poor, improved basic welfare for people in need, and mitigation of climate change" which can be attributed to a particular organization's activity (see Figure 10). However, the author explains that it is often difficult to make such attribution since social outcomes are more likely to be influenced by external factors.

Figure 10: Impact value chain



Source: O'Donohoe et al. (2010)

Metrics of social outcomes are powerful, but expensive and difficult to gather, as it requires running a control group to survey or interview the intended beneficiaries (Clark et al., 2012; O'Donohoe et al., 2010). O'Donohoe et al. (2010) illustrate with an impact evaluation of a bednet manufacturer, arguing it could involve a multi-year study on the incidence of malaria among

target customers, with a control group to understand what would have happened to those customers if the company had not sold them bednets. This way, relevant social outcomes could include changes in the customers' health and income level, or in their family's education levels.

Since in practice metrics of social outcomes are onerous, several impact investors choose to measure outputs. These indicators and metrics are generated as a result of the organization's operations (Clark et al., 2012; O'Donohoe et al., 2010). In the bednet manufacturer example, an output would be the number of benets sold.

Nevertheless, Godeke et al. (2009) state that "an organization should define its desired outcomes and work to determine how the measurable outputs correlate to those outcomes". This means that, while it is important to differentiate outputs from outcomes, in order to measure impact and portray the complete picture, it is critical to assess and measure both of them.

2.4.3. The use of third party systems

After deciding what are the outputs and outcomes to measure, the new challenge is actually being able to measure them with the right set of metrics and indicators, given that the entire process of measuring social impact is complicated, expensive and can be subjective, as previously discussed.

Initially, impact investors either developed their own measurement systems or used the ones of the company they had invested in. However, as argued by O'Donohoe et al. (2010), having several different systems for tracking and measuring impact "is inefficient for the market as a whole and limits comparability across investments", since there will be little consistent quantitative data about the social impact actually achieved. The authors also argue that without standards and average performance benchmarks, investors will have limited means to evaluate whether the investment is making progress toward its social goals and to compare its social performance with those of other investors.

Hence, having social performance metrics well-defined and standardized ensures that impact investments can be assessed against a set of rigorous social impact criteria and more broadly compared. For this reason, industry participants worked to build and contribute data to standardized frameworks, so to answer to this need of industry benchmarks that could provide a standard framework for understanding the social performance of a company or fund (O'Donohoe et al., 2010).

Actually, when comparing with data from the previous year, Saltuk et al. (2011) reported that the percentage of respondents using third-party systems increased from 21% to 31% whereas the percentage of respondents using systems of the company they had invested in declined from

24% to 17%. The authors also reported that within the impact measurement system, 85% of respondents are using metrics aligned with IRIS (65%) and/or another external set of standards (37%).

Having standard impact metrics in place smoothes the progress of measuring and comparing the social impact generated by impact investments, allowing for metrics to be compared across organizations with different impact objectives (Clark et al., 2012). In fact, according to O'Donohoe et al. (2010), "by instituting standard approaches to impact measurement, the industry can become more objective and transparent around the drivers of investment decisions".

In the following sections it will be presented and discussed some of the key organizations and initiatives created to build the impact investing industry's infrastructures and standards.

The Global Impact Investing Network (GIIN)

The Global Impact Investing Network (GIIN)[3] is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing and is currently a sponsored project of Rockefeller Philanthropy Advisors.

J.P. Morgan, Rockefeller Foundation, and the United States Agency for International Development (USAID), launched the GIIN in September 2009 with the goal of accelerating the development of an effective impact investing industry.

The GIIN addresses systemic barriers to effective impact investing by building critical infrastructure and developing activities, education, and research that attract more investment capital to poverty alleviation and environmental solutions. Currently, it has five key initiatives: Outreach, Network Membership, ImpactBase, IRIS and Investors' Council (see Appendix 1).

The Impact Reporting and Investment Standards (IRIS)

The Impact Reporting and Investment Standards (IRIS)[4] is "the catalog of generally accepted performance metrics that leading impact investors use to measure social, environmental, and financial success, evaluate deals, and grow the sector's credibility". It was launched in 2008 by Acumen Fund, B Lab, and the Rockefeller Foundation, and is managed by GIIN since 2009. The goal of this initiative is to develop and provide a common reporting language for impact-related terms and metrics, driving the industry towards consistent and widespread application of performance metrics (GIIN, 2012).

Just as financial accounting standards such as International Financial Reporting Standards (IFRS), IRIS provides a basis for performance reporting, which encourages transparency,

[3] http://www.thegiin.org
[4] http://www.iris.thegiin.org

credibility and comparability. Moreover, IRIS standard metrics and definitions are designed to be applied across diverse sectors and regions, including broad performance indicators that can be applied to any organization, as well as those that are sector-specific.

IRIS indicators are organized in five different categories (see Figure 11). Organization description includes the metrics that focus on the organization's mission, operational model, and location. Product description corresponds to metrics that describe the organization's products and services and target markets. Financial performance includes the commonly reported financial metrics. Operational impact corresponds to metrics that describe the organization's policies, employees, and environmental performance. Product impact represents metrics that describe the performance and reach of the organization's products and services.

Figure 11:IRIS indicators categories

Organization description
Product description
Financial performance
Operational impact
Product impact

Source: IRIS

When navigating the framework, users browse the categories and sub-categories to identify the set of IRIS metrics that align with their impact objectives, deciding which data points to share or hold back and whether to use the metrics to report for the organization as a whole or for a particular product. Additionally, they can also choose which sector-specific metrics to show or hide, since that metrics are organized in eight different sector categories: agriculture, education, energy, environment, financial services, health, housing/community facilities and water (see Appendix 2).

The IRIS framework also includes a glossary with definitions for common terms that are referenced in the metrics, which allows users to speak the same language.

As a result of standardizing the way organizations communicate and report their social and environmental performance, IRIS "increases the value of non-financial data by enabling performance comparisons and benchmarking" across organizations, industries and geographies (GIIN, 2012). Moreover, IRIS also streamlines and simplifies reporting requirements for companies and investors, which in turn helps investors evaluate and compare performance for more accurate assessment and comparison, and helps portfolio organizations track and improve their business and social performance.

It is important to highlight that these two IRIS features represent critical requirements that impact investors had identified as necessary for the industry growth, as seen in previously discussed.

The Global Impact Investing Rating System (GIIRS)

The Global Impact Investing Rating System (GIIRS)5 Ratings & Analytics "is a comprehensive and transparent system for assessing the social and environmental impact of developed and emerging market companies and funds with a ratings and analytics approach analogous to Morningstar investment rankings and Capital IQ financial analytics". This way, GIIRS provides simple and comparable ratings of the social and environmental impact (but not the financial performance) of companies and funds. It was launched in 2010 by the nonprofit organization B-Lab in response to the need for a broader impact rating system

Regarding GIIRS fund ratings, the overall rating combines the score from a fund manager assessment, which is designed to capture the fund management intent, practices and policies related to social and environmental impact, and an aggregation of the scores of the companies in the fund's portfolio (see Figure 12). Questions in the fund manager assessment are tailored depending on three variables: type of security that the fund manager invests; the stage of investment that the fund is in; and the fund's geographic focus. The investment aggregation score is determined by a weighted average of underlying portfolio company ratings in order to capture the impact created from fund-invested capital.

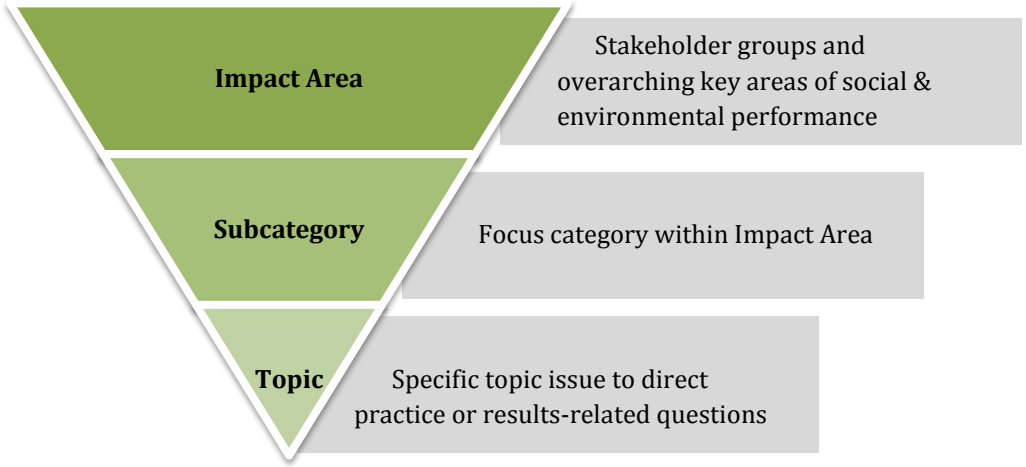
Figure 12: GIIRS fund rating

Source: GIIRS

Concerning company impact ratings, GIIRS has a three tiered company assessment structure (see Figure 13). This way, questions are divided into four different impact areas (Governance, Workers, Community, and Environment), which in turn are comprised of several sub-categories around which groups of questions covering key social and environmental issues are organized.

[5] http://www.giirs.org/

Figure 13: GIIRS three tiered company assessment structure



Source: B Lab, 2012a

Consequently, GIIRS provides companies with an overall rating, ratings in subcategories, and key performance indicators relevant to the company's industry, geography, size, and social mission. As a result, GIIRS is both consistent and dynamic, evaluating companies on the same social and environmental impact areas while applying appropriate focus and depth to issues where a company is likely to have an impact.

The GIIRS star rating is based on 200 possible points allocated into the four distinct impact areas and their respective subcategories and topics. This scale is intended to capture a full spectrum of positive impact performance, which means that no points are deducted for negative performance nor does the assessment include negative screenings. This way, each impact area of the company is rated across a 5-star spectrum of impact, based on the total points scored in each area (see Figure 14). In respect to the overall company rating, there are four possible designations: GIIRS Rated, GIIRS 3 Star, GIIRS 4 Star, and GIIRS 5 Star (see Figure 15).

Figure 14: GIIRS impact area rating

Impact Area Rating	Governance Score	Worker Score	Community Score	Environment Score
★	0 to 2,9	0 to 17,9	0 to 12,9	0 to 4,9
★★	3 to 4,9	18 to 20,9	13 to 25,9	5 to 10,9
★★★	5 to 6,9	21 to 23,9	26 to 38,9	11 to 24,9
★★★★	7 to 8,9	24 to 28,9	39 to 69,9	25 to 39,9
★★★★★	9+	29+	70+	40+

Source: GIIRS

Figure 15: GIIRS overall rating

GIIRS Rated	3 Star Rating	4 Star Rating	5 Star Rating
	★★★	★★★★	★★★★★
0 to 79,9	80 to 99,9	100 to 124,9	125+

Source: GIIRS

Whenever possible, GIIRS has incorporated IRIS metrics into the core of its rating system, both for companies and funds. To provide a feedback loop, GIIRS shares its data anonymously with IRIS, making it a more robust benchmarking resource. As a result, any GIIRS rated company or fund is IRIS-compliant in their reporting. This represents another effort to standardize both the language and metrics, in order to allow for industry consistency and growth.

GIIRS Ratings & Analytics offers the ability to compare impact investments across geography, sector, industry and size, leading to an increase in the efficiency of the due diligence, investment, and reporting process for impact investments. This way, GIIRS adds value to investors, advisors, funds and companies by measuring social and environmental impact, by providing comparable, independent, and verified metrics and ratings, and by creating customized reporting and analytics solutions.

Moreover, GIIRS provides the impact standards and rating system necessary to facilitate a scalable and transparent marketplace for institutional investors, financial services intermediaries, and companies seeking mission-aligned growth capital. For this reason, GIIRS has the potential to unlock substantial new sources of capital from investors who are interested in impact investments but lack the appetite and expertise to develop their own social impact assessment methodology.

2.5. Crowdfunding

Crowdfunding has recently emerged as an alternative method of financing. As we will see in a further section, it is a tool with a great potential for financing charities and NGOs. Moreover, some crowdfunding platforms could greatly benefit from impact investing, as potential investees.

In this sub-chapter, the concept and practice of crowdfunding will be discussed. However, it will be a brief analysis, as this topic has information enough to write a dissertation only about it.

2.5.1. Definition

Crowdfunding has emerged as an answer to the financial problems faced by firms in the early stage and, more specifically, the difficulty in attracting external seed capital faced by the entrepreneur (Belleflamme et al., 2012; Schwienbacher and Larralde, 2010). Hence, the idea is to

use the internet to raise funds from the general public (the "crowd"), instead of approaching sophisticated investors, such as venture capital funds or business angels (Belleflamme et al., 2012; Schwienbacher and Larralde, 2010).

Belleflamme et al. (2012) argue that the literature specifically devoted to crowdfunding is still nascent, given that it is a relatively recent practice. However, according both to Belleflamme et al. (2012) and Schwienbacher and Larralde (2010), the concept finds its roots in the broader concept of crowdsourcing, a term firstly used by Jeff Howe and Mark Robinson in the June 2006 issue of Wired Magazine. According to Kleemann et al. (2008) crowdsourcing "takes place when a profit oriented firm outsources specific tasks essential for the making or sale of its product to the general public (the crowd) in the form of an open call over the internet, with the intention of animating individuals to make a contribution to the firm's production process for free or for significantly less than that contribution is worth to the firm". In other words, the authors define crowdsourcing as the act of outsourcing a task usually performed by an employee to the general internet public.

Belleflamme et al. (2012) refined Kleemann et al. (2008) definition of crowdsourcing and suggested defining crowdfunding as "an open call, mostly through the Internet, for the provision of financial resources either in form of donation or in exchange for the future product or some form of reward and/or voting rights", underlining that such promised reward may be monetary or non-monetary (such as recognition). In this dissertation, crowdfunding is defined according to these authors' definition.

Crowdsourcing and crowdfunding initiatives have boosted and emerged on a large scale as a result of technological innovations associated with the Web 2.0, which allows the interaction between users and the creation of user-generated content, through its interactive and collaborative structure (Kleemann et al., 2008; Ordanini et al., 2011).

2.5.2. Crowdfunding in practice

An example of a crowdfunding platform cited by Belleflamme et al. (2012), Ordanini et al. (2011) and Schwienbacher and Larralde (2010) is SellaBand[6]. Based in Munich and Berlin, and active since August 2006, it was one of the first crowdfunding initiatives to appear on the market.

The platform applies the crowdfunding model to the music market, acting as an intermediary between artists and music lovers, and empowering artists to execute their next music project, funded by their fans. The artists upload their music and profile, setting the goal amount and the Part price. Visitors to the site can listen to the music for free and choose the artist they want to

[6] http://www.sellaband.com/

invest in, by buying at least one Part of that artist. When the budget is reached, the artist will execute the plan and, in exchange, the investors (the Believers) will receive a reward set by the artist, such as a free copy of the CD, autographed merchandise, backstage passes or benefits from CD's sales.

Since its launch, SellaBand has coordinated recording sessions for more than 80 artists whose albums were funded by their fans, over US$ 4 million have been raised via the online platform, and there are currently over than 85.000 Believers signed up on SellaBand.

Kickstarter[7] is another very well known crowdfunding platform, based in New York and launched on April 2009. It funds creative projects, ranging from films, music and games, to technology, art and design; the key point is that it must be a project with a clear goal, such as making a book or an album. Kickstarter does not allow funding charity, causes or personal projects.

The project's creators build their project pages, setting the funding goal and deadline, and share it with their community. If people like the project, they can pledge money to make it happen. However, funding on Kickstarter is all-or-nothing: if the project succeeds in reaching its funding goal during before the deadline, all backers' credit cards will be charged, if it fails to succeed, no credit card will be charged. Kickstarter cannot be used to offer financial returns or equity, or to solicit loans; project creators keep 100% ownership of their work and backers do not receive a financial profit, instead, they are supporting projects to help them come to life.

Since its launch, over US$ 450 million have been pledged via the online platform, by more than 3 million people, funding more than 35.000 creative projects.

Another crowdfunding platform cited by Ordanini et al. (2011) is Kapipal[8]. Launched in 2009, it funds all legal projects, including personal ones, such as a wedding list or a birthday. The name Kapipal results from the understanding that your friends are your capital, hence "Capital" plus "Pal".

The project's creators (Kapipalists) build their own project pages, setting the funding target, the deadline and why they need to raise this money. Then, the Kapipalist shares this page with those they want to collect money from. If the crowd likes the project, they decide how much they want to donate, becoming a Contributor. Every Contributor's transfer is a donation, which means that they will not receive a financial return. However, the Kapipalist may offer a non-financial reward or benefit, usually an item produced by the funded project, such as a t-shirt or a book.

From these examples, it is possible to understand that there are different business models for crowdfunding platforms. Schwienbacher and Larralde (2010) suggest distinguishing between

[7] http://www.kickstarter.com/
[8] http://www.kapipal.com/

donations, passive investments and active investments, according to the kind of reward given to the investor. In case of a donation, the investor does not receive any reward other than the recognition of their support to carrying forward the entrepreneur's project. According to the authors, this business model facilitates fundraising to organizations structured as nonprofits due to their propensity to produce high quality products. Such tendency is bigger than with for-profit companies, since profit maximization objective are at times better achieved with standardized, lower quality products that can be more widely distributed. Regarding passive investments, Schwienbacher and Larralde (2010) explain that the reward given to the investor can take various forms, such as a sample of the final product. The key aspect is that the investor is not offered the chance of becoming actively involved in the initiative. In case of an active investment, that chance is offered as a reward through, for example, the investor's participation in the profit sharing or in the voting process regarding certain product characteristics.

CHAPTER 3: THE IMPACT INVESTING INDUSTRY

In this chapter, the impact investing industry will be characterized and analyzed. First, in sub-chapter *3.1. Business sectors and geographical regions,* the preferred business sectors and geographical regions for impact investing will be discussed. Then, in sub-chapter *3.2. Data Analysis*, the main characteristics of some of the existing impact investing funds and companies will be presented. Afterwards, in sub-chapter *3.4. Estimating the market size*, existing estimations of impact investing potential market size and our estimation of current market size will be presented. Finally, in sub-chapter *3.5. Examples*, two organizations that illustrate the impact investing activity will be shown through two short case studies.

3.1. Business sectors and geographical regions

As a result of the variety of investor types and the early stage in which the industry is, the practice of impact investing is approached with different impact goals and return expectations, and with impact investors allocating their capital in different business sectors and geographies. In fact, O'Donohoe et al. (2010) state "charting the landscape of the impact investment market, investors range from philanthropic foundations to commercial financial institutions to high net worth individuals, investing across the capital structure, across regions and business sectors, and with a range of impact objectives".

Actually, the business sectors into which impact investors put their money varies significantly, from basic sanitation, clean water distribution to the fight against disease. This is a personal decision, taken in accordance with the funds available and the investor's intentions. O'Donohoe et al. (2010) argue that impact investments are concentrated in business sectors that answer to basic needs or services, such as agriculture, housing, education, energy and financial services (see Figure 16). On the other hand, Simon and Barmeier (2010) argue that impact investments focus on "sectors not currently serviced by traditional international finance flows".

Figure 16: Business sectors for impact investments

Business Sectors	
Basic needs	**Basic services**
•Agriculture	•Education
•Water	•Health
•Housing	•Energy
	•Financial services

Source: O'Donohoe et al. (2010)

Saltuk et al. (2011) reported that the sector with most representation across the surveyed impact investors is microfinance (see Figure 17). The reason for such preference is due to the fact that microfinance is a more developed and mature subset of impact investing. This way, the

standardization of terms and basic metrics for performance comparison are already in place, which allows for a great amount of available information regarding realized returns and deals, therefore attracting further investors and capital.

Figure 17: Sector distribution across investments

Number and notional of investments reported within each category

	Number	%	Notional (USD, mm)	%
Microfinance	742	34%	1.612	37%
Food & agriculture	339	15%	247	6%
Clean Energy & tech	291	13%	281	6%
Cross-sector	286	13%	650	15%
Other	270	12%	436	10%
Housing	165	7%	906	21%
Healthcare	59	3%	89	2%
Education	44	2%	139	3%
Water & sanitation	17	1%	16	0%
Total	**2.213**	**100%**	**4.377**	**100%**

Source: Saltuk et al. (2011)

The geographical regions chosen by impact investors also vary according to the investor's type, preferences and goals, with current deals both on emerging and developed markets. However, O'Donohoe et al. (2010) argue that investors usually prefer to focus on one of the two markets. One reason for this specialization, according to the authors, is related with the investor's value set: some choose to focus in emerging markets, so to help the world's poorest, whereas others opt to act in the local neighborhoods in need. The authors also argue that another reason is due to the existence of "significant regional differences that require local expertise".

3.2. Data Analysis

In the following sections, based on data from the latest GIIRS Quarterly Analytics Report (B Lab, 2012b), the main characteristics of GIIRS rated impact investing funds and companies will be highlighted and analyzed, always with the intention to show how current practices relate to the concepts reviewed on *Chapter 2: Literature Review*.

3.2.1. Impact investing funds

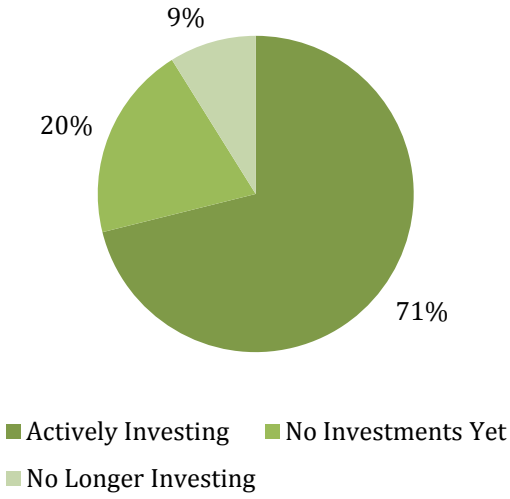
The GIIRS Quarterly Analytics Report (B Lab, 2012b) presents the main highlights of the impact investing funds that received a GIIRS Fund Rating (referred as GIIRS funds from now on). The authors note that "the number of rated funds has increased by 150%", to 36, since the previous report of Q1 2012. Moreover, there were still 24 other funds in the rating process, leading to a total number of 60 GIIRS funds.

Regarding its investing status, Figure 18 illustrates that 71% of funds were defined as "Actively Investing", whereas 20% had no investments so far, and 9% had already completed the investment phase and thus were no longer investing.

This way, this data shows that most funds are quite recent which, in turn, demonstrates the extremely high growth of impact investing as well as the huge potential of this activity.

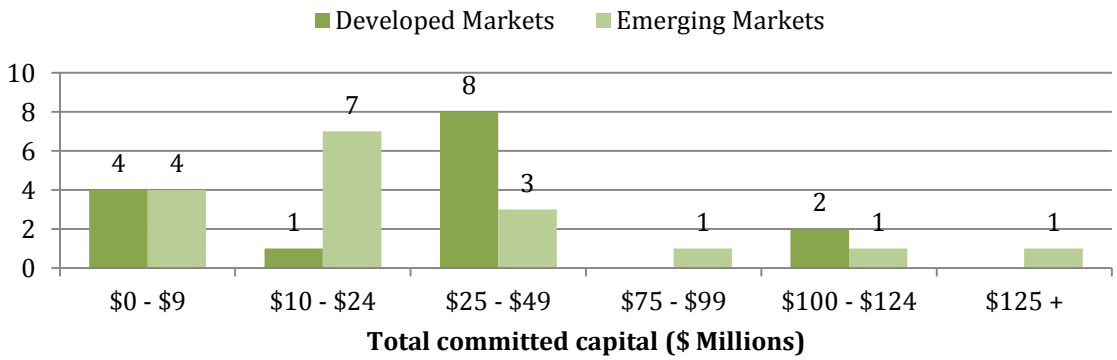
Most active funds focused in developed markets have a total committed capital of $25-$49 million, whereas in emerging markets it corresponds to $10-$24 million (see Figure 19). However, it is worth noting that the only fund sized as $125+ million invests in emerging markets.

Figure 18: GIIRS rated funds by investing status



Source: Adapted from B Lab (2012b)

Figure 19: GIIRS rated funds by fund size and market type



Source: B Lab (2012b)

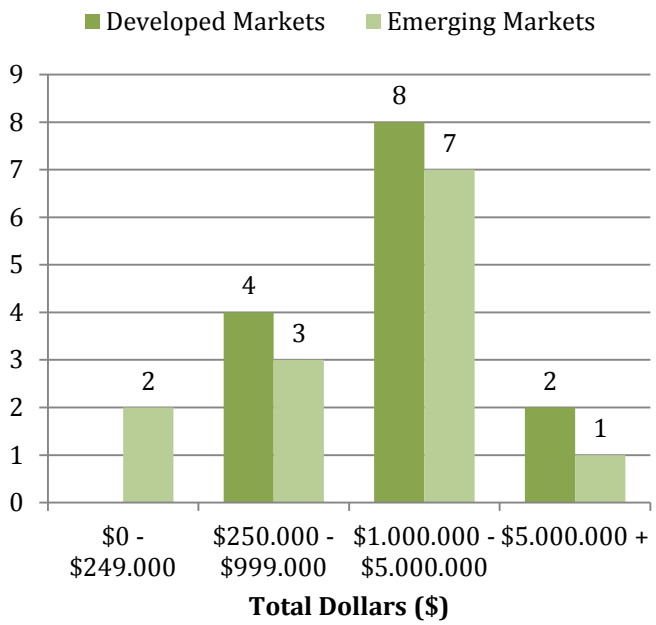
The 15 active funds investing in developed markets have deployed a total capital of approximately $560 million, whereas the 17 active funds focused on emerging market have a

total committed capital around of $600 million. This way, the total committed capital of GIIRS funds is almost $1,16 billion.

The majority of GIIRS funds present an average size for each investment of $1-$5 million, both for developed and emerging markets (see Figure 20).

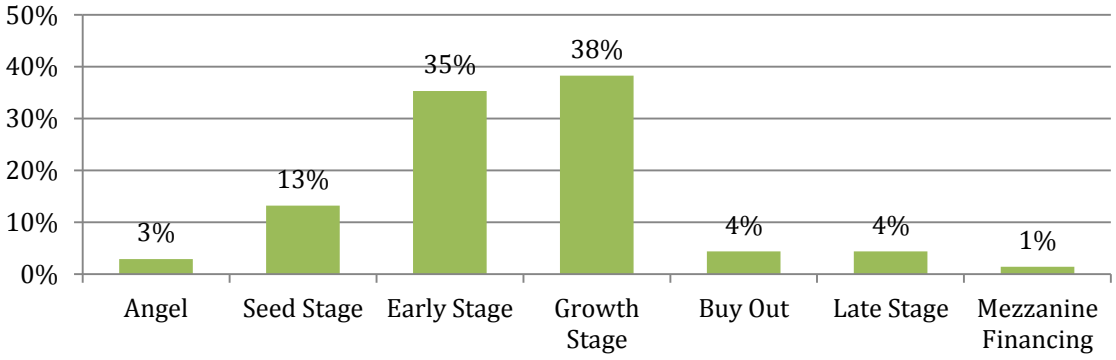
Figure 21 illustrates how impact investing is positioned between philanthropy and traditional markets. On one hand, philanthropists invest very early in the growth stage, whereas traditional markets only come in on later stages. Yet, GIIRS funds are highly concentrated in earlier phases, with the most part of them investing in companies' early and growth stages.

Figure 20: GIIRS rated funds by average investment size and market type



Source: B Lab (2012b)

Figure 21: GIIRS rated funds by investment stage



Source: Adapted from B Lab (2012b)

Respecting the targeted financial returns, most GIIRS rated funds expect to realize a rate of return between 11-25%. When considering rated funds focused on developed markets, 25% targets a 26+% rate of return. Regarding GIIRS rated funds focused on emerging markets, 40% targets a rate of return between 16-20%.

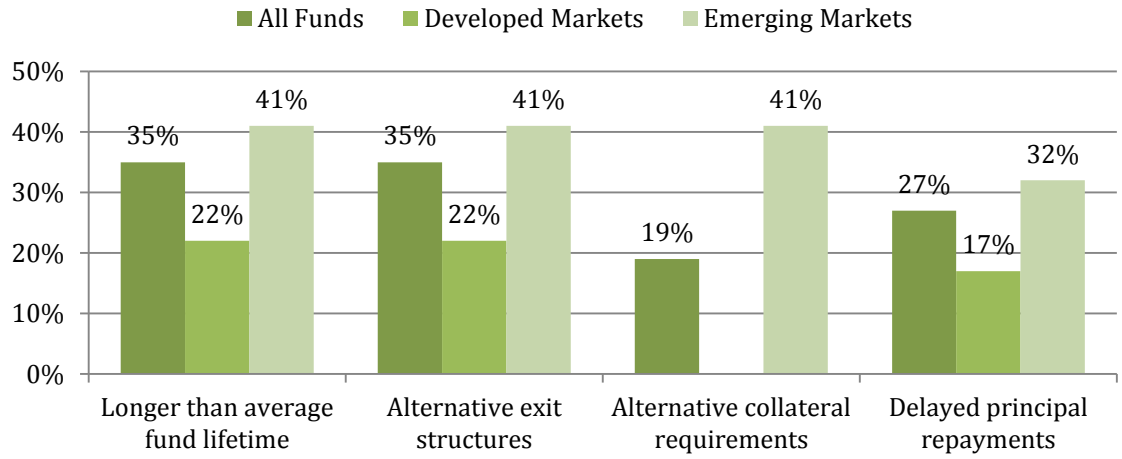
These expected rates of return demonstrate how impact investing is very different from philanthropy. The relatively high rates are explained by the significant risks associated with investing in early stages.

According to GIIRS Quarterly Analytics Report (B Lab, 2012b), from the total 60 GIIRS funds, 52 had completed the fund manager assessment.

When asked about the weight of impact investments on the parent financial institution or fund management company, 73% answered that it was more than 75% of total assets under management.

Regarding the nature of patient and flexible capital available, Figure 22 shows that most impact investing funds provide longer than average fund lifetime, associated with delayed principal repayments. They also often provide alternative exit structures, different from most current practices (IPO and secondary sale). Numerous funds focused in emerging markets also provide patient and flexible capital in form of alternative collateral requirements.

Figure 22: GIIRS rated funds by form of patient and flexible capital provided and market type
Funds could choose more than one answer



Source: Adapted from B Lab (2012b)

A formal due diligence process for impact has been incorporated by 92% of the funds that completed the fund manager assessment. This way, potential investments are reviewed according to social and environmental criteria.

Moreover, 17% of these funds have a compensation and incentive structure in which the managing partners' reward is at least partially determined by the social and environmental performance of the portfolio. This relatively small percentage results from the fact that impact investment is still a new practice and from the difficulties with measuring the social impact generated.

As the industry evolves and third party rating systems are more widely spread and adopted, we expect that there will be a higher correlation between the incentive structure and the social performance of the portfolio.

3.2.1. Companies

In the GIIRS Quarterly Analytics Report (B Lab, 2012a), the main characteristics of GIIRS rated companies was also highlighted. Since the previous report of Q1 2012 "the number of rated companies has increased by almost 100%". As Figure 23 illustrates, GIIRS rated companies grew up to 268, with 150 still in the rating process, leading to a total number of 418 GIIRS companies.

Once again, the data shows that there has been a huge growth in impact investing. Additionally, future growth is also expected, due to the high number of companies still in the rating process.

Figure 23: GIIRS company marketplace

	GIIRS Companies (Q3 2012)	GIIRS Companies (Q1 2012)
Rated	268	136
Rating in Process	150	114
Total	418	250

Source: Adapted from B Lab (2012b, 2012c)

From the 268 GIIRS rated companies, 140 operate in developed markets whereas 128 are set up in emerging markets (see Appendix 3).

Regarding the achieved GIIRS overall rating, the company global index rating was three stars and the global index score was 91 (see Figure 24). It's worth noting that the score for emerging market companies was higher than the one of developed market companies.

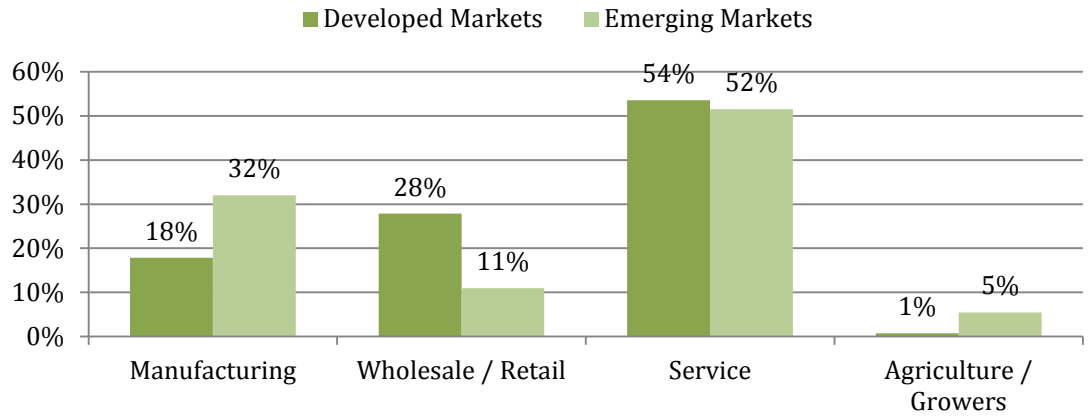
Figure 24: GIIRS company index rating and score

	Global Index	Developed Market Index	Emerging Market Index
Index Rating	★★★	★★★	★★★★
Index Score	91	86	104

Source: Adapted from B Lab (2012b)

Considering the activity sector, the majority of companies both on developed and emerging markets operate in the service sector (see Figure 25). However, the second sector with higher weight varies according to the market type: for developed markets it is the wholesale/retail sector, whereas for emerging markets it is the manufacturing sector.

Figure 25: GIIRS rated companies by sector and market type



Source: Adapted from B Lab (2012b)

Over 70 industries are covered by GIIRS rated companies, with 68% of these companies represented in the top 10 industries (see Figure 26).

Figure 26: Top 10 industries of GIIRS rated companies

Industry	# Companies
Financial & insurance activities	35
Food & beverages	34
Human health, social work & medical supplies	18
Electrical equipment and electricity generation	17
Telecommunications/information services	15
Computer/tech services & products	14
Agriculture, forestry & fishing	13
Education	12
Other services	12
Apparel & Personal care products	11

Source: B Lab (2012b)

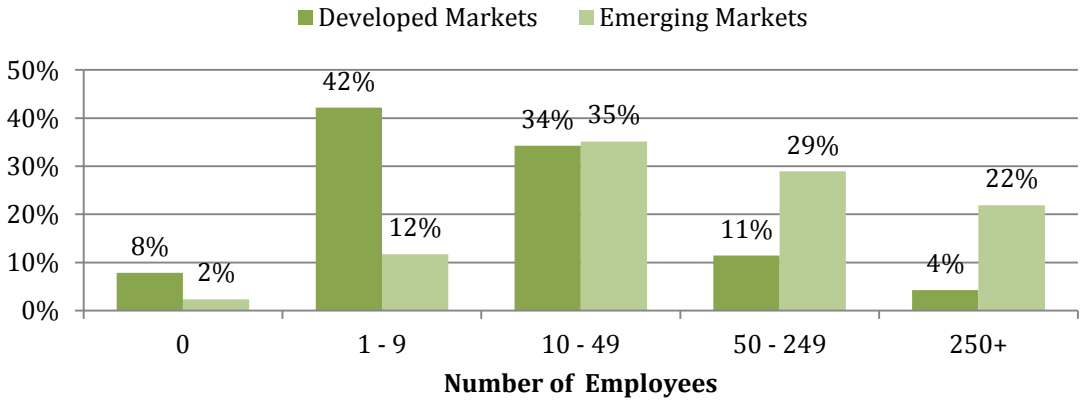
Financial and insurance activities is the one with the highest number of organizations, with microfinance institutions representing 47% of the companies in this industry. This result is in line with the fact that microfinance is a more mature field. Regarding the GIIRS rated companies in the Food & beverages industry, 68% are manufacturers, 23% wholesalers and 9% retailers.

It is interesting to note that the specific types of industries in the top 10, such as health services, education, agriculture and electric supply, clearly translate the social nature and goals of impact investing.

Most GIIRS rated companies in developed markets have between 1-9 employees (see Figure 27). However, it is worth nothing that the trend is to have a higher number of employees in

emerging markets, with most GIIRS rated companies having 10-49 employees. Such trend is linked both with the necessity of job creation and lower labor costs in developing regions.

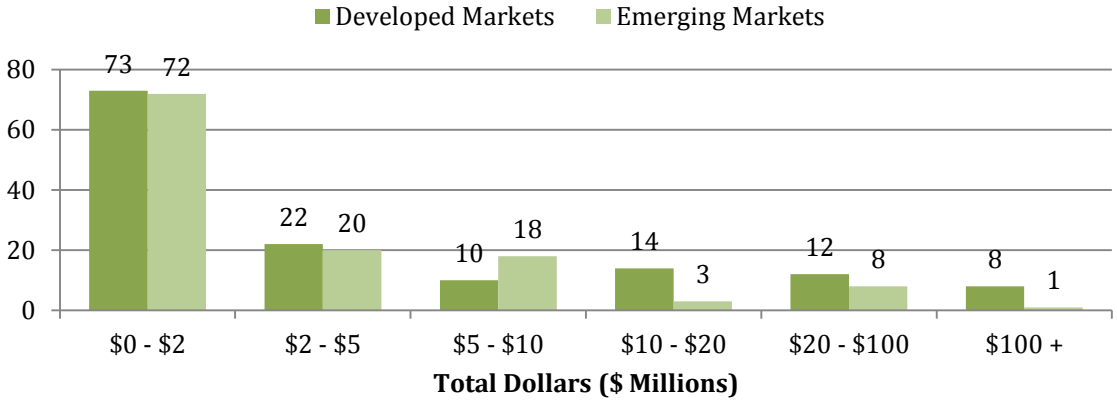
Figure 27: GIIRS rated companies by number of employees and market type



Source: Adapted from B Lab (2012b)

In respect to their annual revenue, most GIIRS rated companies are in the range of $0-$2 million, both for developed and emerging markets (see Figure 28). On average, the total annual revenue for the 140 companies in developed markets is approximately $2.160 million, whereas for the 128 companies in emerging markets it is roughly $930 million. This way, the total average annual revenue of the GIIRS rated companies is about $3,1 billion.

Figure 28: GIIRS rated companies by annual revenue range and market type



Source: Adapted from B Lab (2012b)

According to 55% of GIIRS rated companies, jobs in their community grew by more than 5%. However, it is worth taking a closer look at this value, since there is a considerable difference among the market type: 28% of companies in developed markets reported such growth in job creation against 84% of companies in emerging markets. Nevertheless, these answers are in line

with the just discussed trend of higher employee number in GIIRS rated companies of emerging markets.

About their products and services, 30% of GIIRS rated companies responded that the majority (>50%) tackles a social issue directly. Moreover, 24% of companies reported that the greater part (>50%) of customers are low-income or otherwise underserved.

Such answers shed light on how the positive impact is being generated by GIIRS rated companies in their own communities.

Regarding transparency and accountability, most GIIRS rated companies have audited or reviewed financials from last fiscal year and have worked within their industry to develop or promote social and environmental standards (see Figure 29).

Figure 29: Transparency and accountability data of GIIRS rated companies

	Global	Developed Markets	Emerging Markets
Have audited/reviewed financials	94%	96%	91%
Have worked to develop/advocate social and environmental standards	53%	46%	60%

Source: Adapted from B Lab (2012b)

Summing up, the data presented demonstrate a very fast growth in recent years, and great potential for future growth. Moreover, it also shows a very direct link between the companies' activities and the social objectives of impact investing.

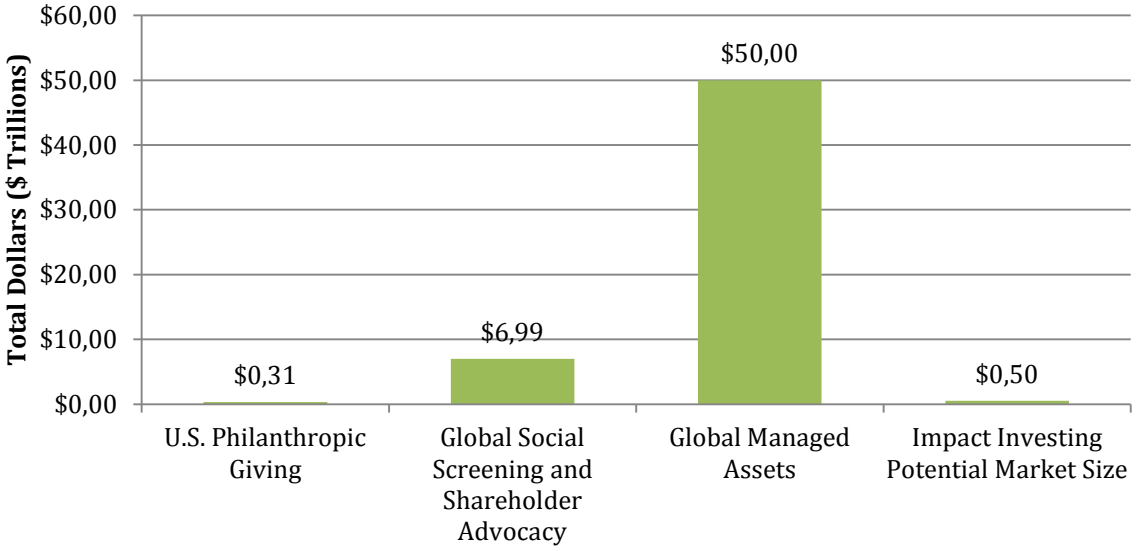
3.4. Estimating the market size

As discussed in *Chapter 2: Literature Review*, the impact investing industry is growing but still in its infancy, making it difficult to define the exact size of the market. Nevertheless, several authors have estimated the potential market size. In the following pages, we will attempt to estimate the value of the current impact investing market size, based on the data highlighted in the previous sections.

Freireich and Fulton (2009) started by analyzing the data and size from impact investing practices with high level of activity and innovation, such as microfinance and community investing. After screening social investments' size, the authors concluded that "it is certainly plausible that in the next five to 10 years investing for impact could grow to represent about 1 percent of estimated professionally managed global assets in 2008". This would be translated into a market size of approximately $500 billion which, according to Freireich and Fulton

(2009), "would create an important supplement to philanthropy, nearly doubling the amount given away in the U.S. alone" (see Figure 30).

Figure 30: Comparative market sizing



Source: Freireich and Fulton (2009)

O'Donohoe et al. (2010) estimated the potential scale of invested capital for emerging markets and in five sub-sectors with available data and case studies. The authors concluded that "in aggregate, across five sub-sectors, we estimate a potential over the next ten years of (…) invested capital ranging from $400bn to nearly $1 trillion".

The estimative by Freireich and Fulton (2009) and O'Donohoe et al. (2010) demonstrate the huge potential of impact investing. Moreover, as Simon and Barmeier (2010) state "although a small amount compared to total global managed assets, at US$50 trillion, (…) it would be a significant increase in resources targeted directly toward social causes".

Based on values of annual revenues of the 418 GIIRS rated companies, we estimated the current market size. First, we computed the total average annual revenue of the GIIRS rated companies of approximately $3,1 billion. Then, having in mind that "while the sample size of rated companies and funds is still relatively small, the data set is growing rapidly" (B Lab, 2012a), we assumed that the total GIIRS rated companies represented between 5% to 15% of the impact investing industry market volume. This way, we estimated the impact investing industry current market size of around $40 billion.

Considering Freireich and Fulton (2009) estimative of market size for the next five to 10 years of approximately $500 billion, it means that there is the potential for tremendous growth within this industry.

3.5. Examples

In this sub-chapter two organizations that illustrate the impact investing activity will be introduced, through two short case studies. Acumen, a nonprofit global venture fund, is one of the first and largest impact investment funds. 234Give is a crowdfunding platform that finances activities and projects with strong social impact, and which could greatly benefit from impact investing, as an investee.

3.5.1. Acumen

Acumen[9] is a nonprofit organization that focuses on solving problems of global poverty through entrepreneurial approaches. It does so by raising funds from charitable donations and then investing them in breakthrough companies, leaders and ideas that are shifting the way global poverty issues are tackled.

The organization was founded on April 1, 2001, with seed capital from three individual philanthropists and two foundations (Rockefeller Foundation and Cisco Systems Foundation). Since the beginning, the idea was to find sustainable long-term solutions through investments instead of simply making grants. In its first years, the company defined itself as a "venture capital fund for the poor", that was supported by a global community of philanthropists – the "partners" – which were treated as investors.

Since it was founded, Acumen has roughly invested $83 million in 73 companies, and exited 11 companies from its portfolio. The organization reached a total of $13 million cash returned from its investments, and raised $368 million in follow-on and co-investment capital. Moreover, through its investments, about 58.000 jobs have been created and supported and a total of approximately 100 million lives have been impacted, improving living standards and economies. It is worth noting that this data reflects how Acumen generates and measures both its financial returns and social impact which, as seen in *Chapter 2*, are clear characteristics of impact investing,.

Mission

Acumen's mission "*To change the way the world tackles poverty by investing in companies, leaders, and ideas"*, captures the key reason why it was created: to change the way poverty was being fought. Furthermore, it highlights the three core action areas of the organization: investment in companies, supporting the new leadership model and spreading ideas.

Another defining characteristic of Acumen is the way how low-income people are approached, since the organization sees them as part of the solution and not as part of the

[9] http://www.acumen.org

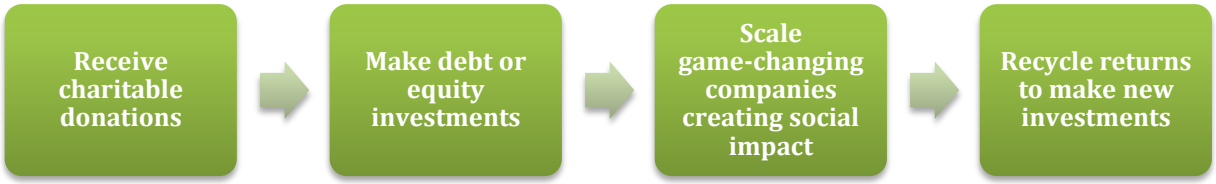
problem. For this reason, Acumen also defines its activity as "a bold new way of tackling poverty that's about dignity, not dependence and choice, not charity".

Such statements demonstrate how concerns for social impact and financial returns are deeply rooted in the organization.

Investment model, criteria and process

Acumen's investment model has four different steps (see Figure 31). The organization raises funds through charitable donations, which are then invested in early stage companies, through patient long-term debt or equity. After the investment is made and in case the company successfully scales, the financial returns are reinvested in the same or in another organization. This way, Acumen's investments generate both social and financial returns.

Figure 31: Acumen's investment model



Source: Acumen

Figure 32 illustrates Acumen's investment criteria set, that potential investee companies must globally meet, with minimum requirements for each criterion which will now be discussed.

Figure 32: Acumen's investment criteria set

Geography
Sector
Stage
Social impact
Investment size
Management team
Financial sustainability
Scale

Source: Adapted from Acumen

Regarding the geography, Acumen only invests in enterprises that are located or have significant operations or impact in Pakistan, India, East Africa and West Africa, and soon also in Latin America. The first Acumen international office was established in 2006 in Karachi, Pakistan; the cumulative amount invested and approved in this region has reached $13 million (see Figure 33). India and East Africa represent the regions with higher amount of invested and approved funds: $28 million and $24 million, respectively.

Figure 33: Acumen's international offices

Country, City	Year of first investment	Year of office established	Cumulative amount invested and approved	Total number of companies
Pakistan, Karachi	2002	2006	$13 million	12
India, Mumbai	2004	2006	$28 million	24
East Africa: Kenya, Nairobi	2003	2007	$24 million	24
West Africa: Ghana, Accra	2010	2011	$4 million	3

Source: Adapted from Acumen (2011)

Potential investee companies should operate either in the Agriculture, Education, Energy, Health, Housing or Water sectors (for more details, see Appendix 4). Investing only in these sectors clearly translates Acumen's social nature and goals.

In respect to the growth stage, Acumen invests in early to mid stage companies, which are in the process of scaling; only in very rare occasions the organization invests in pure start-up companies. This criterion is in line with the findings presented in section *3.2.1. Impact investing funds* which demonstrated that GIIRS rated funds are highly concentrated in earlier investment phases.

The investees' product or services must address a critical need for low-income people in Acumen's sectors and geographic focus. Moreover, the organization states that, in order to have the potential for significant social impact, such "products or services must be economically better or create greater social impact than what is available currently through the market, aid or charitable distribution". This criterion demonstrates the clear positioning of impact investing between traditional markets and philanthropy and a clear understanding of what impact investing is and is not, topics previously discussed in this dissertation (sections 2.1.1 and 2.1.3). Moreover, it allows Acumen to focus its resources in areas where impact investing has the stronger potential.

Acumen's investments range from $0,25-$3 million and are either structured as debt or equity, with payback or exit in about seven to ten years. Once again, these results are in line with industry trends of average investment size around $1-$5 million and patient capital provided as longer than average fund lifetime (section 3.2.1).

Furthermore, Acumen only considers companies with strong and experienced management team, which must have "the skills, will, and vision to execute the business plan, an unwavering commitment to serve the poor, and unyielding ethics".

Regarding companies' potential for financial sustainability, it should be demonstrated in a clear business model for the period within five to seven years. In this business model, companies must express the ability to cover operating expenses with operating revenues.

Such concerns towards qualities and characteristics of the management team and financial sustainability of the company are extremely aligned with the profit concerns of private equity practices, which represent a big difference from common philanthropy practices.

Finally, companies must be positioned as one of the leading service providers in the market and need to be able to demonstrate a clear path to scale the number of end users over the period of Acumen's investment.

Acumen's investment process consists of five different phases (see Figure 34). First, either through business plan submissions, referrals or research by the portfolio team members, potential investments are identified. The next stage is the initial due diligence, in which all potential investments are discussed and examined by senior members of Acumen's portfolio leadership team. The team then conducts a thorough analysis, the formal due diligence, for the investments that have passed the first deliberation. The formal due diligence analysis reviews six different areas of the company: social impact, financial viability, operations, management, accounting, and legal. The following phase consists of presenting the investment opportunities to the investment committee, which will be responsible for the final discussion on the critical issues of the potential transaction and the ultimate responsible for approval or rejection.

Figure 34: Acumen's investment process

Source: Acumen

As a result of being a global organization with offices in several countries and jurisdictions, Acumen's portfolio team operates "as a partnership that shares knowledge, insights, and experiences across its team members".

Acumen has a set of investment principles that are kept at the forefront and strongly guide the organization's investment decision making (see Figure 35). Such investment principles will now be briefly discussed.

Figure 35: Acumen's investment principles

Voices of the customer
Balanced investment approach
Enduring relationships
Quantitative and qualitative insights
International legal best practices

Source: Adapted from Acumen

Voices of the customer consist of keeping the Acumen's customers, the poor, at the center of their work. Such principle is a result of the organization's emphasis on dignity and of its understanding that low-income people are part of the solutions.

In order to maintain a balanced investment approach, Acumen has a high tolerance for risk but, where possible, works hard to understand and mitigate it.

The organization builds long-term relationships with investees, bringing appropriate support and resources to them and their companies before, during, and after the investment approval process.

For Acumen, it is essential to measure both its financial and social performance. However, as discussed in sections 2.4.1. and 2.4.2, measuring social impact is not straightforward and often not possible through traditional metrics. For this reason, the organization strives to compliment quantitative data with qualitative insights, by capturing and sharing the stories and lessons learnt from its work.

Finally, Acumen plays a role in bringing international legal best practices to the regions they work in, by having a zero tolerance policy for businesses that to not comply with local and international laws.

Leadership model and the Acumen manifesto

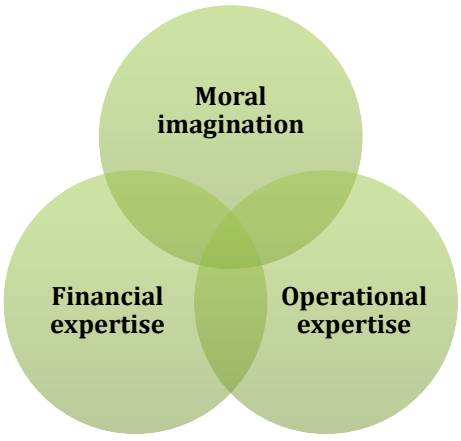
According to Acumen, "the future depends on a new breed of leader, ready to solve the world's most challenging problems". Such statement results from realizing that without the right talent, investee companies are not able to succeed.

For this reason, the organization has implemented a new leadership model, based on three characteristics that Acumen leaders should possess: financial expertise, operational expertise and moral imagination (see Figure 36).

Financial and operational expertise represent the most usually required traits of business leaders. Financial expertise corresponds to the ability of using capital as a tool, to sustainably execute the company's vision, whereas operational expertise includes the necessary skills set to run and scale the leader's vision for the world.

Moral imagination is, however, the novel aspect. It is a result from the understanding that it is necessary to have a new skill set when trying to solve the world's toughest problems. According to Acumen, moral imagination is "the humility to see the world as it is and the audacity to imagine the world as it could be".

Figure 36: Acumen's leadership model pillars



Source: Acumen

This way, by recognizing that leaders need the right mix of values, skills, and experience, Acumen developed three different leadership programs: the Global Fellows Program, the Regional Fellows Program and +Acumen (for more details, see Appendix 5).

Acumen decided to write a manifesto that serves as a moral compass to ground the company in the kind of leaders it wants to be (see Figure 37). The manifesto reflects the just discussed values of the new kind of leadership Acumen believes to be necessary.

Figure 37: The Acumen manifesto

> It starts by standing with the poor, listening to voices unheard, and recognizing potential where others see despair.
>
> It demands investing as a means, not an end, daring to go where markets have failed and aid has fallen short. It makes capital work for us, not control us.
>
> It thrives on moral imagination: the humility to see the world as it is, and the audacity to imagine the world as it could be. It's having the ambition to learn at the edge, the wisdom to admit failure, and the courage to start again.
>
> It requires patience and kindness, resilience and grit: a hard-edged hope. It's leadership that rejects complacency, breaks through bureaucracy, and challenges corruption. Doing what's right, not what's easy.
>
> Acumen: it's the radical idea of creating hope in a cynical world. Changing the way the world tackles poverty and building a world based on dignity.

Source: Acumen

3.5.2. 234Give

"At 234Give, we help ordinary people raise extraordinary money for causes they care about"

234Give[10] is a Nigerian crowdfunding organization focused on leveraging fundraising and charitable giving via an online platform. The company makes the connection between nonprofit organizations or individual fundraisers and donors, linking those seeking to raise money with those wishing to donate. Founded on November 1, 2012 and headquartered in Lagos, it is the first platform of this type in Nigeria.

The company provides a set of complementary services. First, it enables NGOs, other charitable organizations and individual fundraisers to advertise, access a wide spectrum of donors, and receive funding for their projects easily. This way, 234Give allows the planning,

[10] http://www.234give.com

execution, and measure of successful online fundraising campaigns and charity fundraising events. Secondly, the platform provides individual fundraisers or organizations with the opportunity to painlessly support charity projects, reach out to donors and raise funds through easy and effective online payment facilities. Thirdly, donors are offered with easy access to information provided by fundraisers. Moreover, in case of making a donation to projects of their interest, the challenges of insecurity associated with online payment system is eliminated. Finally, the platform deploys state-of-the-art technology to meet all necessary online connections, payment systems, feedback requirements, and security systems relevant to protecting stakeholders.

As a result of channeling the power of the internet for online giving, 234Give connects these organizations to a wider network of donors and empowers them to gather significantly more funds than what is possible through traditional channels.

The idea

"Whatever change you want to see happen, we make it easy for you to make that change"

The company was founded by two investment bankers Dapo Olagunju and Demola Alibi (see Appendix 6 for the founders' profile).

The idea of creating a crowdfunding platform for charitable giving resulted from the understanding that nonprofit organizations' funding in Nigeria mostly came from foreign donors, despite the country's culture of giving. In other words, even though the average Nigerian was actually willing to donate to causes or organizations they cared about, they were not making contributions to charities and nonprofits.

One of the main reasons for such behavior is the lack of awareness about nonprofits' existence and projects. As they don't do any marketing or advertisement of their initiatives, Nigerians find it rather difficult to know and find the charities to give to. Additionally, the fact that few institutions reveal the results of their activities also discourages donations, since it is not possible to monitor and recognize both the actual use given to the money donated and the outcomes it produced.

However, even when donors do know which nonprofit or cause they want to support, they are often faced with another problem: the complex and cumbersome process of donating. In fact, Dapo and his team from work had tried to raise funds to help a public school teacher that suffered from cancer but were not able to meet the desired amount due to the burdensome process.

Solving these shortcomings is what 234Give aims to do. Firstly, through online fundraising, the process of donating is simplified and made possible for everyone; now it only takes a few clicks and a credit or debit card to donate to the chosen fundraiser. Secondly, by providing a

place where each nonprofit can show its current activities and the results achieved with the money collected, the platform tackles the issues of lack of awareness, transparency and accountability.

Vision, Mission and Values

234Give's vision, *"To become the most influential catalyst of social change in Africa",* captures what its creators envision the platform to be in the future, highlighting the intention to extend such practice to other parts of the continent and to make the platform a channel where Africans can help other Africans to make positive changes in their countries.

In order to achieve such challenging and ambitious vision through its daily business, 234Give has set the following mission: *"To be a sustainable online platform that provides innovative and effective solutions to fund positive social causes"*. Moreover, the company has chosen innovation, reliability, appreciative, integrity, sustainability and efficiency as its core values set (for more details, see Appendix 7).

With the theme "*Celebrating Visible Impact"*, 234Give positions itself as an efficient and credible online fundraising platform that facilitates the users to effectively impact lives. Such theme celebrates the initiatives and the created impact of 234Give's fundraisers, as well as the participation of donors who help achieve such impact. Furthermore, *Celebrating Visible Impact* demonstrates the security and trustworthiness of 234Give as an online platform that serves as a connection point for people who want to achieve a common goal: to impact lives positively.

How 234Give works

"Think of 234Give as a tunnel. On one end are all those who want to help. On the other end are all those who need it"

234Give.com works in a similar way as any crowdfunding platform, with the key feature of funding specifically nonprofits and humanitarian causes (see Figure 38).

Firstly, fundraisers register and setup their profile page at 234Give, explaining what their activities are and why they need to raise money. Then, fundraisers share their page with the crowd: visitors to the site choose which ones they want support and how much money they want to donate. Supporters can channel their donation to a specific individual fundraiser, such as a friend or employer that is raising money for a cause, or they can simply use the search function to find a fundraiser that best aligns with their personal interests and preferences. Using a debit or credit card, it is possible to make donations, safely, securely, easily and immediately. In 234Give, every contribution is a donation, which means that supporters will not receive a financial return.

Figure 38: How 234Give works

Source: 234Give

Allowed fundraisers at 234Give include charities, nonprofit institutions or NGOs, corporate organizations and individual fundraisers. It is important to note that while nonprofits raise money for their own general ongoing activities, corporate organizations and individual fundraisers raise money to support a cause or a nonprofit registered on the platform. 234Give also distinguishes fundraising as a cause, which consists of individuals seeking to finance a worthy humanitarian cause or nonprofits seeking to raise money for a specific project.

Since its launch, over 390 donors have given via the online platform, and there are currently over than 116 nonprofits are registered on 234Give.

Registered as a for-profit business, the key revenue stream for 234Give is the service fee of 7,5% charged to all the donations collected through the platform by the fundraisers.

Organizational Structure

As shown in 234Give organizational chart (Appendix 8), the company has a three-tiered governance structure to provide oversight for the business and ensure both business and social objectives are being met.

Firstly, the Board of Directors headed by the Chairman of the Board, is responsible for defining the strategic direction of the company as well as the business objectives. It also ensures

compliance with regulatory requirements and appoints the company directors, including the CEO.

In the second tier, there is the Advisory Board headed by the Advisory Board Chair, a non-executive director, and independent of the Board of Directors. It works within the strategic business framework defined by the Board of Directors, and is responsible to oversee social objectives.

Thirdly, the Management Board headed by the CEO is responsible for the daily operations, reporting both to the Board of Directors and to the Advisory Board. To operate efficiently, 234Give's management is segmented into three broad function divisions, each headed by a manager: Operations, Administration & Human Resources, Accounts & Finance, and Business Development & Strategy.

Ensuring transparency

A critical factor to 234Give's success is to guarantee that the nonprofits and causes registered and raising money through the platform are true to their identity and objects. For this reason, the company conducts a thorough due diligence on fundraisers, so to confirm that these organizations are not set up to promote criminal activities such as terrorism, money laundry or fraud. Hence, while it is possible to start raising funds immediately after registering on the platform, the money collected will not be transferred to the fundraisers' bank account until all the procedures are in place.

First of all, 234Give will only consider nonprofits institutions that have satisfactorily proved their legitimacy and registration with the Nigerian Corporate Affairs Commission, the government's primary regulator for these organizations.

Additionally, all nonprofits registered in 234Give have to subscribe and duly execute the Positive Action Statement (Appendix 9). This document is a code of conduct that requires the organizations to maintain a high level of ethical standards and corporate governance in their operations.

In Figure 39, it is presented the complete list of documents that 234Give requires to every nonprofit after registering in the platform.

Figure 39: Documents required by 234Give

Board resolution approving the use of 234Give service and setting out the bank details where the donations will be remitted
Executed Positive Action Statement
Corporate Affairs Commission Certificate of registration
Evidence of registered address of the beneficiary
Copy of official I.D of board members

Source: 234Give

In order to ensure transparency, 234Give does not accept cash donations at their offices; the available methods of payment include debit and credit cards, checks, Mobile Money and bank transfers. This way, when the donation is made, the money is transferred to a trustee organization, where it is held during the due diligence period. When all confirmations have been made, the net value will be transferred into the fundraiser's account, whereas the administrative cost is paid to 234Give. However, in the case of a cause that is not registered with the Corporate Affairs Commission, donations will be remitted only to the provider of the service for which funds are meant for as stated at the time of registration. This means that, for instance, if a cause is raising money through 234Give to support a school, the funds collected will be transferred directly to the school's bank account, and not to the cause supporting it. The same process is applied in the case of an individual fundraiser: the money collected is transferred directly to the supported nonprofit or cause.

234Give and impact investing

234Give is an organization that, as an investee, could greatly benefit from impact investing, given its necessity for funds and resources to possibly extend its business and operations to other countries, increasing the social impact generated.

With this example, our intention is to demonstrate the potential of impact investing to complement charities and philanthropic initiatives.

CHAPTER 4: CONCLUSIONS, LIMITATIONS OF THE STUDY AND FUTURE RESEARCH

Conclusions

The goal of this dissertation was to evaluate the potential of tackling the world's most pressing social problems through financial investment practices, more specifically, through impact investing. With such purpose in mind, the research questions were defined as: "What is impact investing?" and "How is the impact investing industry characterized?"

Hence, we started by discussing how this practice had started, and understood that it emerged as an answer to solving poverty and critical social and economic issues that neither governments and charity alone could solve. Thus, impact investing fills in the gap between the market and philanthropy.

Defined as "investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return", impact investments use market based solutions to solve tough problems in innovative ways. Here it is critical to clearly understand that the goal is to generate both social and financial returns, not only just one or the other.

Different investors participate, with varying financial returns expectations and impact goals, across geographical regions and business sectors. Impact investing is a truly global activity, with funds and companies operating both on developed and emerging markets.

Authors have estimated a potential market size for the next 10 years of approximately $500 billion which, having in mind our own estimate of current market size of around $40 billion, represents a potential for tremendous growth for the impact investing industry in the coming years.

We have also seen that in only six months there has been a considerable growth in the number of GIIRS rated funds and companies. Moreover, having in mind the number of organizations still in the rating process, such growth will continue.

Limitations of the Study and Future Research

However, analyzing an industry in such early stage also has drawbacks, which represent the limitations of this dissertation. First, there is still lack of aggregate information and data for the industry; the information available is disperse and often difficult to access. Moreover, several funds and companies are still testing their models and practices.

Nevertheless, we believe that the following years will be very thrilling for impact investing. As the industry grows and matures, and with initiatives like GIIN, IRIS and GIIRS, these

limitations will mostly diminish. For this reason, it will surely be extremely interesting to see the industry evolution.

Having this in mind, we will now present our suggestions for future research.

The key question to be answered is: Does impact investing really generates positive social impact? How do these investments influence development through the organizations they create?

Regarding financial returns, an interesting analysis would be to evaluate impact investments' realized and expected values; were expectations matched or did it fall short? Comparing realized impact investing financial returns with those from traditional markets would also be another interesting study.

Finally, studying an impact investing fund in further detail and understand how its practices correlate to the existing theories.

With this dissertation, we hope to have shown the role of Finance in changing the world (for the better): investing in organizations that try to solve tough problems through business solutions, generating both financial returns and social impact.

APPENDICES

Appendix 1: The GIIN's five key initiatives

Outreach

The GIIN's Outreach initiative elevates the profile of the impact investing industry by highlighting examples of impact investments, tracking industry progress, and sharing market information and best practices with the diverse impact investor community, potential impact investors, and the general public. The GIIN attends and speaks at industry events, informs conference and event programming, and promotes mainstream traditional and social media coverage of the impact investing industry. In addition, the GIIN's practitioner-focused research draws on its industry networks and leverages data gathered through its programs.

As part of Outreach, the GIIN maintains an online impact investing resource center, which features research, news clippings, events, useful links, and GIIN publications about impact investing. The GIIN also hosts an online Career Center, which is a free source for top job openings in impact investing from members of the GIIN and other impact investing organizations. Additionally, the GIIN authors and circulates a free monthly newsletter that features the latest impact investing news and events, as well as Investor Spotlight interviews with leading impact investors about their motivations, strategies, and deals.

Network Membership

The GIIN's membership is for organizations interested in deepening their engagement with the impact investing industry. Members of the GIIN are connected to a thriving peer community and gain formal access to industry information, tools, and resources. Members periodically meet at events and through virtual convenings, and receive tutorials on tools designed to strengthen their impact investment.

ImpactBase

ImpactBase is the online global directory of impact investment vehicles. ImpactBase reduces search costs and brings order to the previously fragmented and opaque impact investing fund and product marketplace.

ImpactBase provides an organized database and search tool for sharing and finding information on impact investment vehicles. Fund managers and financial intermediaries increase visibility with individual and institutional investors around the world by creating ImpactBase profiles for their impact investment vehicles. Accredited investors and financial advisors subscribe to ImpactBase to search for and learn about vehicles that match specific impact investment objectives.

IRIS

Impact Reporting and Investment Standards (IRIS) is a set of metrics that can be used to describe an organization's social, environmental, and financial performance. IRIS is designed to address a major barrier to the growth of the impact investing industry - the lack of transparency, credibility, and consistency in how organizations and investors define, measure, and track their performance. The IRIS initiative has three main components: (1) developing and refining IRIS; (2) increasing accessibility of IRIS promoting IRIS use; and (3) encouraging voluntary contribution of self-reported, anonymous IRIS performance data to provide additional market intelligence.

By using IRIS to track social, environmental, and financial performance, a wide range of investors and organizations can communicate their social, environmental, and financial performance using the same terms and definitions. This consistency helps investors evaluate and compare performance for more accurate assessment and comparison, and helps portfolio organizations track and improve their business and social performance.

Investors' Council

The GIIN Investors' Council is an exclusive leadership group for active large-scale impact investors. Comprised of asset owners and asset managers with diverse interests across sectors and geographies, the Investors' Council provides a forum for experienced impact investors to strengthen the practice of impact investing and accelerate learning about new areas in the field. As leaders, Investors' Council members also participate in field-building activities such as infrastructure development and research to advance the

broader impact investing industry.

The Investors' Council currently supports two working groups focused on specific impact investing themes. The first working group, Terragua, is composed of Investors' Council members that are focused on increasing investment in sustainable agriculture in sub-Saharan Africa, with a goal to improve the lives of poor farmers and their families. The Inclusive Finance Working Group is composed of Investors' Council members interested in inclusive finance, particularly financing access for small and medium enterprises, microfinance, and financial inclusion access platforms.

Source: GIIN

Appendix 2: IRIS sector categories

Cross Sector

Cross-sector metrics are metrics that may be relevant to an organization regardless of sector. Within the cross-sector metrics there are sections with additional granularity, such as water used by the organization's operations or the demographic break-out of the organization's clients, which may only be useful to some organizations.

Agriculture

The agriculture metrics have been designed to capture many of the environmental aspects of agriculture practices as well as agricultural productivity performance measures. These metrics may be pertinent to organizations operating throughout the agricultural value chain.

Education

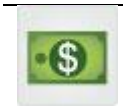
The education metrics have been designed to capture some of the core features of schools such as facilities, teachers, and student performance. These metrics are currently most pertinent to educational institutions.

Energy

The energy metrics have been designed to capture performance measures for products and services that seek to reduce energy consumption or conserve energy resources, such as energy efficient technologies or alternative energy producers.

Environment

The environment metrics have been designed to capture the performance of products and services that conserve natural resources, reduce threats to biodiversity, or reduce land- and air- based pollution.



Financial Services

The financial services metrics have been designed to capture both the financial and social performance of organizations that provide financial services to underserved populations. These metrics are pertinent to microfinance institutions and community development finance institutions. The metrics that are denoted as financial services metrics are aligned with reporting standards that have been developed by the Social Performance Task Force, the Microfinance Information Exchange, and others.

Health

The health metrics have been designed to capture some common performance areas for health care facilities such as occupancy, utilization, and wait time. These metrics are currently most pertinent to hospitals and clinics.

Housing/Community Facilities

The housing and community facilities metrics have been designed to capture some of the core aspects of the development of these projects, including the percent of affordable housing and the use of green-building practices.

Water

The water metrics have been designed to capture the performance of products and services that conserve water, improve the quality of water, or increase the availability of quality water, such as water treatment or conservation devices and water storage and delivery mechanisms.

Source: IRIS

Appendix 3: GIIRS rated companies by country and market type

GIIRS rated companies across 29 countries

	Developed Markets	Emerging Markets
Canada	12	
New Zealand	1	
United States	127	
Bangladesh		1
Brazil		4
Chile		2
China		1
Costa Rica		7
Dominican Republic		1
Ecuador		1
El Salvador		2
Ethiopia		1
Georgia		8
Ghana		2
Guatemala		2
Honduras		2
India		25
Kenya		22
Liberia		1
Mexico		18
Nicaragua		6
Nigeria		1
Pakistan		1
Peru		1
Philippines		1
South Africa		3
Tanzania		2
Uganda		4
Vietnam		9
Total	**140**	**128**

Source: Adapted from B Lab (2012b)

Appendix 4: Acumen's sector categories

Agriculture

Acumen's agricultural investments span innovations across their selected geographies such as hybrid seed varieties, access to financing for smallholder farmers, to mobile-technology to ensure farmers receive fair pay for their crops, and more.

Education

Acumen focuses on education services and vocational training for low-income customers. By investing in a portfolio of solutions addressing education, the organization is helping to close the gap between access, quality, and affordability to generate pathways out of poverty for millions.

Energy

Acumen's companies, which are impacting tens of millions of lives, are innovators in hand-held

	solar power, distributed energy to rural communities, clean cookstoves, bio-gasification systems, and more.
	Health Acumen's Health Portfolio supports a range of solutions providing healthcare products and services to low-income customers from affordable emergency ambulance services, to healthcare education, to affordable eye care, to health insurance for families.
	Housing Acumen invests in sustainable, scalable enterprises that focus on supply and financing for housing. Examples include housing for low-income squatters, micro-lending for women, and formalizing land rights for the poor.
	Water Acumen's water and sanitation investments span across their selected geographies from safe drinking water kiosks, to water delivery services, to affordable pay-per-use toilets in slums.

Source: Adapted from Acumen

Appendix 5: Acumen's leadership programs

Global Fellows Program
A full-time one-year fellowship. 10-12 individuals from all over the world spend two months in New York undergoing intensive leadership training, followed by nine months working with one of Acumen's portfolio companies.
Regional Fellows Program
A one-year fellowship currently offered in East Africa and Pakistan. 20 individuals in each region participate in intensive seminars and training exercises to improve their capacity to execute on a social change project of their choosing. Participants remain in their full-time jobs while in the program.
+Acumen
+Acumen was created to give people a meaningful way to "add Acumen" to their lives. +Acumen makes the organization's leadership curriculum available to anyone, globally. It is possible to learn through online courses, volunteer through Acumen's chapters, or apply to lead a new chapter in a different city.

Source: Adapted from Acumen

Appendix 6: Profile of 234Give founders

Dapo Olagunju, Group Treasurer of Access Bank Plc, is the responsible for the treasury business strategy across nine sub-Saharan African countries and the UK. A fellow of the Institute of Chartered Accountants of Nigeria, Dapo holds an MBA from the University of Oxford. He also serves on the Board of several NGOs including the Nigeria Leadership Initiative and Education as a Vaccine.

Demola Alabi heads the Investment Banking Division at Afrinvest (West Africa) Limited. Demola's experience broadly includes wealth management, project and corporate finance, gained from leading institutions in both Nigeria and the United States of America.

Demola holds a B.Sc. in Accounting from the University of Lagos and an MBA from the University of California, Berkeley. Demola is also a fellow of the Institute of Chartered Accountants of Nigeria.

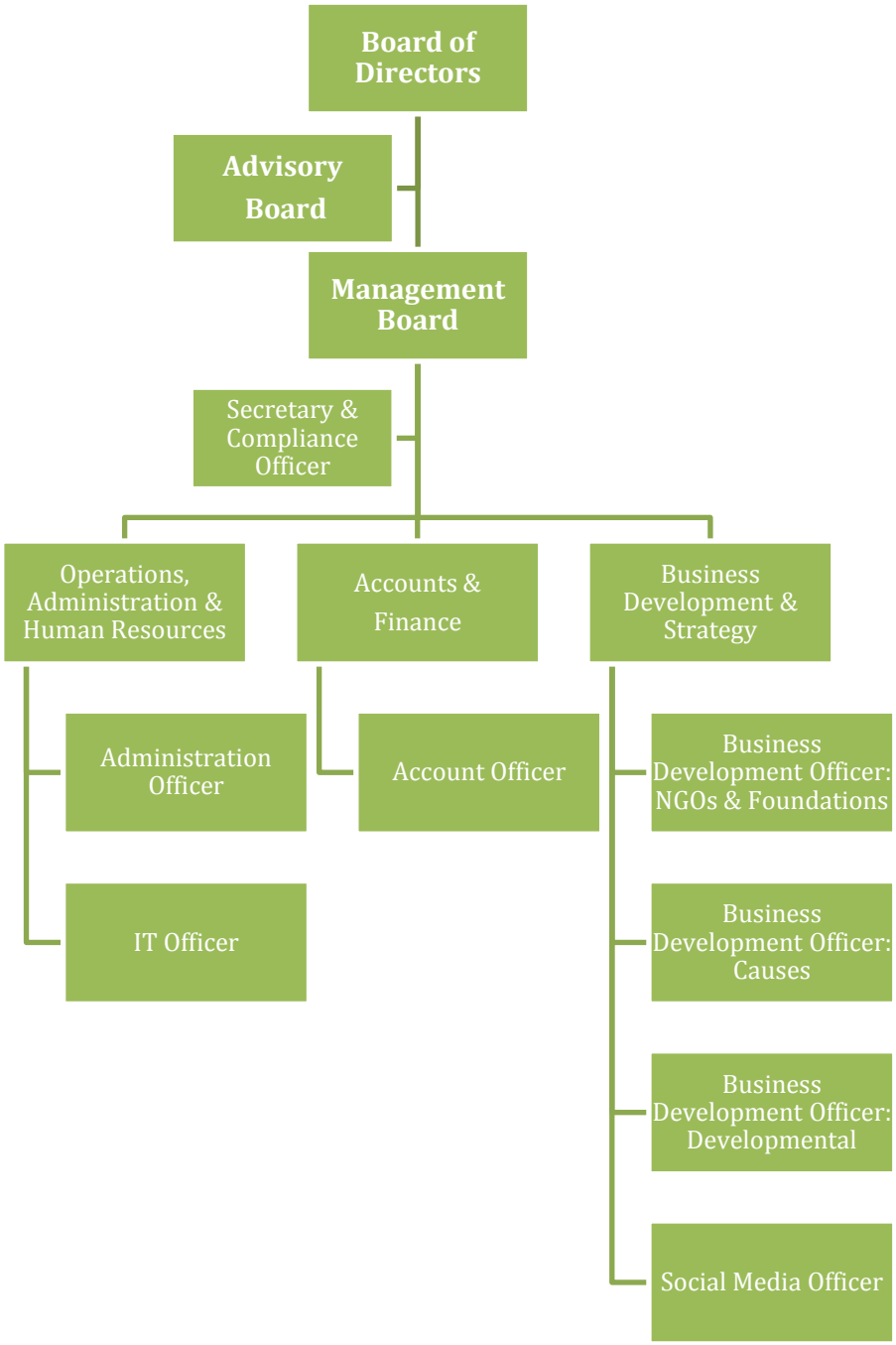
Source: 234Give

Appendix 7: 234Give's values set

Innovation
234Give uses, and continues to explore, innovative technology to facilitate easy usage of its platform. It also develops innovative ideas for engaging charities and fundraisers to make their experience on 234give.com worthwhile.
Reliability
234Give aims to become a channel that charities and fundraisers can rely on for seamless transactions and easy access to a wider community of donors.
Appreciative
234Give's theme encompasses appreciation of the solicitor's initiative and its ability to impact the society, and the donors participation in the solicitor's cause.
Integrity
234Give functions with a high regard for users' information and protection from fraudulent solicitor activities with the use of secured mechanisms for transactions and security checks for solicitors.
Sustainability
234Give works towards becoming a self sustaining platform, which in itself sustains the businesses of charities.
Efficiency
234Give provides an avenue for donors to make contributions conveniently, while also providing an easier route for solicitors to raise funds in a secure environment.

Source: Adapted from 234Give.

Appendix 8: 234Give's organizational chart



Source: Adapted from 234Give.

Appendix 9: Positive Action Statement

POSITIVE ACTION STATEMENT

We, _____ (the governing body), of _____ (name of organization) commit to:

Principle 1. Leading our organization. We do this by:

1.1. Agreeing our vision, purpose and values and making sure that they remain relevant;

1.2. Developing, resourcing, monitoring and evaluating a plan to make sure that our organization achieves its stated purpose; and

1.3. Managing, supporting and holding to account staff, volunteers and all who act on behalf of the organization.

Principle 2. Exercising control over our organization. We do this by:

2.1. Identifying and complying with all relevant legal and regulatory requirements;

2.2. Making sure there are appropriate internal financial and management controls; and

2.3. Identifying major risks for our organization and deciding ways of managing the risks.

Principle 3. Being transparent and accountable. We do this by:

3.1. Identifying those who have a legitimate interest in the work of our organization (stakeholders) and making sure there is regular and effective communication with them about our organization;

3.2. Responding to stakeholders' questions or views about the work of our organization and how we run it; and

3.3. Encouraging and enabling the engagement of those who benefit from our organization in the planning and decision-making of the organization.

Principle 4. Working effectively. We do this by:

4.1. Making sure that our governing body, individual board members, committees, staff and volunteers understand their:

- role,
- legal duties, and
- delegated responsibility for decision-making;

4.2. Making sure that as a board we exercise our collective responsibility through board meetings that are efficient and effective; and

4.3. Making sure that there is suitable board recruitment, development and retirement processes in place.

Principle 5. Behaving with integrity. We do this by:

5.1. Being honest, fair and independent;

5.2. Understanding, declaring and managing conflicts of interest and conflicts of loyalties; and

5.3. Protecting and promoting our organization's reputation.

We confirm that our organization is committed to the standards outlined in these principles. We commit to reviewing our organizational practice against each principle every year.

[Authorized Signatory]	[Authorized Signatory]
[Date]	[Date]

Source: 234Give

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Kickstarter: *http://www.kickstarter.com/*

Sellaband: *http://www.sellaband.com/*

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The Global Impact Investing Rating System (GIIRS): *http://giirs.org/*

The Impact Reporting and Investment Standards (IRIS): *http://iris.thegiin.org/*