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MIND THE GAP

Non-Profit Organizations tapping into impact investing
A multi case study comparison

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Abstract

Free markets are an unparalleled catalyst for freedom and prosperity. Growing social, environmental and economic challenges, however, demand society to reimagine capitalism. Over the last decade, impact investing developed as an alternative investment style with the potential for transformative and sustainable growth. This thesis aims to understand the role of Non-Profit Organizations as impact investors. Extant literature on the beginnings, history and status quo of the impact investing industry builds the theoretical background of this paper. Thereafter, a multi case study analysis conducts an empirical examination of three Non-Profit Organizations entering impact investing. The results of the cross-case analysis suggest that Non-Profit Organizations enter impact investing because their traditional funding sources are stagnating, their donors are becoming more sophisticated in their return expectations, and the impact investing industry provides them additional ways to further their mission. Non-Profit Organizations have been operating in the social and environmental sector for over half a century. Their experience enabled them with a diverse skillset that distinguishes them from other investors and yields particular advantages in impact investing. A Non-Profit Organization's role as investor goes beyond capital deployment. Their local experience, global networks, and knowledge allows them to offer technical assistance, support building the ecosystem, and help legitimize the industry further. The thesis finds that Non-Profit Organizations have no uniform strategy or structure when forming an impact investing unit, as the industry bears an enormous range of interpretations and parameters. In spite of this heterogeneity, this paper identifies seven success factors that hold true for all the case studies. The thesis concludes that, beyond their direct value creation as impact investors, Non-Profit Organizations take on multiple roles simultaneously, serving as ecosystem builders, intermediaries, and setting an example for how global challenges can be addressed within market mechanisms, thus shrinking the financial gap existing to address the most challenging social and societal problems.

List of Abbreviation

Accion	Accion International
AFIF	Accion Frontier Inclusion Fund
ALINUS	Aligning Investors Due Diligence with Universal Standards
AQF	Accion Quona Fund
AUM	Assets Under Management
AVL	Accion Venture Lab
B2B	Business to Business
CARE	Cooperative for Assistance and Relief Everywhere
CEO	Chief Executive Officer
CFP	Corporate Financial Performance
CIO	Chief Investment Officer
CISCO	Commercial and Industrial Security Corporation
DFI	Development Finance Institutions
ESG	Environmental Social and Governance
FIG	Frontier Investment Group
FINCA	FINCA International
GIIN	Global Impact Investing Network
GIIRS	Global Impact Investing Rating System
GNA	Good Nature Agro
GP	General Partner
HNWI	High Net Worth Individuals
IC	Investment Committee
IFC	International Finance Corporation
IMP	International Management Project
INGO	International Non-Government Organization
IPO	Initial Public Offering
IRIS	Impact Reporting and Investment Standards
IRR	Internal Rate of Return
KPI	Key Performance Indicator
KPMG	Klynveld Peat Marwick Goerdeler
LIFI	Low income financial institutions
LLC	Limited Liability Company
LP	Limited Partner
MEDA	Mennonite Economic Development Associates
MFI	Microfinance Institutions
MicroVest	MicroVest Capital Management
NPO	Non-Profit Organization
PBLLC	Public Benefit Limited Liability
PEA	Private Extension Agents
Quona	Quona Capital
PRI	Program Related Investment
RFI	Responsible Financial Institutions
SCFD	Seed Capital Development Fund
SDG	Sustainable Development Goal

SME	Small and Medium Enterprises
SRI	Socially Responsible Investing
U.K.	United Kingdom
UN	United Nations
US$	United States Dollars
U.S.A.	United States of America
WEF	World Economic Forum

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1. Introduction

"We do not inherit the earth from our ancestors; we borrow it from our children." – Proverb

1.1. Topic Introduction and Relevance

"Capitalism is one of the great inventions of the human race – an unparalleled source of prosperity, opportunity and innovation" argues Rebecca Henderson, a university professor at Harvard (2020). The financial crisis in 2008, the recession that followed, and its slow recovery, are evidence of fundamental flaws of Western capitalism. The crash "exposed the uncomfortable truth that much of the apparently benign growth which had occurred in the previous decade did not in fact represent a sustainable expansion of productive capacity and national income" (Jacobs & Mazzucato, 2016, p. 3). Rising inequality, weak and unstable growth paired with "continued environmental pressures, especially those of climate change, have raised profound risks for global prosperity" (Jacobs & Mazzucato, 2016, p. 1) and expose come of modern capitalism's challenges. Henderson, while convinced that to solve these global challenges the pressure of free markets and thus *a version* of capitalism is needed, also argues that *businesses* must move away from obsessive short-term thinking and that *society* as a whole must shift away from the profit-at-all-cost mentality (2020). She joins Trelstad (2016) and other leading economists in accentuating the growing need to rethink and reimagine capitalism (p. 6).

Over the last years, societal threats such as the depletion of natural resources, climate change, political unrest, and the growing complexity of the global environment, have created new markets and awareness of the responsibility of society, as well as consideration to include sustainability factors in social entrepreneurship and investment decisions (Lehner et al., 2019, p. 416).

To this end, the United Nations (UN) created sustainable development goals (SDGs) in 2016, with the objective to mobilize efforts, and set universal standards that address the urgent issues listed above (UNDP, n.d.). Despite the overwhelming attention and support the SDGs have received over the years, a status review in 2018 by the UN estimates a US$2.5 trillion annual funding gap in achieving the SDGs by 2030 (Ogden et al., 2018). Bugg-Levine and Goldstein (2009) state that there is insufficient charitable and public capital to address such large societal issues as SDGs (p. 30). Private capital, however, could play a crucial part in influencing how vital resources are distributed and be essential in addressing this growing gap (Schwartz & Finighan, 2020). Dente et al. (2016) confirm that "the scale of economic and social problems, the complexity of the global environment, and the myriad forces that pressure traditional models are resulting in new creativity, innovation, and types of collaboration" (p. 11).

In this evolving landscape impact investing appeared on the horizon around 2008 as "an important driver, with a potential for transformative growth and incredible scale" (Tekula & Andersen, 2018, p. 156). Bugg-Levine and Goldstein (2009) claim that "impact investors offer a bridge between traditional philanthropy, which incubates innovation and mobilizes attention to exciting solutions, and the private-sector capital markets that ultimately hold the wealth required to advance these solutions to a level proportionate to need" (p. 32). Martin (2013) concurs, as intentionally investing for both social impact and financial returns sets up a desirable investment strategy for private capital investors that encourages them to further diversify (p. 5).

Over the last decade, the impact investing industry has indeed experienced notable momentum and respectable growth. In 2010, J.P. Morgan estimated that in the next decade the worldwide potential for the impact industry worldwide could grow to from US$400 billion to US$1 trillion in invest capital (O'Donohoe et al., 2010, p. 6). In August 2020 CNBC announced that global sustainable investment funds surpassed US$1 trillion for the first time (Meredith, 2020). The industry not only recorded substantial capital growth but attracted a broad array of actors, ranging from various governmental bodies to institutional investors in the marketplace, with various roles including facilitators and service providers (Tekula & Andersen, 2018, p. 156).

One of these players are Non-Profit Organizations (NPO). While initially perceived as rather paradoxical – a not-for-profit entity making for-profit investments – research shows that NPOs have a strong value proposition to amplify impact investing (Dente et al., 2016, p. 8). It aids them in creating new and diverse opportunities to support essential development needs, harnessing new resources and partners to meet the ever more complex needs of society.

This thesis will illustrate the motivation and strategy of NPOs as impact investors, and what role they can play in accelerating the impact industry.

1.2. Objectives and Research Approach

The principal aim of this thesis is to understand *why* and *how* NPOs enter impact investing and what their role as impact investors is. The paper conducts a multi case study comparison of three NPOs, entering impact investing, to attain the following *three objectives.* The first is to understand why and how NPOs are emerging as impact investors. As part of the first objective the motivation and rationale behind the NPOs' decisions to enter the impact industry are revealed. Then its structural nature, including organizational, legal and governance, but also their portfolio and monitoring process are studied. The second objective is to derive the potential *success factors* of NPOs as impact investors. Finally, the paper will *analyze implications* the impact investing sector has on NPOs and vice versa, to conclude what will drive the respective industries in the future.

The paper is structured as follows. It begins with impact investing's origin, history and status quo to present a theoretical background of this relatively new industry (chapter 2). Thereafter, it introduces to the trend of NPOs as a new player in the sector (chapter 2), before laying out the methodology chosen to perform the multi case-study comparison (chapter 3).

Chapter 4 is an empirical examination of three specific NPOs entering impact investing as investors. The three case studies' intent is to reach the first objective of the thesis. The organizations of each case are identical, which increases comparability. Thereafter, a comparative analysis will weigh the findings from each case study (i) with each other and (ii) to the existing theory, to reach the second and third objective of the thesis and tie into the first (chapter 5). The analysis of the theory following the execution of the case studies was selected to minimize bias and limitations in the findings. Finally, the conclusion (chapter 6) reflects on the research question and its three objectives. It will look at implications and propose further research.

2. Theoretical Background and Fundamentals

This chapter describes the historical background and drivers and defines the term *impact investing*. Then the industry's latest progress, including achievements, challenges, its status quo and future potential, is established. The chapter concludes by introducing the recent trend of NPOs as a new player in the industry, leading the way for the empirical part of the thesis.

2.1. Coining the term impact investing

It was only in the last decade that impact investing, as it is known today, became increasingly popular. However, the historical precedent of social consideration dates back to the 1800s. The general concept of impact investing came about from the century's idea that the wealthy in society are responsible for the welfare of the broader community (Bugg-Levine & Emerson, 2011, p. 11). It was this motivation that supported the environmental movement of the 1970s, the anti-apartheid divestment campaigns of the 1980s, and the thought process that conceived of finance institutions such as the Commonwealth Development Corporation and the World Bank International Finance Corporation (Höchstädter & Scheck, 2014, p. 450).

Until the mid-20th century on the spectrum there were only two extreme ranges of capital: financial and philanthropic (Trelstad, 2016, p. 5). However, over the past decades as the tools for achieving financial and social returns have developed, financial and philanthropic capital have come closer together and formed a broader investing continuum (Figure 1) (Balandina-Jaquier, 2016, p.20).

Figure 1: Investing Continuum

<table>
<tr><th rowspan="2">Traditional: Finance – only</th><th rowspan="2">Responsible Investing (RI)</th><th rowspan="2">Socially Responsible Investing (SRI)</th><th colspan="2">Impact Investing</th><th rowspan="2">Philanthropy: Impact – only</th></tr>
<tr><td>Finance-First</td><td>Impact-First</td></tr>
<tr><td colspan="4">Targeting competitive, market returns</td><td>Targeting below-market returns</td><td></td></tr>
<tr><td></td><td colspan="5">Mitigating ESG risk</td></tr>
<tr><td></td><td></td><td colspan="4">Sourcing ESG opportunities</td></tr>
</table>

Source: Own illustration, based on Balandina-Jaquier, 2016, p. 20

In the 1960s and 1970s a new form of capital came into view. Imagining a spectrum with philanthropy on the left and financial investments on the right (Figure 1), a practice called *socially responsible investing* (SRI) moved in from the left end. According to Trelstad (2016) SRI is designed to minimize investments that have a negative impact, and initially were endorsed by faith-based activists and university students who advocated for investment guidelines that screen out unethical investments (p. 5). Spiess-Knafl and Scheck (2017) state that SRI screens for negative selection in order to exclude investments in so-called *sin stocks* such as weapons, tobacco, or the gaming industry (p. 87f.). The UN defines SRI "as a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership" (UN Global, 2006).

Around this time the Ford Foundation introduced *program related investments* (PRI), also referred to as *social investments*. According to the Ford Foundation (n.d.) "a PRI is a loan in support of one of the following: (a) charitable activity that is expected to generate revenue which, in turn, can be used to repay the loan, such as a socially-motivated venture; or (b) charitable on-lending or investing where the returns of principal and interest are expected to be sufficient to repay the loan, as with a revolving loan fund"(p.1). The idea to move away from grants to loans was guided by the wish to reuse the additionally gained capital for further philanthropic purposes and to show creditworthiness to donors and lenders of the Ford Foundation (Trelstad, 2016, p. 6).

During the late 1970s and 1980s the proliferation of PRIs evolved into what today is known as microfinance[1]. The most notable example in microfinance is Grameen Bank, founded by the *father of microfinance*, Nobel Laureate Muhammad Yunus. By demonstrating that small, affordable loans could be repaid by poor farmers, he unlocked a virtuous cycle of self-replenishing credit markets (Keohane, 2016, p. 89f.). Up to this point microfinance was mostly supported by governments and foundations. The growing interest in microfinance, fueled by the rise of digital technology, attracted commercial lenders, demanded more sustainable infrastructure, and inspired organizations and networks such as the Consultative Group to Assist the Poor and Women's World Banking (Keohane, 2016, p. 90).

These new actors and subsequent commercialization transformed the sector from non-profit to for-profit. Compartamos Contendera Bank for example started out as a small microfinance institution in Brazil before it had a landmark initial public offering (IPO) in 2007 (Appendix C, lines 6f.). While some thought of the IPO as controversial because traditionally a social investment was not designed to make its investors wealthy, advocates of the commercial microcredit model argued that “sharing profits with private investors is a prerequisite for reaching the 1.7 billion of unbanked people worldwide” (Demirgüç-Kunt et al., 2018, p. 35). Without access to basic financial services most poor households operate in cash, depend on physical assets such as livestock, and are more vulnerable to external shocks such as natural disasters. Mahendra (2006) defines financial inclusion “as a delivery of banking services at an affordable cost to the vast selection of disadvantaged and low-income groups” (p. 4310). In an empirical research investigation on microfinance Buensuceso and Dacanay (2011) realized that the outreach of microfinance indeed promotes financial inclusion (p. 2). In addition, they demonstrate that financial inclusion has a significant positive relationship to financial development and that “other indicators such as capital access, capital depth, size and gross domestic product contribute to an improvement in financial development” (Buensuceso & Dacanay, 2011, p. 2). The latter is also subject to the fact that microfinance institutions (MFI) have been playing an important role as substitute moneylenders and in reducing the burden on formal financial institutions (Buensuceso & Dacanay, 2011, p. 2). The development of microfinance in the early 2000s altered international development in emerging countries and verified that non-bankable recipients could be changed into productive entrepreneurs having an active part in the economy. Microfinance and SRI thus gained international renown and captured the attention of new investors.

Due to these developments along the investment continuum, people for the first time, began to wonder if they could make the same profits from *deliberately* choosing social and environmental investments, rather than avoiding certain negative social and environmental factors. The mentality changed from *doing no harm* to *doing good alongside financial returns* (Trelstad 2016, p. 7). Trelstad (2016) suggests that impact investing came about as a new and innovative paradigm from this mindset change at the intersection of PRI and SRI (p. 7). The pioneers of impact investing, however, were not content with the available definitions, as they were deemed too narrow. The actual term *impact investing* was coined in 2007 at a gathering of the Rockefeller Foundation in Bellagio, Italy, where the participants put a name to investments made with the *intention* of generating both financial return and social and/or environmental impact (Madsbjerg, 2018). As a first act and milestone, the Rockefeller Foundation’s Board of Trustees approved US$38 million toward its impact investing initiatives (Harji & Jackson, 2012, p. 1).

In conclusion, this new investment continuum is based on “the willingness to compromise on financial performance for social and environmental returns; and the investment foci between negative and positive selections based on environmental, social and governance (ESG) criteria” (Lehner et al., 2019, p. 418). Impact investing blends the social and commercial sectors, located on each side of the capital spectrum, reconfiguring a new common field in which capital market tools, investor motivations, and professional disciplines from the private and social sectors converge (Clark et al., 2015, p. 12).

[1] “Microfinance is the provision of financial services to low-income customers who lack access to banking and related services, in order to help poor people, work their way out of poverty” (Mermod, 2013, p. 1674).

The next chapter introduces the widely accepted industry definition of impact investing and outlines a brief history of the early years of the industry incorporating six dimensions.

2.2. A brief history of impact investing

Macroeconomic changes around 2008 such as increased interest in public-private partnerships, growing recognition that existing resources are not sufficient to address severe poverty, and the occurring financial crisis that altered considerations of risk in investment decisions, were strong catalysts for the new term impact investing (Martin, 2013, p.3).

As impact investing gained momentum more investors across the investment spectrum joined the fledging industry. In addition, policymakers evaluated ways to integrate impact investing into new government programs, which attracted further participants such as faith-based investors, pension funds, private foundations, insurance companies, banks, and high-net worth individuals HNWI (Clark et al., 2015, p. 173). This in turn inspired other organizations, entrepreneurs and fund managers to generate and integrate innovative new products and opportunities (Balandina-Jaquier, 2016, p. 18).

In 2009, pioneers including Bridges Fund Management, Acumen Fund and Root Capital, founded the Global Impact Investing Network (GIIN) – today the largest sector-building network organization. GIIN’s goal is to reduce barriers to impact investing by “building critical infrastructure and developing activities, education, and research that help accelerate the development of a coherent impact investing industry” (Global Impact Investing Network [GIIN], n.d.-a).

While the industry gained attention and started to grow increasingly after the official term was conceived in 2007, the actual definition of impact investing remained a work in progress for another two years (Harji & Jackson, 2012, p. 7). To strengthen the identity of the concept GIIN in 2009 settled on a definition that became the widely accepted norm in the ecosystem:

“*Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return*” (GIIN, n.d.-b).

GIIN describes the four critical parts of the definition, which sets impact investing apart from previous forms of social investing:

(i) ***Intentionality*****:** “Impact investments intentionally contribute to social and environmental solutions. This differentiates them from other strategies such as ESG investing, responsible investing, and screening strategies” (GIIN, n.d.-b).

(ii) ***Financial returns***: “Impact investments seek a financial return on capital that can range from below market rate to risk-adjusted market rate. This distinguishes them from philanthropy” (GIIN, n.d.-b).

(iii) ***Range of asset classes***: “Impact investments can be made across asset classes” (GIIN, n.d.-b).

(iv) ***Impact Measurement***: “A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance of underlying investments” (GIIN, n.d.-b).

GIIN’s definition neither specifies nor excludes any asset classes, sectors, regions, actors, or types of companies, which was done purposely to demonstrate the breadth of opportunities that lay within this new sector. This decision, however, also brought some challenges due to various interpretations of impact investing. According to experts, these challenges and the industry as a whole are best examined using six dimensions: unlocking capital, placing and managing capital, demand for capital, assessing impact, creating and enabling environment, and building leadership (Harji & Jackson., 2012, p. 15). The rest of this chapter will give an overview of the development of the first years of impact investing (2008-ca. 2018) applying these six dimensions.

(i) Unlocking capital

By 2011 a significant acceleration of capital commitments in impact investing were recorded, resulting in 2,200 investments worth US$4.4 billion. GIIN's broad definition invited a variety of players to the industry. (Harji & Jackson., 2012, p. xiii)

However, this broad definition also brought two specific quandaries with it. Inefficiencies were created that made it difficult for co-investors to find funds that shared their criteria for investments, and for entrepreneurs to identify appropriate sources (especially debt financing for early-stage social businesses). This resulted in constrained capital sources and a misalignment of capital with demand on the ground. Second, investor expectations vary immensely in motivation and financial return/impact expectations. (Balandina-Jaquier, 2016, p. 37)

(ii) Placing and managing capital

Harji and Jackson (2021) criticize that "placing and managing capital have proven to be more difficult than raising capital" (p. 21). Barriers have been set by illiquidity, a relative shortage of tracked successful high-quality investment opportunities, and an insufficient product variety for institutional investors (Lehner et al, 2019, p. 418). Furthermore, difficulties concerning exit strategies and problems in defining a common language to talk about impact investing resulted in a division between *impact* and *risk-adjusted financial returns* (Lehner et al., 2019, p. 418). So *trade-off*s had to be made and two groups of investors emerged with opposing expectations: *"Impact-first* investors, who seek to optimize social or environmental impact with a floor for financial returns" (Freireich & Fulton, 2009, p. 4) and "*finance-first* investors, who seek to optimize financial returns with a floor for social or environmental impact" (Freireich & Fulton, 2009, p. 4). The former, primarily target social or environmental goals and are often willing to forego some financial return, as the latter, typically commercial investors, target market-rate returns at the same time try achieving some social or environmental good (Freireich & Fulton, 2009, p. 4).

(iii) Demand for capital

While the industry has set its focus on mobilizing and attracting capital, the demand side has not been as developed as it could be. In 2012 building the investment readiness of investment opportunities became a priority of the industry. Harji and Jackson (2012) point that building viable business models, "especially for seed and early-stage ventures, can take a variety of forms, ranging from the active-owner approach of venture capitalists to grant-funded technical assistance[2], and a host of hybrid methods" (p. xv). Balandina-Jaquier (2016) further identified insufficient infrastructure in the respective countries of investment as another reason for lower demand of capital as it means a lack of institutional-scale opportunities (p. 37).

(iv) Assessing impact

As expressed above, the broad definition of the GIIN, the growing dichotomy of finance-first versus impact-first investors, and the lack of standardized measurement tools and processes, resulted in confusion among the mounting variety of backers (World Economic Forum [WEF], 2013, p. 8). Clark et al. (2015) emphasize that "rigorous impact measurement is an essential prerequisite for impact investing integrity and success" (p. 129). In 2011, pioneers of the sector including the Rockefeller Foundation, Acumen Fund, and B-Lab instituted two important platforms for impact measurement and management.

[2] Technical assistance is a tool that many impact investors use to "strengthen an investee's operations, strategy, or impact. Such support may be provided either pre- or post-investment and either directly by the investor or by a third party" (Pineiro & Bass, 2017, p. 1).

The first rating system, a new uniform way to measure impact, was the Impact Reporting and Investment Standards (IRIS), a "universal language for social, environmental, and financial performance reporting" (Bouri et al., 2011, p. 1). It is designed specifically for the impact investing industry to "improve transparency, increase the credibility of social and environmental performance data, and facilitate investment comparability and performance benchmarking" (Bouri et al., 2011, p. 1). IRIS helps investors sort investment opportunities by operational impact, social focus area, financials, and investment targets. These filters allow investors to better source potential investment opportunities that align with their financial and impact goals (Tekula & Andersen, 2018, p. 152). Today IRIS is under the auspices of the GIIN which develops the tool further and aligns it with the industry's developments. To date IRIS has been updated four times, to include feedback by users and focused on specific topic areas (Tekula, & Andersen, 2018, p. 152).

The second system, which is complementary to IRIS, is the Global Impact Investing Rating System (GIIRS), which conducts third-party assessments of the social and environmental impact of companies and funds (Haji & Jackson, 2012, p. 24).

Although impressive progress has been made, the global standards and rating systems need to become more widely accepted and executed by the entire industry, as further proliferation of the sector will depend on the measurability and comparability of impact (Bugg-Levine, 2009, p.34).

(v) Creating and enabling environment

Clark et al. (2013) conclude in their study that "impact investing is grounded in deep cross-sector partnerships, including the public sector" (p. 13). The industry intersects with a multitude of other sectors maximizing social and environmental benefits to society, and to deliver these benefits at scale. Governments can choose from an array of options to encourage impact investing such as "appropriate investment rules, targeted co-investment, taxation, subsidies and procurement, as well as corporate legislation and capacity development that enable the efforts of investors, intermediaries and enterprises in this space" (Hanji & Jackson, 2012, p. 34) and are therefore optimally placed to support the acceleration of the industry. To this end, the Impact Investing Policy Collaborative (IIPC) was founded to illuminate the role of policy worldwide. Their widely accepted actions are (i) to supply development, (ii) to direct capital, and (iii) to demand development. (Impact Investing Policy Collaborative, n.d.)

In addition to governments, Balandina-Jaquier (2016, p. 18) emphasizes the important role of financial market-intermediaries as part of the impact ecosystem as they can bridge the existing gap between demand and supply by channeling asset-owners towards impact-generating enterprises. Maximilian (2013) identified investment funds, financial institutions, and crowd-funding platforms as most promising intermediaries (p. 9).

(vi) Building leadership

Clark et al.'s (2013) analysis of impact investors determined that the sector "has seen various calls for recruiting and soliciting the guidance of those with real investment expertise" (p. 24). While some fear that with more investment professionals in the field the original mission of impact investing could get diluted, without viable career paths for the next generation seeking to enter and remain in impact investing, the sector has little chance to grow sustainably (Clark et al., 2015, p. 239). The literature underscores the importance of "hiring a founding team with commercial experience when attempting to maximize social and economic performance" (Tekula, & Andersen, 2018, p. 145). The sector calls for multilingual leadership with a dual skill set. Experts need to be fluent in *financial* as well as *impact-related* matters to be successful impact investors (Balandina-Jaquier, 2016, p. 37).

Besides investors a number of esteemed organizations have advanced as key leadership figures since 2008. However, after only a couple years GIIN emerged as the leading coordinating body of the sector that provides a crucial source of thought leadership and legitimacy.

The industry surveys at that time, utilizing the six dimensions, show that the measured growth of the industry around 2012 was impressive, promising quick proliferation, but significant issues remain. The industry still lacks a track record of successful investments, has a limited number of actors, only a few rating systems to measure impact, products are not tailored enough, performance concerns and scarcity of investment opportunities. (Martin, 2013, p. 6)

While this section outlined the early years of impact investing, the following showcases its status quo.

2.3. Status quo – From niche to (not yet) mainstream

The estimated size of today's global impact investing market grew from US$4.3 billion in 2011 to US$715 billion today (Maximilian, 2013, p. 5, Hand et al., 2020, p. 40). Google search results for the number of impact investors increased from 650,000 in 2014 to 499,000,000 as of November 8, 2020 (Höchstädter & Scheck 2014, p. 450).

The impact investing ecosystem grew via a multitude of actors which helped impact investing spur transformative growth and substantial scale (Tekula & Andersen, 2018, p. 156). While around ten years ago professional investors, specialized funds, and governments had been the main capital providers, today the complement of those involved is much more diverse, ranging from asset owners, asset managers, and demand-side actors to service providers (Clark et al., 2015, p. 66). The most relevant investors today are HNWI, private foundations, impact investing funds, and large financial institutions including banks, pension funds and development finance institutions (Hand et al., 2020, p. 35).

On the one hand, the large variety of professionals led to "often divergent, firm-specific definitions of the term impact investing and blurred boundaries with related concepts such as *socially responsible investments* or *sustainable finance* and have obstructed a common understanding of impact investing's main principles" (Lehner et al., 2019, p. 417). On the other hand, these blurred boundaries led the sector to develop "a number of vehicles and instruments including private debt, and real assets, community investment notes, pay-for-success bonds, and social impact bonds" (Tekula & Andersen, 2018, p. 145). Providing capital, i.e. grants and first-loss capital was deemed suitable for the early stages of enterprise development, while debt, equity, and guarantee vehicles has been more appropriate for later stages (Tekula & Andersen, 2018, p. 143).

Government Involvement

Beginning ten years ago, GIIN annually conducts the largest impact investing survey reflecting yearly trends, challenges, and the overall status quo of the impact investing industry. The latest survey released in July 2020 is a reflection on and analysis of the past decade including 300 respondents with combined assets under management (AUM) of US$ 404 billion, making up 56% of the estimated AUM of today's worldwide impact investing industry, and thus a significant pool of respondents (Hand et al., 2020, p. 40). The report found not only a growing number of investors, but also facilitators of the industry as a sign of the more significant progress over the decade. Governments originating policies and initiatives to support impact investing is the most important of these facilitators. Over the last years governments not only supported the industry via financial incentives but also by actualizing developing programs using their macro-level position to create oversight agencies. In 2019, for example, the U.K. ordered pension funds to include an ESG strategy and sustainable responsibility into their investment approach (McNamee, 2019). Further, the DNB was the first central bank to sign the UN Principles for Responsible Investment and integrate the six ESG principles into its investment practice (De Nederlandsche Bank, 2019). In January 2020, the Dutch Ministry of Foreign Affairs supported AGRI3, "a blended finance vehicle created by the United Nations Environmental Programme and Rabobank, an effort to scale up private sector investments in the SDGs" (Hand et al., 2020, p. 56). In 2013, "during the UK presidency of the G8, former Prime Minister David Cameron announced a Social Impact Investment Taskforce aiming to catalyze the development of the social impact investment market" (Tekula & Andersen, 2018, p. 148).

This strong support from governments is a result of the market's realization that impact investing need not be a trade-off between impact and financial performance as initially thought, one of the main concerns the industry faced around 2012. For the first time, the 2020 GIIN survey proved that investors were less often forced into this separation. Eighty-eight percent of respondents met or exceeded their financial expectations and over two-thirds of respondents seek risk-adjusted, market-rate returns (Hand et al., 2020, p. 25). “Nearly 90% of large investors target market-rate returns, compared to just over 55% of small investors” (Hand et al., 2020, p. 58). Interestingly, investors with risk-adjusted, market-rate return expectations exceeded their financial goals *more* than others, implying that institutional investors are not only more risk-averse and more financially orientated, but also that the separation of financial returns and social impact should technically not exist as the returns are higher for finance-first investors. Friede et al. (2015) analyzed the relation between ESG criteria and corporate financial performance (CFP) in 2015. The market observation in the 2020 GIIN survey confirms their findings. Their research shows that “roughly 90% of studies find a non-negative ESG-CFP relation and more importantly, the large majority of studies reports positive findings" (2015, p. 210).

Measurement Systems

Other significant progress detailed in the GIIN 2020 survey is in the industry’s sophistication of its impact measurement and management practice in recent years. In 2009, 85% of impact investors globally applied their own measuring system, but today 89% use external systems and frameworks to measure impact (Hand et al., 2020, p. 48). The SDGs, the IRIS metrics catalog, the five dimensions of the Impact Management Project’s (IMP), and IFC’s Operating Principles for Impact Management became the industry’s standard impact measurement frameworks.

These systems reflect a strategic approach of setting objectives, measuring performance, and recording results. Despite the significant advancement since 2008, one of the industry’s main struggles endures. About a third of actors do not benchmark their impact performance to peers, thus encouraging impact washing, which is considered one of the main contentions of the industry directly related to the lack of comparability and validation of performance (Hand et al., 2020, p. 8). Gerner (2020) compares this phenomenon to the state of the accounting principles until 1933. Before 1933 each company had its own accounting principles. Only after the Wall Street Crash in 1933 did the US government introduce generally accepted accounting principles.

Diverse Opinions on the Status Quo

Castellas et al. (2018) categorized the state of the industry around 2010 as struggling to become mainstream, while others were of the opinion that the industry was simply still in its marketplace building phase (Castellas et al., 2018, p. 149, Hanji & Andersen, 2012, p. 6). Hand et. al (2020) conclude that over the last decade the industry has made significant progress on many issues (p. 14f.). The sector grew more diverse in regard to geography, actors, investment instruments, target returns, investment foci, and impact objectives. Rising AUM implies trust in the developing industry (Hand et al., 2020, p. 14f.). Lehner et al. (2019) introduce the potential for impact investing to grow into an *investment style* rather than an asset class, but simultaneously warn that “even if the capital supply were sufficient, institutional barriers and disincentives would still prevail and prevent private capital from being channeled businesses because of the incompatible rationales and discourses” (p. 417).

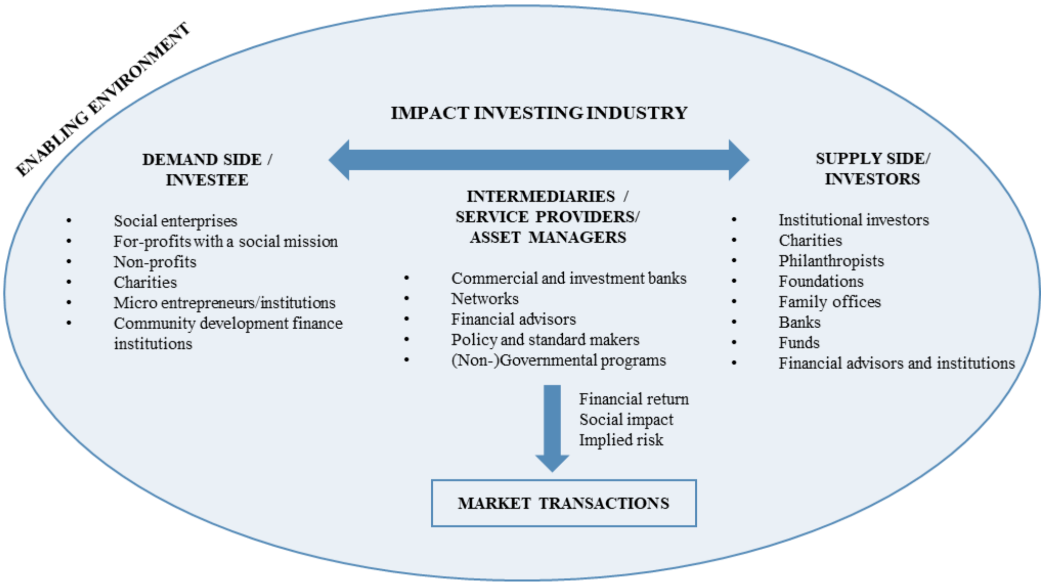
The eminent question after a decade of impact investing is whether the industry will ever overcome its threshold and become mainstream.

The opinions of experts on this question are as divided as they were in 2012. Michele Giddens, CEO of Bridges Fund Management notes with satisfaction that the “mission is no longer a niche strategy. Consideration of impact in every investment decision is key to building an inclusive and sustainable economy” (Hand et al., 2020, p. 15). Tekula & Andersen (2018) would agree with Giddens as they already see the industry as mainstream, holding that impact investing is part of a broader movement to make capitalism more socially inclusive (p. 144). Schwartz and Finighan (2020), however, disagree and believe that impact investing will not *save* capitalism (for now). That, without changing the rules of how our economy works today, too many of the investment opportunities in impact investing are still bound to make a trade-off between financial return and social impact. Schwartz and Finighan explain that “under today’s rules harmful investments offer inflated profits because investors don’t have to pay for the damage they cause. (...) Meanwhile, many worthy investments are unprofitable because investors are not rewarded for their associated benefits" (2020). Only when each *externality* gets assigned a *correct value*, "when externalities have been internalized, then all investing becomes impact investing" (Schwartz & Finighan, 2020) and the industry mainstream. Thus, Schwartz and Finighan (2020) propose three ways how impact investors can help the industry get there.

First, impact investors are crucial in discovering opportunities at the *innovation frontier*. Second, they should encourage *philanthropists to aim higher*, alluding to invest at the *efficiency frontier* and always looking for the highest return achievable. The third role of impact investors is that of *lobbyists* for new rules and a change in mindset. Impact investors should urge governments to introduce new incentives such as a price on carbon or another mechanism in order to expand the possibilities to marry social returns with financial profitability, as this will expand the opportunities for private sector investors and thus unlock more capital. (Schwartz & Finighan, 2020)

In regard to Schwartz and Finighan's suggestions, Lehner et al. (2019) divided the impact investing industry into three groups (Figure 2). They illustrate how the impact investing environment is distinctly shaped by governments, policy makers and regulatory authorities that drive legitimization of the industry and thus contribute to society's accountability regarding impact investments (p. 419). Figure 2 presents "the interplay between different types of investors, intermediaries and investees, and depicts the division of the industry's landscape in terms of asset owners, asset managers, service providers and the demand side" (Lehner et al., 2019, p. 419). All of these categories play a distinctive role in the problem outlined by Schwartz and Finighan – enabling a successful and fair-priced resource flow amongst all.

Figure 2: Impact Investing Industry



Source: Own illustration, based on Lehner et al., 2019, p. 419

The next chapter turns to one specific player of the industry; Non-Profit Organizations. According to Lehner et al. (2019) NPOs are on the demand side in this figure and marked as investees (p. 419). The following details the role of NPOs in the impact investing industry and sets the stage for the empirical part of the paper.

2.4. Non-Profit Organizations entering impact investing

Tweedley (2018) observes two recent changes in the NPO sector (p.1). First, she reports that liquid global capital markets are increasingly inclined to include social and environmental projects in their portfolios and identified a greater risk appetite among investors. She concludes that private sector donors are becoming more sophisticated in their return expectations. They seek better value for money and expect NPOs to be more accountable and transparent. As a second change, Tweedley (2018) concludes that countries with a large NPO density such as the US and UK have recently announced imposing cuts in government funding for these organizations (p.2). Schnurbein (2019) shows a reduction in not only public and government funding but also private donations (p. 125). Dente et al. (2018) confirm this trend and emphasize that "the way international development is funded and delivered is in the midst of a profound period of disruption that is pushing NPOs to experiment with new business models" (p. 6). The disrupters in the international NPO sector which Dente et al. (2018) mark as most important include: "changing donor priorities, the rise of new donor governments, scandals in the aid world that have eroded public trust, and the entrance of many new private sector players to international development, including multinational corporations and social enterprises" (p. 13).

As a consequence of these profound shifts, NPOs need to reconsider their revenue models, how they allocate resources, and explore different ways to add mission-aligned value to an increasingly complex ecosystem. In recent years Dente et al. chronicled that NPOs are exploring impact investing solutions as an answer to the aforementioned challenges. This movement was originally researched by the International Non-Governmental Organization (INGO) Impact Investing Network[3], which was launched by the Aspen Network of Development Entrepreneurs in 2015. Their 2016 research records for the first time a growing number of NPOs exploring the field of impact investing (Dente et al., 2016, p. 12). The networks' subsequent report in 2018 confirmed this growing tendency. From 2016 to 2018 there was a 45% growth in survey respondents (Dente et al., 2018, p. 7). While in 2016 42% of the participants were still defining a strategy on how to tap into impact investing, in 2018 78% of the respondents were actively engaging (Dente et al., 2018, p. 7).

The perennial resource constraints in the NPO sector was one of the initial reasons why NPOs became interested in impact investing; however, Dente et al. demonstrated that the motivations go beyond that. NPOs' primary incentives to get into impact investing are (i) to expand and scale current programs, (ii) to support businesses in target geographies with access to finance, (iii) to diversity funding sources, (iv) to reduce dependence on donors, and (v) to offset decreases or expect decreases in other funding sources (Dente et al., 2016, p. 6).

The above-mentioned inducements realize that NPOs did not enter impact investing by accident. NPOs have an array of unique assets that they can leverage in this new industry and their capabilities are multi-faceted. Further, they have a skillset that distinguishes them from other investors. According to Dente et al. (2016) their most relevant differentiating strengths are the following:

Most NPOs operate worldwide in diverse sectors where they reach millions of people and social or environmental impact has been the central mission of NPOs, even before the term impact investing was coined. Further they record a long history of extensive experience in the complex measurement of impact and capacity building. Since their inception NPOs have developed tested methodologies and systems for measuring and reporting impact, granting them an advantage over other investors. Due to NPOs' global presence and mission-driven mentality (i.e. working for a cause without having profits as a primary goal), they have a deep knowledge of local environments, sector expertise, and technical solutions. In addition, NPOs understand the local culture and politics of the regions they operate in perfectly and have strong relationships with governments. Being used to working in challenging frontier markets and conflict regions, they possess the ability to identify and mitigate the associated risk. Thus,

[3] "For the purposes of this report, we are defining INGOs as international organizations committed to achieving development outcomes, whether they are incorporated with a for-profit or non-profit status" (Dente et al., 2016, p. 11). Thus, this particular report does not only include Non-Governmental Organizations but also NPOs.

by selecting investments that match the NPOs' mission in geographical locations and impact areas, NPOs can leverage their existing expertise in those regions. (Dente et al., 2016, p. 14f.).

Dente et al. (2018) reason that because of these differentiating strengths NPOs have the ability to take "impact investing to the next mile and extend impact investing's reach to new companies and markets" (p. 6). Tekula & Andersen (2016) identified NPOs as optimal facilitators to stimulate the growth of social enterprises (p. 146). Dente et al. (2018) summarize the various roles an NPO can play in the impact investing ecosystem in three ways. First, they can engage by *building or influencing the growth of the ecosystem* through research and advocacy (p. 22f.). The ways to influence and accelerate are diverse. They have comprehensive experience in engaging governments and advocating for marginalized communities and populations, which makes them optimally positioned to match entrepreneurs with policy makers "to advocate for policies that create a favorable business environment and increase the enterprises' access to different resources, and technologies" (Dente et al, 2018, p. 22f.). Further, NPOs using their convening power have the ability to address the critical issue of (i) pairing demand with supply, and (ii) luring more capital to various countries and regions, by facilitating dialogue between private and public players across various sectors (Tekula & Andersen, 2016, p. 146). Another way NPOs are advancing the ecosystem is by participating in professional impact investing networks, associations, and initiatives such as the GIIN to create and share knowledge products, develop and streamline rating standards and engage in research initiatives, or create white papers to further legitimize and advance impact investing (Dente et al, 2018, p. 23f.).

Another option to add value is by *delivering technical assistance*. Capacity development includes "accelerator and incubator programs, highly-skilled volunteering programs, entrepreneurship fellowships, innovation challenges, and fee for service advisory" (Dente et al, 2018, p. 20). The majority of NPOs providing technical assistance focus their service on supporting entrepreneurs and enterprises with operations management, product development, marketing, and long-term growth (Dente et al, 2018, p. 20f.). Others are working with impact investors on topics such as measurement, deal sourcing, and balancing social impact and financial returns (Dente et al, 2018, p. 20f.).

The third and most common way for NPOs to engage in impact investing is through *making investments themselves*, either directly, through a fund or other intermediaries, and microfinance institutions (Dente et al, 2016, p. 15f.). NPOs mainly choose the role of a direct investor to engage in the industry because many already have a large number of enterprises within their existing network where they see, first-hand, "the financing constraints those enterprises face" (Dente et al, 2016, p. 20). In addition, NPOs can leverage the knowledge of existing employees and experts in various sectors and impact areas for deal sourcing (Dente et al, 2016, p. 20). Tekula & Andersen (2018) submit that NPOs invest across almost the entire investment spectrum. Along with HNWI and philanthropists, NPOs have the capacity to be first-movers to de-risk markets, sectors, and enterprises as they become market-ready and help them create an entry point for private sector investors (Tekula & Andersen, 2018, p. 152f). Others have a clear market-rate return target. Interestingly, between 2016 and 2018 Dente et al. (2018) reported an increase in return targets amongst NPOs (p.4). In 2016 many were aiming for capital preservation, and by 2018 most NPOs had clear financial return targets (Dente et al., 2018, p. 4). Of the observed NPOs in impact investing the vast majority are investing directly in companies, and the main asset classes are debt and equity (Dente et al, 2018, p. 17f.). NPOs report vast funding sources with different return targets and investment terms (Dente et al, 2018, p. 17f.). HNWI, an organization's unrestricted funds and institutional investors (such as family foundations, pension funds, etc.) are the majority of NPOs' capital sources (Dente et al, 2018, p. 17f.). Dente et al. (2018) maintain that most NPOs "are able to use their organizations' global footprint as an advantage in sourcing deals" (p. 17). Many source their deals through personal or international networks, in-country pipelines, fund co-managers and co-investors, or accelerators and incubators. The majority of NPOs making build their *internal due diligence capacity* (Dente et al, 2018, p. 17f.).

This analysis shows that the trend of NPOs entering impact investing is well established and multifaceted. NPOs bring tremendous potential to the impact industry while being able to leverage their local experience, networks, and knowledge. The thesis continues by conducting three case studies to parse three specific NPOs as investors in the impact investing industry.

3. Methodology

This chapter outlines the methodology and research design of the case studies. Further it describes the case selection and data collection process. The chapter concludes with a description of how the data is analyzed and evaluated.

3.1. Research Design

Qualitative inductive research based on a multi case study was chosen. The specific approach was determined by considering the research question as Flick proposes (2014, p. 12). Yin (2009) stresses the importance of the research question when deciding on a method and identifies a case study to be the ideal method for analyzing *how* and *why* questions, while aiming to portray a holistic perspective of contemporary events within a real-life context (p. 2). According to Schramm (1971) "the essence of a case study, (…), is that it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result" (p. 6). Thus, an explanatory case study was chosen as the appropriate method to consider NPOs as impact investors.

While case study research can be conducted with either one or multiple cases the "evidence is more compelling in a multi case study, and the overall study is therefore regarded as being more robust" (Yin, 2009, p. 54). Therefore, the thesis will apply a multi case design aiming for more robust findings and to best identify the variations in approaches. The paper will evaluate three specific NPOs in separate case studies.

3.2. Case Selection

The case selection followed a two-stages process as proposed by Yin (2009, p. 91f.) In the first round a market analysis was conducted where potential cases were screened before reducing the number to twelve. In the second round relevant and comparable data on the remaining cases were gathered before selecting the final three cases. The final three cases all fulfill the following predetermined criteria:

1) Given the nature of the research, the first criterion is that all cases must be registered as a 501(c)(3) not-for-profit corporation, one of the 29 types of 501(c) nonprofit organizations in the U.S.A. The decision to focus on NPOs in the US because impact investing widely developed there. The second reason was for ease of comparability and to eliminate international differences in legal matters.

2) To allow a better cross-case comparison the author chose three NPOs active in the same sector. As microfinance has been established as a predecessor of impact investing in chapter two, and proven to be a part or suitable entry point into impact investing for NPOs, the author decided to examine three NPOs active in that field of financial inclusion, with the vision to alleviate poverty.

3) While aiming for a comparable analysis, the thesis depicts a comprehensive representation of possible business practices. After filtering for the common sector, the selection process followed Eisenhardt's (1989) proposal "to choose cases such as extreme situations and polar types in which the process of interest is *transparently observable* to allow comparative cross-case analysis and better guidelines" (p. 537). After a first screen of the data, the three cases thus imply significant differences in strategic objectives and procedures.

3.3. Data Collection

Case study research permits several sources for evidence. Yin (2009) identifies various sources of evidence and recommends combining them in order to enhance the robustness of the findings (p. 114f.). Eisenhardt (1989) reinforces this by explaining that the rationale for using multiple sources of evidence is that "the triangulation made possible by multiple data collection methods provides stronger substantiation of constructs and hypotheses" (p. 538).

In order to better combine the various data sources, and to follow an identical structure for the individual case studies, a data collection framework in the form of a questionnaire was established, with questions that each individual case report should answer. The questionnaire (Appendix B), serves as a guideline during the data collection process.

The questionnaire is organized in two parts. The first part, *strategy*, inquires about the motivation and rationale for setting-up an impact investing unit. The second part asks *how* the NPO set up the impact investing unit[4] and is divided into three subsections: (1) *structure* (investment thesis, legal and governance structure), (2) *portfolio* (overview of key portfolio figures, mechanics of the pre- and post-investing process), and (3) *summary (*lessons learned and future outlook).

The first step of data collection does a thorough desk research of all cases including a comprehensive review of existing documentary evidence, and additional supporting material such as podcasts. In the second step, interviews with key personnel of the impact investing units are conducted, since Yin (2009) claims that interviews are one of the most valuable sources for case studies, allowing an in-depth investigation of the case (p.101f.).

In order to answer as many questions as possible, the interviews were scheduled towards the end of the data collection period so that information that could not be found via desk research could be asked directly. Two interviews were recorded with the consent of the interviewees and for the third a verbatim record was written up, as requested by the interviewee.

[4] The term "*impact investing unit"* is used throughout this thesis as the legal vehicle set up by the NPO through which it conducts impact investments.

3.4. Data Analysis

The data analysis is structured as a cross-case comparison as proposed by Yin (2009, p. 56f.). Therefore, the first part of the analysis consists of three individual case reports. In order to make the cross-case synthesis most reliable the individual cases are looked at according to a predetermined uniform framework (Eisenhardt, 1989, p. 154ff.). The framework builds on the questionnaire (Appendix B) and captures the chronological structure of how the NPO set up its impact investing unit:

Table 1: Case Study Composition

Case Study Composition	
1) Strategy	• Rationale for setting up an impact investing unit
2) Structure	• Investment strategy • Legal structure • Governance structure • Partnerships
3) Portfolio	• Key portfolio figures • Investor base • Investee profile • Sourcing and due diligence • Post investment monitoring
4) Summary	• Lessons learned • Future outlook

Source: Own table

A cross-case report follows (chapter 4), comparing the individual case reports (i) with each other and (ii) the theoretical research and literature in chapter two. Eisenhardt (1989) states that tying the case study findings to existing literature increases the internal validity and generalizability of the findings, allowing a more embedded and comprehensive explanation of the findings (p. 545).

This cross-case analysis conforms to the building technique recommended for explanatory case studies (Yin, 2009, p. 141). The objective of this technique is “analogous to creating an overall explanation, in science, for the findings from multiple experiments” (Yin, 2009, p. 144). The identified trend of NPOs tapping into impact investing was observed in chapter 2. The cross-case report explicates this trend and links it to the collected data to support or challenge the explanation (Yin, 2009, p. 144). To increase validity the most relevant parameters and drivers are screened for similarities and differences in a table format (Appendix F).

From the juxtaposition of the parameters and the overall case studies, mirroring current business practices, implications for impact investing, and if indicated, success factors to consider for other NPOs considering impact investing, will be derived.

4. Case Studies

The following chapter includes three individual case studies of the NPOs: Accion International, CARE, and FINCA International. It the second part, besides the theoretical background on impact investing, for the following cross-case study analysis (chapter 5).

4.1. Accion International

4.1.1. Strategy

Rationale for NPOs engaging in impact investing

Accion International (Accion) is a global NPO committed to establish a financially inclusive world, with access to economic opportunity for all (Accion, n.d.). Since 1961, Accion has been working to create better, cheaper, and safer ways to meet the financial needs of underserved people and has evolved as a pioneering legacy in microfinance and impact investing (Accion, n.d.). Over the past 50 years the NPO reached over 10 million people through 90 partners in 40 countries and blends advocacy, investment, and consulting services to achieve range and social impact (Quona Capital, 2020, p. 6). Viewing microfinance as a powerful way to drive financial inclusion in emerging markets, in the 1990s Accion invested in Compartamos Contendera Bank, a microfinance bank in Latin America (Renton, 2020). The investment turned out to become Mexico’s most lucrative microfinance institution and resulted in a landmark IPO in 2007 (Renton, 2020). Additionally, Compartamos Contendera Bank was the first microfinance institution to go public (Renton, 2020). The IPO made Accion realize that financial profits and social purpose can go hand in hand (Renton, 2020).

The NPO used the proceeds from that IPO to launch initiatives within Accion, including Accion Venture Lab (AVL), a seed-stage investment initiative, investing in fintech start-ups for the underserved (Appendix C, lines 9ff.). The initiative is legally part of Accion and on its balance sheet. Another pilot project started after the IPO of Compartamos was the Frontier Investment Group (FIG), a corporate venture endeavor designed to radically improve access and quality of financial services for the unbanked with Monica Engel as CEO (Appendix C, lines 9ff.).

Due to the success of FIG, Engel proposed building a third-party fund, backed by Accion and financed by private sector players, to step into the evolving world of impact investing (Renton, 2020). As Accion’s CEO, Michael Schlein holds the view that “leveraging the power of the capital markets through impact investments is the only way we can solve a problem that affects three billion financially underserved people around the world” (Accion, 2020) and as such he agreed to Engel’s proposal. In 2013 Quona Capital (Quona), an impact investing fund, was formed as a spin-off of Accion, with Monica Engel as CEO (Appendix C, lines 14ff.).

4.1.2. Structure

Table 2: Quona Capital – Summary of key characteristics

Key Characteristics: Quano Capital	
Year founded	2013
Location	Cambridge, MA, U.S.A.
Investment Strategy	Quona invests in fintech's for inclusive finance in emerging markets
Legal entity	Limited Liability Company (LLC)
Management	Monica Engel
Number of people	18
Geographic Focus	Focus on Brazil, India, Africa
Investor Base	Broad array
Asset Class	Equity with approved product-market-fit
AUM	US$344 million
Financial Return target	6-7% IRR
Average Investment Size	US$ 2-7m
Total Number of Investments	34
Total Number of Exits	3
Technical Assistance	Is not offered

Source: Own table, based on Appendix C, Appendix F, Quona Capital (n.d.)

Investment Strategy and Legal Structure

The decision to launch Quona as a separate legal entity was new to Accion. Prior to Quona all of Accion's initiatives such as FIG and AVL stayed on Accion's balance sheet (Appendix C, line 5). This decision was ultimately driven by their investment strategy. Quona invests in growth-stage companies in the financial inclusion sector that have the potential to provide outstanding financial returns and promote innovation in financial inclusion (Quona Capital, 2020, p. 2). The rationale behind this strategy is that Quona wants to provide catalytic capital that enables customers in emerging markets to grow their business and increase impact on a larger scale. Accion's former CEO Michael Chu believes that to end poverty one needs to mobilize prodigious resources – a quantity that only capital markets can meet – and this capital must be provided by the private sector as only they understand the pace needed to fight poverty (Renton, 2020). Therefore, a separate legal entity seemed the optimal strategy for Quona, giving them flexibility in their operations since they are not tied to the terms of the NPO Accion (Appendix C, lines 14f.).

Despite being a separate legal entity Accion's and Quona's missions are synchronized in order to expand the reach for both (Appendix C, lines 13ff.). Quona does leverage a strategic partnership with Accion, as they are Quona's anchor investor and General Partner (GP) (Appendix C, lines 13ff.). Quona draws upon Accion's global presence, technical expertise, and institutional relationships to add value to its investment portfolio. This involves close collaboration with AVL in terms of deal sourcing. If a potential investee is too early-stage for Quona they will pass it to AVL and vice versa (Appendix C, lines 60ff.). Quona collaborates with Accion's think tank, called the Center of Financial Inclusion, for thought leadership (Appendix C, line 65). Accion holds seats on the Board and Investment Committee (IC) of Quona (Appendix C, lines 60ff.).

Apart from these collaborations, Quona operates completely independently. Quona is actively committed to the impact investing ecosystem. They are members and partners of many leading impact investing networks such as the GIIN, Social Performance Task Force, IMP, Responsible Finance Forum and have an ongoing project with the WEF on advancing financial inclusion metrics (Quona Capital, 2020, p. 23).

Governance
Quona, registered as a Limited Liability Company (LLC), is headquartered in Washington D.C. Due to its independence from Accion, Quona elected to open offices in Bangalore, India, Singapore, and South Africa – their focus markets. Most of the team is stationed in Washington D.C. but frequently travels to other offices when they carry out site visits with potential investees. In D.C. they have a team of 19 people, representing 10 nationalities, who speak a total of 14 languages (Quona Capital, n.d.). Kristin Sadler, platform associate at Quona, points out that Engel chooses the team based on whether they had prior work experience in the region they will be responsible for, and whether they have extensive experience in either traditional finance, consulting or the social sector (Appendix C, lines 45ff.). As a result, the team brings knowledge from big players such as J.P. Morgan, Goldman Sachs, BCG, and the Acumen Fund (Quona Capital, n.d.). The governance structure is similar to that of traditional finance funds including partners; principals; associates; delegates for legal, accounting and communication, a board of directors and an IC (The Quona Team, n.d.).

4.1.3. Portfolio

Overview
To date, Quona manages two funds. Its first fund was the Accion Frontier Inclusion Fund (AFIF) which closed at US$141 million of commitments in March 2017 (Renton, 2020). Its second fund, Accion Quona Fund (AQF), closed oversubscribed at US$203 million in March 2020 (Accion, 2017). Currently Quona has made 34 investments (Figure 3) and had three successful exits: the sale of Coins.ph, a payments company in the Philippines, to Go-Jek in January 2019, and the IPO of IndiaMart, a B2B e-commerce company in India (Quona Capital, 2020, p. 4). Their average investment size is between two and seven million U.S. dollars, including follow-on rounds (Appendix C, line 110).

Figure 3: Quona Capital – Portfolio Overview

Source: Quona Capital, 2020, p.4

Investor Base

Sadler adds that initially Quona had concerns that institutional investors might be hesitant to invest in a fund associated with an NPO. However, Accion's exemplary status and reputation in microfinance preceded them. Accion being the anchor investor of Quona instilled trust to institutional investors and brought forward-thinking Limited Partners (LPs) to the table. (Appendix C, lines 76ff.)

Today Quona's investor base is composed of to 80% third parties including AXA Impact Fund, Blue Haven Initiative, Goldman Sachs, the IFC, JPMorgan, the Lemelson Foundation, Mastercard, MetLife, PG Impact Investments, and Tufts University (Quona Capital, 2020, p. 5).

Investee Profile

Quona only invests in growth-stage fintech companies in emerging markets (Appendix C, lines 18f.). Engel explains that when Quona was launched in 2013, the venture capital sector came off a decade of very poor performance (Renton, 2020). While Quona prepared for a strategy to look *outside* to emerging markets, the rest of the world turned *inside* (Renton, 2020). This was two years before Brexit, the election of Donald Trump and other policies with a *me-first* state of mind. Impact investing in itself was at its infancy. Thus, Quona basically inaugurated a fund whose investment strategy was contrary to all previous patterns (Renton, 2020). Engel explains that last year's direction has completely shifted in favor of fintech (Renton, 2020). The industry has experienced massive upheaval and gained momentum, so that today Quona's investment system is only marginally away from the mainstream (Renton, 2020). Besides various success stories of lucrative fintech exits that attracted investors, the main reason for this shift, in Engel's opinion, was the enormous economics that these fintech companies could unleash (Renton, 2020). An incentive for their success was the great margins those business models could achieve due to advanced technology, margins that favorably can be compared with the ones from Western companies (Renton, 2020).

An example of an investee of Quona is *Creditas*, which is the first formal home equity finance player in Brazil. In that region, the market has an emerging middle class with consumers who own some assets such as a modest flat, or a vehicle. Before Creditas there were no products allowing customers to use those assets to gain liquidity. If they wanted to send their children to school or repair a roof, they would need to take out a triple digit credit card loan. Creditas brought up the idea of asset-based financing[5], i.e. securing loans that would allow them to charge a fraction of what typical consumer credit costs. Since then they also included salary loans. (Renton, 2020)

Sourcing and Due Diligence Process

For Engel, the salesforce database is a crucial tool when it comes to searching and prioritizing their deal pipeline, however she also strongly believes in the power of their ecosystem. The team spends a lot of time in the market conversing with other fintech investors, both mainstream ones in Silicon Valley and in emerging markets. (Renton, 2020)

Quona has a rigorous due diligence process consisting of a pre-screening, a stage one due-diligence, and a stage two due-diligence (Appendix C, lines 81f.). Between every stage the proposal must be approved by the IC. Before a potential investment gets to the pre-screen stage it must meet the following criteria: The company (i) must be related to financial services, (ii) have a very clear financial inclusion strategy, and (iii) have an approved product-market fit that is clearly expandable and has an exit path (Appendix C, lines 19f.). Sadler recognizes that, generally, the cut-off to be considered an investee of Quona, is at US$1 million revenue, however, it can fluctuate depending on the market (Appendix C, lines 20f.).

[5] A revolving facility where the total amount that can be borrowed fluctuates based upon the value of the borrowing base at a given time. Asset-based lending is a way for companies to meet their short-term cash needs by borrowing against their short-term assets at favorable rates. (Lathman&Watkins, 2017, p. 13)

Aside from the company's specific requirements, Quona's existing network within the region is the decisive factor whether an investment is considered (Appendix C, lines 45ff.). The regions Quona where invests must (i) have a large addressable market of underserved consumers looking for quality financial services, (ii) have an enabling environment including macroeconomic stability but also a smart regulation on digital banking, and (iii) have a thriving venture ecosystem where active entrepreneurship happens (Renton, 2020). Sadler states that if Quona is not familiar with the ecosystem and its infrastructure or cannot provide diligence that the ecosystem would support the growth of the considered company, Quona would not invest (Appendix C, lines 98ff). Thus, 75% of Quona's portfolio to date is in Brazil, India, and South Africa. (Appendix 9.3, lines 98ff.) She further emphasizes that Quona is not philanthropic but rather sets a high financial return target, between 6-10% IRR (internal rate of return) (Appendix C, lines 98ff). It expects risk-adjusted market-rate returns from its portfolio and would otherwise not invest, even if high social impact was promised. (Appendix C, lines 57f.)

Post-Investment: Monitoring and Engagement Processes

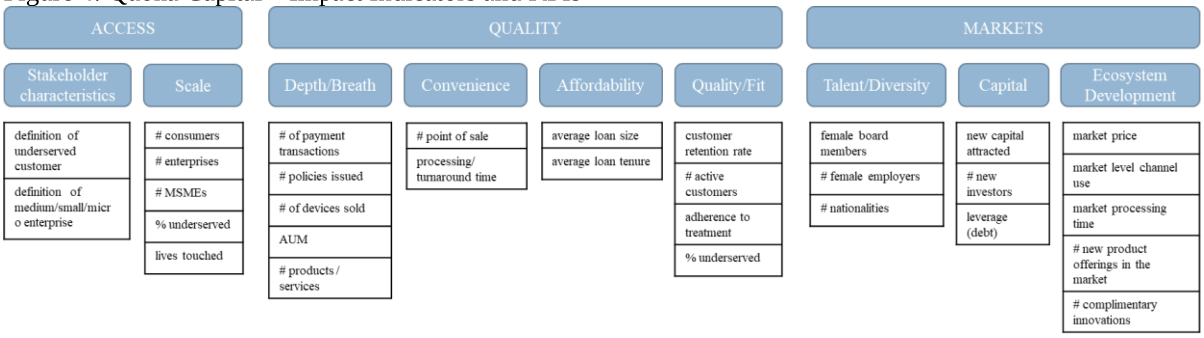
After a successful due diligence process Quona identifies, together with the new investee, the business metrics that will be reported to Quona. These include impact, financial and operational Key performance indicators (KPI). Sadler made clear that the company's impact targets must be in line with Quona's, since Quona's LPs need to approve and represent them. A quarterly report is expected from all of their portfolio companies for monitoring purposes, and Quona usually is represented with a board seat on each investment. (Appendix C, lines 115ff.)

In addition to the direct engagement through their board seats, Quona offers another non-finance related service to their investees through their *platform team*, a term that is increasingly more popular within the venture capital field and becoming a norm. The platform team supports the portfolio companies by offering community management, webinars, events, peer engagement, and other ways to engage with each other and learn best practices, as well as providing marketing and branding support. The aim of the platform is to bring together strategic partners that could be of value to Quona's portfolio. Some of these offers are similar to traditional technical assistance work, however the Quona team sees itself more as intermediaries strengthening the partnerships and synergies of their portfolio companies. Quona leaves the technical assistance and capacity building up to Accion. AVL, for example, is providing a lot of traditional technical assistance (e.g. handling the communication and marketing department of their investees) which is also due to their focus on companies at an earlier investment stage. (Appendix C, lines 124ff.)

Measuring the impact of their portfolio has not only become more important for Quona itself, but also highly valued and demanded by their investors. Measuring impact is critical for internal improvements and signals accountability and credibility to current and potential investors with high standards for their reporting. To this end impact measurement has become a vital part of the portfolio monitoring. Quona sees impact measurement as the most effective and reliable way to gain insights into client experiences, to see how business models perform amidst dynamic markets, and to derive best strategies for asset allocations and exits. (Quona Capital, 2020, p. 14)

While measuring financial returns is relatively straightforward, evaluating social returns is more complex, Sadler explained (Appendix C, lines 31ff.). Working with leading impact investors and peer fintech firms, Quona developed their own impact framework that defines and measures the social returns of its portfolio. The framework follows the proposed structure of the IMP, a leading impact measurement platform introduced in chapter two (Quona Capital, 2020, p. 12ff.).

Figure 4: Quona Capital – Impact Indicators and KPIs



Source: Own illustration, based on Quona Capital, 2020, p.16

As part of the framework Quona identifies their impact indicators and KPIs along three pillars: (i) *access*, (ii) *quality*, and (iii) *markets* (Figure 4) (Quona Capital, 2020, p. 16). Interestingly this framework is used along the entire spectrum of the investment process, meaning that the company is assessed by these measures during the due diligence process. After the investment they are used for performance measurements. The first pillar identifies the company's ability to expand access to financial services for underserved segments and market demographics (Appendix C, lines 36ff.). The second pillar assesses how the company improves the quality of financial services, which is measured by affordability, product depth, convenience, and efficiency (Appendix C, lines 39ff.). The third pillar inquires how the company advances the market for inclusive finance by creating a demonstration effect and building ecosystems conducive for entrepreneurial innovation and investments (Appendix C, lines 45ff.). The third pillar is the most relevant for Quona as they invest to expand their network within a region. Quona's assumption is that by creating financial inclusion on a macro level successfully, customers are sparking competition. With a stronger ecosystem attention gets paid to the initially undesirable startups and fintech companies that are more customer oriented, which in turn shifts the power into the hands of the consumer rather than the hands of financial institutions (Appendix C, lines 45ff.).

4.1.4. Summary

Lessons Learned
The rigorous sourcing and due diligence processes as well as having precise investment criteria paid off. Quona is very successful with their work so far which is reciprocated by the oversubscribed fund closing in March 2020 (Appendix C, lines 144ff.). The fund strategy and investment plan will remain largely the same for the second fund (Appendix C, lines 144ff.).

Future Outlook
In addition to the second fund Quona wants to expand their network and reach out to new regions that have grown promising infrastructures and environments (such as Indonesia, Thailand, Kenya and Turkey) (Appendix C, lines 144ff.). Sadler mentions that recently Quona expanded its *definition of impact* as the team started to see benefits in what they call *embedded finance*, or fintech adjacencies (Appendix C, lines 148ff.). These are products from companies that initially were not in the financial sector. Through advanced technologies and larger data quantities, many companies now expand their operations and build a financial unit on top of their existing operations. An example would be a bike rider app in Africa, perceived as a local cab service, that uses their client’s data to include a mobile wallet helping their riders pay online for the services and getting them access to a bank account (Appendix C, lines 153ff.). These ideas were discussed before Covid-19 and are currently on hold. Quona is very hesitant with the current circumstances and does not know how quickly, if ever, they can go back to strategies and practices pre Covid-19 (Appendix C, lines 155ff.). They expect to see significant changes in some business models that prior to Covid-19 were thought of as superstars but will now struggle due to the many restrictions the pandemic implies (Appendix C, lines 155ff.).

4.2. CARE

4.2.1. Strategy

Rationale for NPOs engaging in impact investing
Cooperative for Assistance and Relief Everywhere (CARE) International is one of the world's largest humanitarian organizations. Since 1945 its mission is to "work around the globe to save lives, defeat poverty and achieve social justice" (CARE, n.d.). After World War II they became known for the *CARE packages* they handed to people in need (CARE, n.d.). In the 2000s CARE entered microfinance and built an in-house portfolio (CARE, n.d.). They quickly realized that microfinance was not scalable with only philanthropic capital. CARE did, however, not possess the internal expertise to build a banking service, nor could they raise enough philanthropic money to satisfy the high demand for microcredits (CARE, n.d.). This operational misalignment, in fact, led to many MFIs lacking a financially sustainable business model because NPOs were not used to offer loans but usually donated their money (MicroVest, 2018, p. 5). As microfinance proved to be an efficient way to proliferate financial inclusion, CARE and Mennonite Economic Development Associates (MEDA), an international economic development organization also active in microfinance, decided to further promote their mission by founding MicroVest Capital Management (MicroVest) in 2003 (MicroVest, 2018, p. 5). MicroVest is an asset management firm specializing in allocating private debt capital to Responsible Financial Institutions (RFI) which in turn lend to un- or under-banked borrowers and small businesses in emerging markets with the mission of "extending capital markets to reach a greater number of developing world entrepreneurs" (Brett et al., 2013, p. 2).

4.2.2. Structure

Table 3: MicroVest – Summary of key characteristics

Key Characteristics MicroVest Capital Management	
Year founded	2003
Location	Bethesda, MD, U.S.A.
Investment strategy	MicroVest invests in LIFIs, which provide small loans to an assortment of borrowers, thus promoting financial inclusion
Legal entity	Limited Liability Company (LLC)
Management	Gil Crawford
Number of people	23
Geographic focus	Global (60 countries)
Investor base	Broad array
Asset class	Senior debt, and equity
AUM	US$340 million
Financial return target	7.5-8% IRR; full interest paid to debt investors
Average investment Size	US$ 4,200 for microfinance borrowers and US$ 109,000 for SME borrowers
Total number of investments	Over 200 RFIs financed
Total number of exits	No significant debt defaults were reported
Technical Assistance	Is not offered

Source: Own illustration, based on Appendix D, Appendix F, MicroVest, n.d.

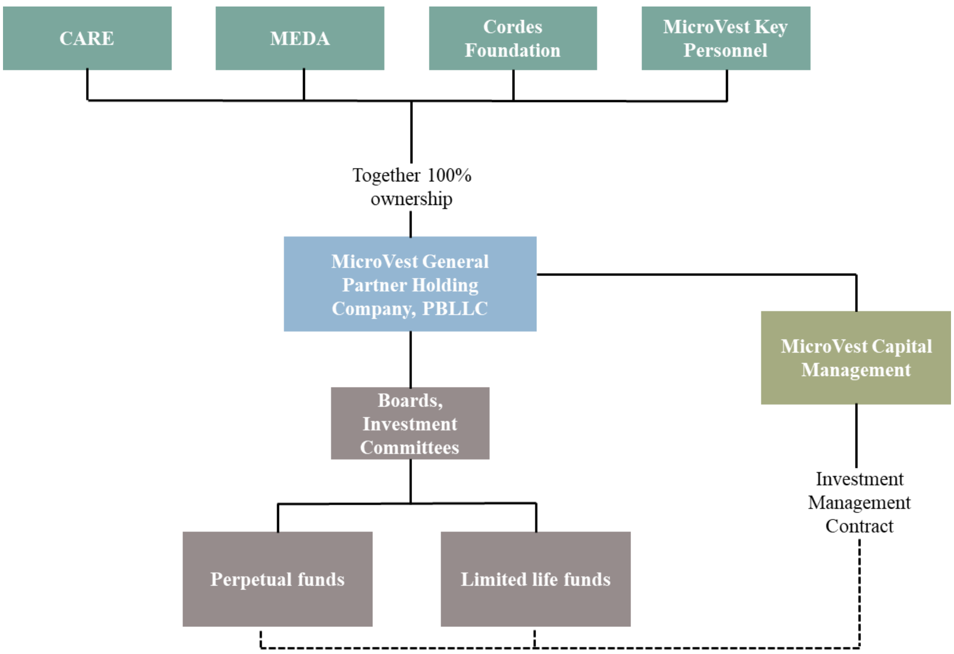
Investment Strategy and Legal Structure

One of MicroVest's first strategic decisions was to take on a commercial investment strategy by applying the processes of institutional investors (Brett et al., 2013, p. 3). As a prerequisite for taking the job as CEO of MicroVest, Gil Crawford insisted that all investments must aim for market-rate, risk-adjusted returns and that MicroVest be clearly separated from CARE (Appendix D, lines 16ff.). This was the precise reason Bowman Cutter (a former Deputy Assistant on economic policy during the Clinton Administration, Managing Director of the private equity firm Warburg Pincus, and Chairman of the Board of CARE and MicroVest) wanted Crawford as a CEO (Brett et al., 2013, p. 3). Crawford had previously founded SCDF, a US-based NPO that creates financial instruments and draws in funds to capitalize microfinance institutions (Brett et al., 2013, p. 3). He knew how difficult it can be to raise capital in this field and that many traditional investors would turn their backs on an investment as soon as they heard *non-profit* and leave it to philanthropists (Brett et al., 2013, p. 3).

It was imperative to Crawford that MicroVest was not part of the parent NPOs CARE and MEDA, but had flexibility in its investment decisions (Appendix D, lines 4ff.). To create a long-term, sustainable and extendable portfolio, decisions should be made independently from the NPO, in Crawford's opinion, because NPOs lack the understanding of the financial intermediation of business (Appendix D, lines 4ff.). Thus, MicroVest General Partner Holding LLC, a Delaware statutory Public Benefit Limited Liability Company (PBLLC), whose public benefit purpose is to operate responsibly and sustainably, was created. Today the holding is owned by CARE, MEDA, the Cordes Foundation, and MicroVest's management team (Figure 5) (Appendix D, line 43ff.). Over the years the holding created several funds, each having a GP with an independent board representing the interests of the LPs (Appendix D, line 43ff.). In addition, each fund has its own IC for advisory during the due diligence process. MicroVest is owned by the holding company and has a management contract with each fund acting as their asset manager and investor (Appendix D, line 43ff.).

MicroVest's mission is to combine and leverage impact investing instruments with private capital markets to bring about quantifiable impact with risk-adjusted returns around 7.5-8% IRR for its LPs (Brett et al., 2013, p. 7). To date MicroVest manages two perpetual funds and four limited life funds (see figure 5). By supporting low income financial institutions (LIFIs), they help to fund the US$5.2 trillion financial gap existing for small and medium enterprises (SMEs) (Brett et al., 2013, p. 7).

Figure 5: MicroVest – Organizational Structure



Source: Own illustration, based on Brett et al., 2013, p. 15

Governance
As stated above, Cutter wanted to maintain the commercial investment standards on all fronts. It was important to him that MicroVest provide a professional image, leading backers to think they are investing in a traditional financial institution. So Crawford hired professional firms, including a fund administrator, an auditor, a compliance firm, an Hedge advisor, and a law firm. (Brett et al., 2013, p. 7)

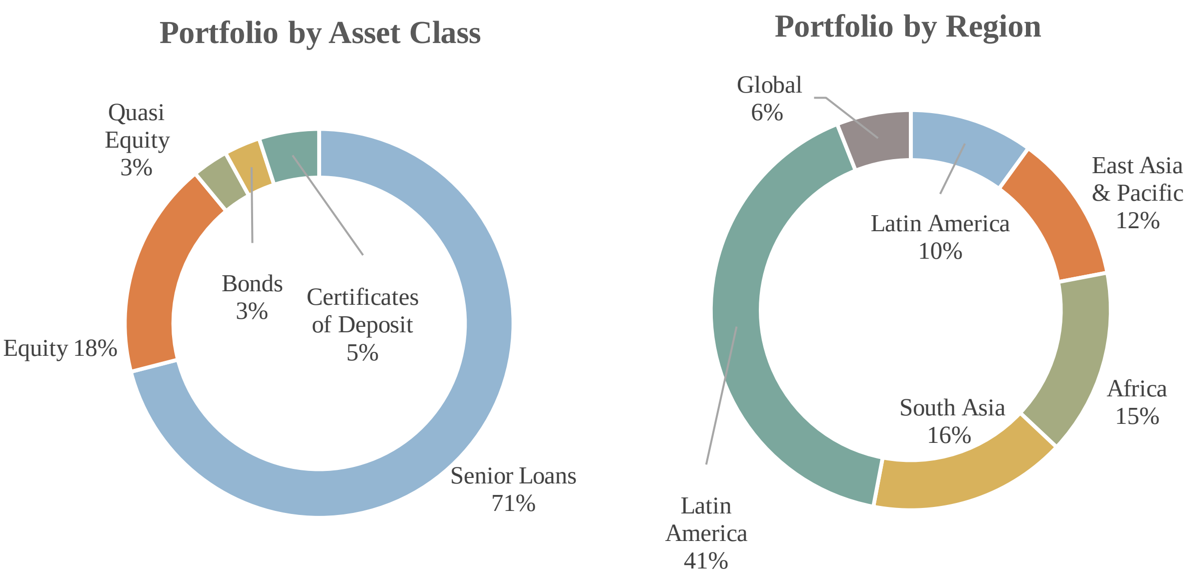
In addition, his ambitious plan to adopt a commercial investment approach in a market that still had a strong philanthropic sentiment called for an experienced and skilled team (Brett et al., 2013, p. 4f.). The team should have a financial and social background but also be familiar with the regions where MicroVest plans to invest and understand the cultural nuances. Over the years MicroVest built a very stable and reliant team structure that meets these requirements. Today MicroVest has 23 employees and a board of directors, excluding the various boards and investment committees for each fund managed by their GPs (MicroVest, n.d.).

Crawford values diversity on multiple levels. Ninety percent of MicroVest's employees speak two or more languages fluently. In total there are 18 languages represented and most employees have worked or lived an extended period in more than one country (MicroVest, n.d.). Their backgrounds are from various disciplines including global auditing and accounting, microfinance, investment banking, international development, global asset management, private equity and credit rating services (MicroVest, n.d.). The hierarchical structure matches that of traditional funds, including executives, directors, senior and junior investment managers, portfolio managers, and associates. The diverse experiences and backgrounds of the team allow MicroVest to keep a centralized office in Bethesda, Maryland (MicroVest, n.d.). Doug Young, Managing Director, concluded that this kind of office structure ensures a uniform process across their global portfolio, a necessity when dealing with commercial investors, however, requires that the team travels 25% of their time (Brett et al., 2013, p. 7) As one of the pioneers in microfinance and impact investing, leading by example was always a priority for MicroVest. Due to that they are a signatory to the UN Principles for Responsible Investment. Furthermore, MicroVest is a member of GIIN and endorses GIIRS (MicroVest, 2019, p. 5).

4.2.3. Portfolio

Overview
Since 2003 MicroVest has invested US$1 billion in over 200 RFIs in 60 countries (MicroVest, 2019, p. 4). In 2019 alone they financed 74 institutions in 34 countries (MicroVest, 2019, p. 4). The average loan size was US$4,235 for microfinance borrowers and US$109,223 for SME borrowers (MicroVest, 2019, p. 18). While they are investing all over the world, they focus on Latin America and the Caribbean, which comprised over 40% of their portfolio in 2019 (Figure 6). Their major asset class is senior loans making up over 70% of their portfolio, followed by almost 20% in equity investments (Figure 6). As of March 2020 MicroVest, has an AUM of US$ 324 million split amongst the above six funds (MicroVest, n.d.).

Figure 6: MicroVest – Portfolio by asset class and region



Source: Own illustration, based on MicroVest, 2020, p. 6

The general strategy for each of the six funds is very similar. They have essentially identical debt portfolios except that some are more leveraged than others (Appendix D, lines 50ff.). In terms of growth and development MicroVest has reached the point where the added benefit of diversification is outweighed by having to manage and hold the risk of too many assets. They are comfortable with the current AUM and intend to hold it steady. Around 85% of MicroVest clients renew their loans, so by-and-large MicroVest holds repeat customers as their permanent debt capital stack (Appendix D, lines 50ff.).

Investor Base

For their first fund, MicroVest I, which had a target of US$ 15 million, MicroVest needed to rely on their founders CARE and MEDA as anchor investors to achieve the target (Brett et al., 2013, p. 4.). It took them three years to generate the money. Of the investments 40% were made by MEDA and CARE, the other investors were mainly HNWI and some other impact investing funds (Brett et al., 2013, p. 4ff.). Raising money for the first fund was complicated because they had no record of prior performance. As a result, many of the HNWI came from within the network of CARE and MEDA. For example, CARE board member, John Morgridge, a former CEO of CISCO, introduced MicroVest to investor Lorene Arey, chairwoman of B-Lab (Brett et al., 2013, p. 4). Most of the investors knew Cutter or Crawford and trusted them with their money, making the first fund a personal sale (Brett et al., 2013, p. 4f.). Over the years, however, MicroVest pushed for a change in their investor base. By strictly following commercial investment models and applying them to impact investing, MicroVest was able to win big institutional investors such as JP Morgan (Brett et al., 2013, p. 5f.).

The founding members still invest some risk retention capital to stay in the game, but today there are more HNWI institutional investors such as pension funds, insurance companies, endowments, and donor-advised funds. Crawford mused that in the early days of MicroVest he met most of the HNWI personally (Appendix D, lines 60ff.). Today most HNWI are managed through wealth advisors who commit a portion of the wealth they manage to impact investing. These registered advisors follow MicroVest's activity and report back to their HNWI, making the process less dependent on the personal network (Appendix D, lines 63ff.). The approval of MicroVest's funds by these independent wealth managers has played an essential role in the growth and steady client capital over the last years.

In talking to institutional investors Crawford realized the requirements of their committees for impact investments were not too different from other investments (Appendix D, lines 69f.). He posits that "this realization makes the difference between an early-stage impact investment fund and the ones who are truly ready for institutional investors. The ones who are ready for institutional investors must aim for risk-adjusted returns. To raise real money, one needs to have a commercial orientation like Quona Capital" (Appendix D, lines 70ff.).

Investee Profile

The rationale for a hybrid fund (offering equity and debt), which ultimately guides the investee's profile, was mainly propelled by MicroVest's trust in the leverage power of debt (Brett et al., 2013, p. 4ff.). Beckham (2018), CIO at MicroVest, is of the opinion that although the high returns of equity appeal to fund investors, the risks of private equity in emerging markets are often overlooked. Risk evaluation is more labor intensive, exits in most smaller emerging markets could pose challenges due to lower trading volumes, and IPOs can be difficult due to a limited supply of buyers (Beckham, 2018). The effect debt investors can have, and the fact that debt investments are often less expensive than equity, however, are often disregarded (Beckham, 2018). "In the case of financial inclusion, this enables financial institutions to pass on lower rates to their customers" Beckham (2018) explicates. Debt engenders the flexibility of delivering short-term loans in a first round and once trust is built, more customized, renewed and long-term debt can be proffered (Appendix D, line 53ff.). These considerations led to the strategy of providing private debt *and* equity securities for LIFIs, RFIs, and other institutions lacking access to development finance institutions (DFIs) and in need of capital that makes available ethical and sustainable financial products and services to under-banked populations (Brett et al., 2013, p. 7). Such services include loan products, factoring of receivables, leasing, and other instruments that increase financial inclusion (Brett et al., 2013, p. 7). Target investees are institutions lacking access to development finance institutions (DFIs) and in need of capital (Brett et al., 2013, p. 7).

The strategy was successful and MicroVest was able to substantially advance and promote financial inclusion across the globe. In Kazakhstan alone "nearly 200,000 borrowers have received vital support from KazMicrofinance. These micro loans, averaging US$1,000 each, bridge a severe financing gap in the country. Since MicroVest's US$15 million investment in 2014, KMF's loan portfolio has grown from US120 million to US$207 million" (Beckham, 2018). Over time as MicroVest managed to attract more capital they achieved economies of scale (Brett et al., 2013, p. 16). The scope and continuous development of standardization in microfinance made data collection of the LIFIs easier and allowed MicroVest to minister its service at a lower cost, which in turn made them more competitive (Brett et al., 2013, p. 16).

Sourcing and Due Diligence Process

MicroVest values its independence in deal sourcing. They hire no external advisors or brokers, but they do rely on the ecosystem and their network for information and opportunities (Brett et al., 2013, p. 8). Increasingly important are regional microfinance conferences that are suitable venues to meet potential investees and (re)connect with other players in the sector such as World Vision, ProCredit, FINCA and Accion, or other microfinance institutions (Brett et al., 2013, p. 8).

When potential investors ask Crawford about the very ambitious target return of 7.5-8.0% IRR, he responds that "a couple of years ago the unhelpful dichotomy of *impact* or *finance* first emerged. At MicroVest we work towards the elimination of that dichotomy. We get superior returns for our impact investors *because* of our impact screen and not *despite* it" (Appendix D, lines 25ff.). In Crawford's opinion investors who are serious about impact should be focused on looking for market imperfections by having different investment perspectives and taking the time to understand the market (Appendix D, lines 30ff.).

An interesting finding for MicroVest, when screening for market imperfections, was that various financial institutions behaved very differently in economic downturns than the global market did (Appendix D, lines 35ff.). Most institutional investors who have access to emerging markets, however, often buy into sectors that are tightly linked to the global markets – commodities, tourism, and hotels for example – presenting a much higher risk to return ratio. To invest in institutions that lack a correlation with global markets is one example of how MicroVest is distinct from traditional investors (Appendix D, lines 35ff.).

In regards to MicroVest's due diligence process, Emerson offers praise when saying that "the firm's financial due diligence process is so widely recognized and admired that MicroVest investments often attract other institutions to invest at the same time or subsequently" (Clark et al., 2015, p. 91). The conceptual backbone of MicroVest's institutionalized due diligence process is the *3–C* framework which identifies the opportunities and risks of each potential deal as follows: (Brett et al., 2013, p. 17)

(i) ***Country:*** Macroeconomic and political risks and mitigants are evaluated. Examined factors include (a) political risk, (b) economic risk, (c) financial risk, and (d) business environment.

(ii) ***Character:*** An analysis of the potential investment is undertaken to see whether they are committed to financial sustainability, good governance, legal compliance, and ethical treatment, and if the commitment is compatible with MicroVest.

(iii) ***Credit:*** MicroVest assesses if the company meets MicroVest's financial targets and is financially robust

The three sections are looked at based on 39 different factors within the CAMEL framework: (1) **C**apital adequacy, (2) **A**sset quality, (3) **M**anagement, (4) **E**arnings, and (5) **L**iquidity (Brett et al., 2013, p. 17). If the overall score reaches internal approval, the rest of the due diligence process goes forward, starting with negotiating a preliminary term sheet followed by the steps defined in Figure 7 (Brett et al., 2013, p. 17).

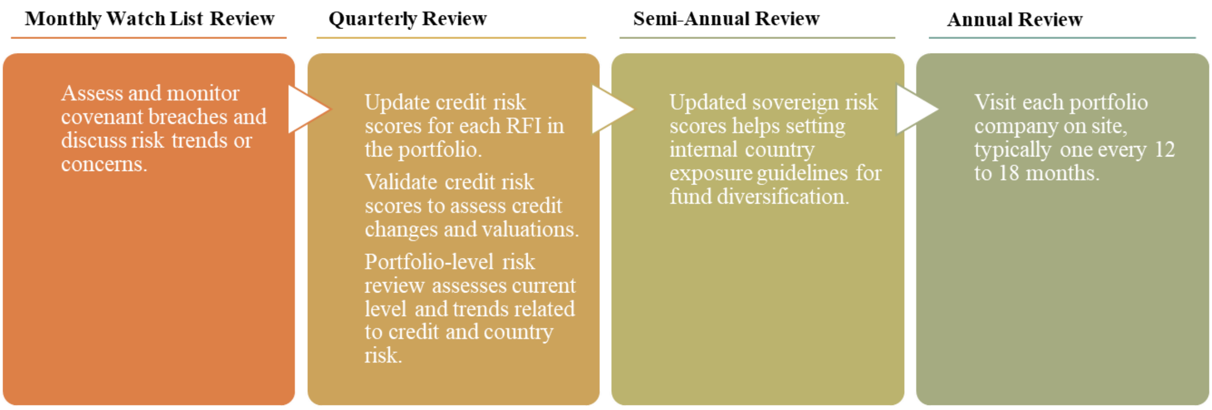
Figure 7: MicroVest – Due Diligence Process

Source: Own illustration, based on Brett et. al, 2013, p.8

Post-Investment: Monitoring and Engagement Processes

As their due diligence process, MicroVest's monitoring is elaborate and calibrated to institutional investment norms. As Figure 8 shows, it ranges from a monthly check-in, which identifies risks and urgent problems, to an annual thorough field visit to appraise daily operations (MicroVest, 2019, p. 8).

Figure 8: MicroVest – Portfolio monitoring process

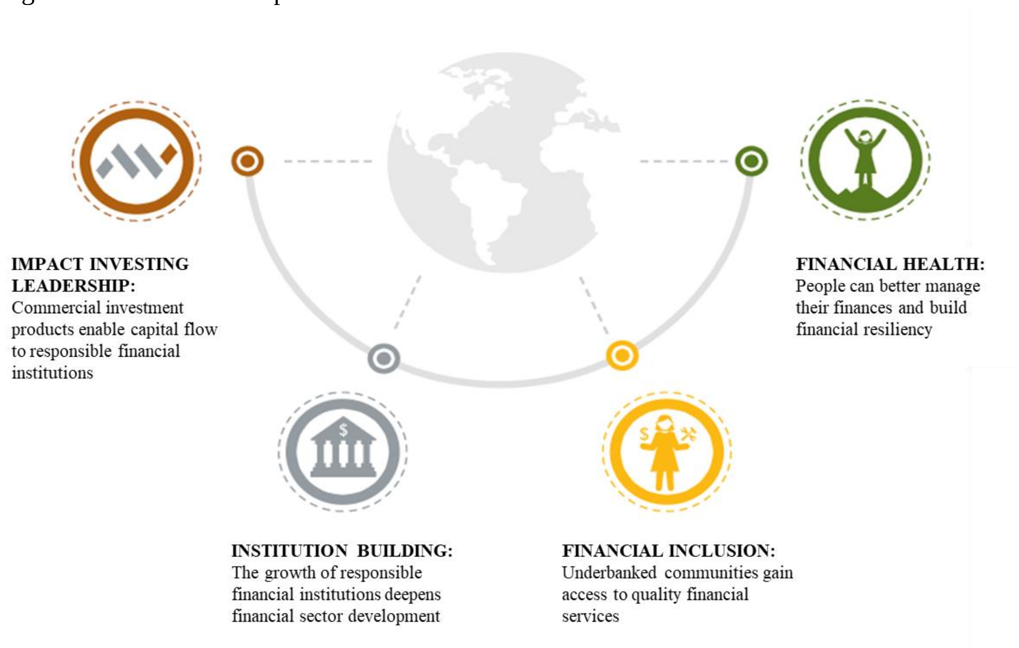


Source: Own illustration, based on *MicroVest, 2019, p. 8*

MicroVest sets its operational focus squarely on investing. Technical assistance post investment is not tendered. A lesson Crawford learned from Martin Connell, a Canadian businessman and philanthropist, is that when doing business with microfinance institutions, submitting donations at the same time as making investments will confuse them (Appendix D, lines 12ff.). Therefore, MicroVest was very clear from the beginning that they would be tough but fair and decided against technical assistance (Appendix 9.4, lines 16ff.). Many of their investees are long-term partners who renew their loans, leading to long-term relations where MicroVest can give detailed post-investment feedback to assist investees in ensuring that their finances and operations are positioned with the global industry's best practices (Appendix 9.4, lines 16ff.).

To monitor and measure their social and economic impact MicroVest developed their own framework consisting of (i) impact investing leadership, (ii) institution building (iii) financial inclusion, and (iv) financial health (Figure 9), which frames their progress on effectiveness and relates to the SDGs (MicroVest, 2020, p. 13).

Figure 9: MicroVest – Impact Framework



Source: Own illustration, based on MicroVest, 2020, p. 13

In addition to this, MicroVest measures its efficacy with their own social scoring system, drawing on the SDGs and the metrics from the IRIS+ catalog (MicroVest, 2020, p. 12).

As the impact investing market is maturing Crawford notices that investors are more and more interested in what transformations they generate and where the money goes, making the disclosure and reporting of monitoring more important, which in turn calls for increased market transparency and standardization (Appendix D, lines 65f.). Consequently in 2019, MicroVest reviewed their assessment methodology and added the Aligning Investors Due Diligence with Universal Standards (ALINUS) tool to their measurement and management system, which will help them to further standardize the assessment of a portfolio company's social performance (MicroVest, 2019, p. 1). Last but not least, MicroVest is one of the first 60 signatories of the IFCs Operating Principles for Impact Management, a commitment to ensure that ramifications are integrated throughout the investment process (MicroVest, 2019, p. 16).

4.2.4. Summary

Lessons Learned

Crawford detects a shift in the drivers of a fund strategy. When at the dawn of impact investing the end-client – the investee – was the center of attention, the fund’s targets were adjusted to serve the investees needs. Recently more funds seem to include the interests of their actual clients – the investors. Crawford thinks that to move the industry to the next step funds need to put investors at the center and build their strategy around them. This will change how funds are perceived by others and will entice institutional investors along the entire investment continuum to commit real capital. (Ellis, 2019)

Future Outlook

John Beckham noticed that “although no investment is immune from global macroeconomic and political developments, MicroVest continues to see a positive trend in the steady need and demand for investments from low correlation RFIs, especially from private debt” (MicroVest, 2018, p. 20). RFIs play an important role in closing the US$5.2 trillion funding gap with SMEs in developing countries. They looked at the future potential for their portfolio and estimated that potential demand exceeds current supply by more than US$20 billion of senior debt, which illustrates the boundless potential of the sector and for MicroVest (MicroVest, 2019, p. 20).

While MicroVest's investment strategy has been successful, as the track-record shows, advancements in technology and big data are always on their radar in order to encourage innovation and opportunities (MicroVest, 2019, p. 20.). Future focus is oriented toward technology innovation related to infrastructure. Poor infrastructure is one of the ubiquitous problems, and the number one reason many institutional investors are not yet comfortable investing in emerging markets (MicroVest, 2019, p. 20f.) Better fundamentals bring down costs, allowing financing companies to enter the market, thus improving product offerings and accessibility (MicroVest, 2019, p. 20f.).

All future plans are, however, subject to the unfolding of the current global pandemic. Covid-19 is and will be the most challenging crisis many sectors have seen in a long time. The economic stand-still today is only the beginning. In the financial crisis of 2008, the real effects continued to ripple through 9-12 months later, according to Crawford (Appendix D, lines 77ff.). With Covid-19 the effects will present sooner in emerging countries than the developed. Obviously, the difference for this crisis is that it is not sector specific. Despite the sinister outlook for the future Crawford remains positive and refers to the fact that the LIFIs in which MicroVest invests are not correlated to global markets, and that the team has already adjusted its processes to the implications of the lock-down (Appendix D, lines 77ff.).

4.2. FINCA International

4.3.1. Strategy

Rationale for NPOs engaging in impact investing

FINCA International (FINCA) is an NPO promoting economic growth and financial inclusion for the poor (FINCA International, 2020). For over 30 years FINCA has built a global microfinance network of 20 subsidiaries, which are community-based microfinance institutions and banks with an avenue to savings and loan products for low-income individuals (Dalal et al., 2020). As the microfinance industry became profitable, institutional investors became interested and FINCA needed to think more strategically about their funds and how they could support their customers (Appendix E, lines 9f.). Rupert Scofield, CEO of FINCA avers that "as a pioneer in microfinance, FINCA created a sustainable and scalable social enterprise and realized early on how attaining financial services could alleviate low-income people from poverty" (Dalal, 2018, p. 1). Many of FINCA's customers found basic goods and services such as quality education, and healthcare unavailable (Appendix D, lines 12f.). FINCA then realized if they could their clients could come by aid to those basic goods and services their productivity would increase, which in turn would generate a need for responsible financial services, ideally provided by one of FINCA's subsidiaries (Appendix D, lines 17ff.). FINCA thought about a way to expand their business model to avail finance and basic services without necessarily creating those products and services themselves. As a result, in 2018 FINCA formed FINCA Ventures, an impact investing initiative (Appendix D, lines 23ff.).

4.3.2. Structure

Table 4: FINCA Ventures – Summary of key characteristics

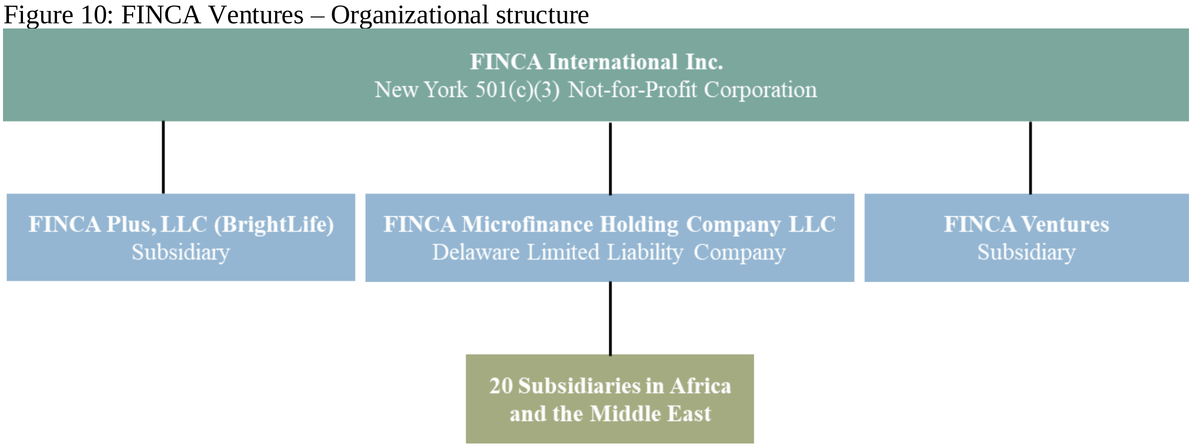
Overview: FINCA Ventures	
Year founded	2018
Location	Washington, DC, U.S.A.
Investment strategy	Leverage FINCA International's network to provide products and services for low-income families by providing patient capital to early-stage social enterprises
Legal entity	New York 501(c)(3) Not-for-Profit Corporation (NPO)
Management	Ami Dalal
Number of people	3
Geographic focus	Sub-Saharan Africa
Investor base	Developing banks
Asset class	Early stage equity
AUM	US$ 2 million
Financial return target	6-7% IRR, but no return expectations for first six years
Average investment size	US$ 150,000-500,000
Total number of investments	9
Total number of exits	None
Technical Assistance	Is offered

Source: Own table, based on Appendix E, Appendix F, FINCA Ventures (n.d.)

Investment strategy and Legal Structure

As opposed to its microfinance subsidiaries FINCA kept FINCA Ventures on their balance-sheet so that FINCA Ventures is not a separate legal entity but part of the NPO entity FINCA (Figure 10).

Figure 10: FINCA Ventures – Organizational structure



Source: *Own illustration, based on Appendix D & FINCA Ventures, n.d.*

This structure was desired because of FINCA Ventures' investment strategy. A strategy that entails leveraging FINCA's global microfinance network, and its institutional knowledge, by "providing patient capital, pre- and post-investment support to high-impact, early-stage social enterprises that offer affordable, high-quality and life-enhancing products and services for low-income families" (Dalal, 2018, p. 2). The term patient capital implies that FINCA Ventures is not expecting any return from their investees for the first 6-10 years, giving them more flexibility in their investment choices. They accept below-market returns and are content when they come in between a 6-7% IRR (Appendix E, lines 33ff.).

This structure has the advantage of combining finance knowledge (through FINCA Impact Finance, Figure 10) with the ability to obtain to basic services (through FINCA Ventures). While FINCA Ventures builds their prospective deals, each investment must be in line with FINCA's mission. Then FINCA's global microfinance network and on-the-ground infrastructure can support and leverage the basic service innovations (invested in through FINCA Ventures) to grow faster and smarter. (Appendix E, lines 17ff.)

Due to that coalition, and the fact that they belong to the same legal entity, FINCA Ventures works closely with FINCA's network. Many of FINCA's departments such as legal, finance, and research extend technical assistance to FINCA Ventures' portfolio companies. The marketing and communications team supports FINCA Ventures' investees with press releases and social media accounts. (Appendix E, lines 58ff.)

Governance

Although FINCA Ventures legally belongs to FINCA, they have their own offices and a separate team. FINCA Ventures is headquartered in Washington D.C. Due to their geographical investment focus on Sub-Saharan Africa they have an additional office in Uganda. FINCA Ventures' core team consists of three people. They are supported by an investment committee and two advisors, acting as consultants during the due diligence processes. The team has a background in private equity and infrastructure investing, consulting, traditional finance, and impact investing. For Ami Dalal, Managing Director of FINCA Ventures, as with Quona, it is important that the people on her team had previously worked in the regions where they are focusing their investments, besides having a background in finance and impact. Alex Evangelides, for one, worked in Africa for Fenix International, an energy and financial services company, before joining FINCA Ventures. (Appendix E, lines 75ff.)

4.3.3. Portfolio

Overview
Since 2018 FINCA Ventures has invested over US$ 2 million in nine different companies. The average investment size is between US$150,000 and US$500,000 including follow-on investments. Their annual target is presently five to seven investments per annum. FINCA Ventures has had no exits, nor experienced any write-offs to date. All companies are performing well. (Appendix E, lines 94ff.)

Investor Base
The capital for FINCA Ventures investments comes from FINCA, so they share the same investor base. These funds come primarily from sustainable banks such as the IFC, KfW Bankengruppe, Dutch development bank FMO, and Triodos Investment Management, a direct subsidiary of Triodos Bank (FINCA Ventures, n.d.). There is no defined budget for FINCA Ventures. Rather, FINCA allocates money to FINCA Ventures whenever they have a new investment opportunity that passes due diligence and the approval of the IC. This set up allows FINCA Ventures to invest patient capital, giving them more flexibility in their investment decisions. Since FINCA Ventures has no LPs that expect a certain return in a specific time frame, all proceeds are reinvested (Appendix E, lines 36ff.).

Investee Profile
Despite investing patient capital and not expecting a market-rate, risk-adjusted return, FINCA Ventures expects its capital back at exit and has a clear set of criteria that its investee must meet. Melissa Tickle, an investment associate at FINCA Ventures, made the point that although the capital might be a donation for FINCA, FINCA Ventures clearly does expect the money back from its investees, forcing it to conform to their criteria. (Appendix E, lines 35ff.)

FINCA Ventures' investment criteria are as follows (FINCA Ventures, n.d.):

(i) The early-stage social enterprise must provide a business model where social impact grows with revenue

(ii) Founders must commit to their communities and focus on responsible but ambitious growth

(iii) The company must provide a clear value proposition as to why and how they will leverage the FINCA network, and how their product or service can help build a more resilient customer base for FINCA

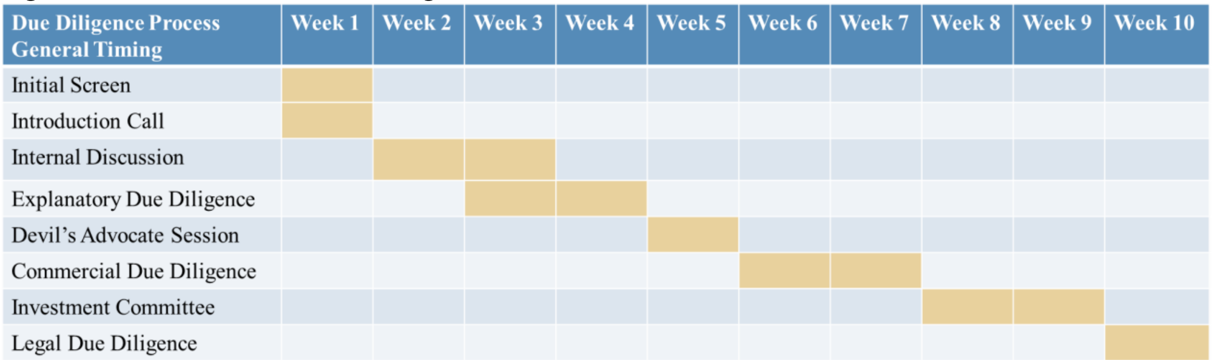
FINCA Ventures' investee Good Nature Agro (GNA), a company tailored to improve productivity of smallholders through soil-enriching legume farming, accurately illustrates the investment criteria and cooperation between FINCA Ventures and FINCA International. GNA provides the inputs, financing and extension services farmers need to produce quality seeds that will attract premium prices. After a successful harvest, GNA buys the entire crop, thus guaranteeing markets and income for the farmers. They hire private extension agents (PEAs) to pass on the knowledge and skills to farmers but also to record the process and quality of the crop. They have improved the ratio of PEAs Zambian farmers an average of 1 in 5000 to 1 in 40. The ultimate goal of GNA is to bring farmers to the middle class by increasing their income by 400-500% to US$600 per hectare. There are now nearly 5,000 farmers under contract with GNA and they have increased their net income per hectare from an average of US$113 to US$382. GNA is also an intermediary between farmers and financial service providers. As their farms grow, farmers need more working capital which requires some financial literacy and use of banks. Through FINCA Ventures' investment in GNA, they get access to FINCA Zambia, one of the 20 microfinance subsidiaries of FINCA. This partnership arranges cashless payments to PEAs, allowing them to acquire the capital by using their mobile phone, and sets up farmers with a bank account, thereby promoting financial inclusion and moving farmers into the middle-class. This is what FINCA had in mind when initially thinking about interfaces between the NPO and the new impact investing unit. (Dalal, 2019a, Leen, 2019)

Sourcing and Due Diligence Process

FINCA Ventures builds its pipeline from a range of sources. One is through so-called *soft partnerships*. Tickle senses that the impact investing space is very open to sharing potential projects, research and data. The relationship among FINCA Ventures, their co-investors and other associates in the field is quite strong. They share due-diligence processes, product sourcing, manufacturing expertise, and ideas on strategy, as well as diverse and complementary perspectives on the market. These soft partnerships are an important strategic value-add for FINCA Ventures. Furthermore, FINCA Ventures has a strong network with accelerators and incubators in the regions they invest. These organizations are an additional sourcing pool for potential investees. (Appendix E, lines 65ff.)

FINCA Ventures' due diligence process generally spans 6-10 weeks, which they approach with an impact-first lens.

Figure 11: FINCA Ventures – Due Diligence Process



Source: Own figure, based on Dalal, 2019b

The process begins with an initial screening that includes desk research and the review of a first-pitch deck. Then an introductory call with the company follows where FINCA Ventures ascertains whether their investment and impact strategy meshes with that of the companies. If they do, FINCA Ventures discusses internally whether the company would be a good portfolio fit. Thereafter, the exploratory phase starts where the entire FINCA Ventures investment team will have a phone call with the company, and additional materials are reviewed. The acquired information is summarized in a 3-page *first-take* document, furnishing an overview of the investment opportunity and how the company supports FINCA Ventures' investment and impact framework. This document is then presented in the *Devil's Advocate Session* which is attended by FINCA Ventures trusted advisors to assess the investment rationale. Once approved by the advisors the FINCA Ventures team conducts a 2-3 days site visit and begins commercial due diligence, which covers agreeing on terms of the investment and narrowing the impact metrics. The information from the field trip is then compiled in a memorandum that FINCA Ventures takes to the IC. If FINCA Ventures receives approval from the IC they round out the process with the obligatory legal aspects. (Dalal, 2019b)

Realities on the ground and the current market are hard to discern from the report, which is why Tickle emphasized the importance of face-to-face time and seeing operations on the ground. The personal contact with founders is fundamental to expand their presence and prominence in the region. With Covid-19 FINCA Ventures had to quickly come up with alternatives to reach the same level of comfort with a portfolio company without having the requisite face-to-face time. (Tickle, 2020)

Post-Investment: Monitoring and Engagement Processes

For their initial investments FINCA Ventures adapted an impact measurement system from one of its more experienced co-investors. The broad definition of impact investing and its close ties to microfinance led to some confusion among FINCA's investors. They subsequently decided to build their own framework aligned with industry standards. (FINCA Ventures, 2019, p. 2)

With a clear impact-first approach FINCA Ventures incorporates that elemental lens throughout their entire investment and monitoring process. They have established a four-step process that verifies and values impact for each portfolio company during the entire pre- and post-investment cycle (Dalal et al., 2019, p. 3):

(i) ***Identify impact:*** Before investing, FINCA Ventures screens for companies with high-impact potential and appraises their ability to deliver meaningful results.

(ii) ***Assess and extend impact:*** FINCA Ventures and the investee concur on measurement metrics and targets. The created impact is leveraged by the global network of FINCA International, to forge mutually beneficial partnerships.

(iii) ***Monitoring Impact:*** FINCA Ventures reviews progress against metrics and changes to the poverty level of the customer base while supporting the investee with internal resources (e.g., FINCA International's research team).

(iv) ***Evaluate Impact:*** The measured impact gets reviewed and published in their annual report, highlighting key metrics, transmitting transparency to investors, and sharing lessons learned.

In order to better benchmark impact across their diverse portfolio FINCA Ventures measures and manages the above according to the standardized and widely accepted SDGs. FINCA Ventures compares the underlying targets of the 17 SDGs to the data gathered from the company reports which their investees must assemble and deliver biannually. Relevant IRIS+ metrics are derived from the SDG targets for measurable indicators on social and environmental performance. Since, the IRIS+ metrics are kept rather general, FINCA Ventures comes up with 10% of their impact metrics on their own, customizing them to the company's business to capture its essential influencers (Dalal et al., 2019, p. 4f).

The outcomes are summarized in a *theory of change* report for each of their investees. The development profile focuses on three characteristics (Dalal et al., 2019, p. 5):

(i) ***Scale*:** Measured by number of end-customers directly impacted by the company

(ii) ***Depth:*** Evaluated using multiple indicators such as income lift, cost savings, customer satisfaction, and health outcomes

(iii) ***Poverty Level:*** Measured by the socioeconomic level of end–customers affected by the company

The theory of change for each portfolio company is described in FINCA Ventures' annual impact report. Based on the 2019 report FINCA Ventures and its investees directly contribute to 12 of the 17 SDGs and their eight portfolio companies have an imprint in 31 countries, touching the lives of more than two million people, and delivering life-enhancing products and services.

4.3.4. Summary

Lessons Learned

Tickle remarks that FINCA is overall very content with their investment approach and portfolio performance, so they are not making major changes to it. The last two years, though, FINCA Ventures' definition of impact has become more expansive, which influences their deal-sourcing strategy. Their definition today includes a wider spectrum of sectors as they began to see shifts in business models. These include add-ons to existing business models that coalesce with the basic services. Two years ago, FINCA Ventures would not have considered logistics and transportation to be part of their impact spectrum, or even a basic service. Today, more efficient data gathering leads to alliances across sectors, and the whole ecosystem. Hence, they want to add in all the sectors that are most instrumental in helping increase income levels for the mass market to their impact definition. (Appendix E, lines 173ff.)

Future Outlook

Just before Covid-19 was declared a global pandemic, FINCA Ventures and FINCA were working on originating a separate fund. The idea came about because FINCA Venture noticed that a lot of companies are raising bigger investment rounds and are looking for investors who are willing and able to deploy more capital. FINCA Ventures' average investment size is becoming too small and they find it harder to join deals. Tickle hopes that with a fund as a separate legal entity they can attract capital from a more diverse investor base, especially HNWI and other LPs. For such a fund the investment supposition would be different, needing to satisfy return expectations from LPs. The project is on hold until prospects for the development of a Covid-19 vaccine are more foreseeable. (Appendix E, lines 186ff.)

Not all projects are on hold, however. FINCA Ventures recognizes that waiting to invest until the situation stabilizes is not optimal. They depend on close partners and co-investors to get comfortable with the new situation and adapt to Covid-19. The most difficult adjustment is to the due diligence process. The on-site visits and meeting the entire team were most important but are now impossible due to Covid-19. They adjusted quickly and the Response, Recovery, and Resilience Investment Coalition, in cooperation with GIIN and 40 other industry participants, has released three issue briefs, including strategies that investors have tested to acclimate to the pandemic and its affects. Conforming to these measures FINCA Ventures was able to make their first investment without a site visit in June and focused more on their existing portfolio, closing several follow-on deals during lockdown. (Tickle, 2020)

5. Comparative Case Study Analysis

This chapter discusses and compares the outcome of the three case-studies with each other and how they connect to the existing theory in impact investing (chapter 2). To make the analysis comprehensive the same structure as the case study was applied in this chapter, linking the relevant theory to each part. Finally, overall success factors of NPOs making impact investments are derived.

5.1. Strategy

Rationale for NPOs engaging in impact investing

As presented in the theory, impact investing is a little over a decade old. The NPOs of the case studies, however, have been operating in the social and environmental sectors for half a century or more, long before the term impact investing was even coined. The individual case studies showcase how NPOs transformed from their original operations into impact investing. CARE, Accion, and FINCA, all, have been adapting to the change in social and environmental awareness since the beginning and sometimes even acted as forerunners. When the social sector developed microfinance as a new form for alleviating poverty, Accion was one of the first to establish a microfinance institution. FINCA and CARE soon followed and started their microfinance divisions. MicroVest was even ahead of its time in realizing that there should be no trade-off between financial returns and social impact. MicroVest has operated with this investment strategy since 2003, five years before there was an actual term for it. Furthermore, with the IPO of Compartamos Bank, Accion realized much earlier than other players in the field that market-rate returns should be targeted.

It was when (i) the sophistication of private donors, demanding better accountability of their capital and (ii) a profound resource constraint from governments and private donors came to be, that NPOs turned to impact investing as an alternative. The hypothesis signifies that for mission-oriented NPOs, impact investing provides the perfect opportunity to (i) scale impact in their target locations, (ii) diversify their funding sources to be less reliant on donors, and (iii) bridge the gap between philanthropy and impact investing by accessing capital that can generate financial returns and be reused.

The case studies have shown that the rationale for entering impact investing is not too different from the theory. Accion realized that as an NPO they could not attract enough philanthropic capital to alleviate poverty on a large scale. The aim was to calibrate the NPOs mission to impress an investor base that could come up with enough capital to solve the world's imminent societal issues. Engel knew from prior experience in the field that institutional investors could only be won over with desirable financial returns, which Accion could not provide. Trying to balance its microfinance business, CARE also realized the limits of its organization. The NPO could not fundraise enough money to support the rising demand for microfinance nor did they have the expertise for its operations. FINCA entered impact investing with the clear intention to leverage its existing operations. FINCA saw the opportunity to scale its microfinance operations by increasing access to basic services and prompted FINCA Ventures to invest in companies providing these services. As opposed to CARE's and Accion's rationale, FINCA became an impact extending a business within the NPO, whereas Accion and CARE chose to forge an additional business.

When comparing Accion and FINCA in this regard and considering that prior to Quona, Accion also embarked upon several initiatives on their balance sheet targeting earlier stage investments, financed by Accion, it looks that FINCA today is where Accion was in 2013, right before they introduced Quona. While at the beginning FINCA Ventures considered it convenient sharing resources and profiting from FINCA's existing investor base, it turned out to be a limitation. Today, FINCA Ventures also thinks about floating a separate impact investing fund to have more flexibility and freedom in decision making. Deciding to become impact investors was not a decision of the moment for the NPOs, nor solely due to the pressure of suddenly decreasing traditional donor funds, but rather the result of yearlong trial and error, adapting to the macroeconomic changes and the industry as a whole. Although all three cases chose to enter impact investing as investors and showed similar rationales for their decision – mission alignment between the NPO and the respective impact investing unit as a prerequisite being one of them – their implementation method varies considerably, as the following chapters will reveal.

5.2. Structure

The number of parameters that investors have to decide on in impact investing is vast and includes financial return, investment instruments, geography, sector, organization type, and capital sources has been characterized. The case comparison shows that, due to this variety, the *motivation* of an NPO becoming an impact investor and the resulting *investment strategy* are most important drivers for all decisions that come thereafter, but first and foremost the legal and governance structures.

All cases report very distinct and sophisticated investment strategies. FINCA Ventures, for example, applies a clear impact-first approach. They target early-stage enterprises and are willing to target below-market rate returns in order to de-risk the industry. Quona, on the other hand, sources companies with a product-market-fit in order to achieve risk-adjusted market-rate returns and thus is finance-first focused. MicroVest insists that there is no binary decision to be made between social impact or financial returns; however, also demand a 6-7% IRR and are further on the finance-first end of the spectrum. The cases reinforce that financial targets are ultimately what define the final business structure. MicroVest and Quona, both seeking risk-adjusted market-rate returns in order to attract a broad investor base, made it a priority to be independent from their NPO, as it was feared association with philanthropy would to be perceived negatively amongst institutional investors. Thus, the NPO encouraged a separate legal entity for making impact investments. FINCA focused on using the synergies between their existing operations and their added impact investments. Diversifying their funding sources was not a priority, so keeping FINCA Ventures legally as part of the NPO made more sense.

The legal structure in turn influenced the governance structure of the respective impact investing units. Due to their similar investment targets and legal structures, Quona and MicroVest took a similar path in this regard. Both adapted positions and hierarchical structures from traditional finance funds, while FINCA Ventures, with a lean team of three, can profit from the resources of and connections with FINCA. In terms of experience all cases value diversity in their teams and seek financial as well as social know-how. All are supportive of the premise that suggests hiring a multilingual leadership with a diverse skillset for impact investments to combine the best of both worlds is crucial. Two of the cases even followed the expert's advice to retain some human resources from the NPO itself.

5.3. Portfolio

Table 5: Overview of Portfolio Parameters

	Parameters	Case 1	Case 2	Case 3
1	**Impact Investing Unit**	Quona Capital	MicroVest	FINCA Ventures
2	**Year founded**	2015	2003	2018
3	**Rationale for inception**	Mission to expanding access to quality and affordable financial services	Mission to extend capital markets via microfinance provide financial inclusion	Mission to promote economic growth and financial inclusion to alleviate poverty
4	**Geographic focus**	Focus on Brazil, India, Africa	Global (60 countries)	Sub-Saharan Africa
5	**AUM**	US$ 344m	US$ 340m	US$ 2m
6	**Asset class**	Growth stage equity with approved product-market-fit	Senior debt, and equity	Early stage equity
7	**Financial return target**	6-10% IRR	7.5-8% IRR; full interest paid to debt investors	6-7% IRR, but no return expectations during the first six years of the investment period
8	**Average investment size**	US$ 2-7 million	US$ 4’200 for microfinance borrowers and US$ 109’000 for SME borrowers	US$ 150’000-500’000
9	**Number of investments**	34	Over 200 RFIs financed	9
10	**Number of exits**	3	No significant debt defaults were reported	None

Source: Own table, based on Appendix F

Overview

The theory criticizes that the broad definition of impact investing led to difficulties in unlocking capital, and fostered multifaceted investment expectations. Placing and managing capital is perceived as an even bigger issue amongst experts due to balancing trade-offs, limited exit options and illiquidity of the market. These challenges, however, did not stop the field from attracting more diverse players, and capital, which was not least because of global support by government policies and incentives but also the significant advancements in impact measuring tools that further legitimize the sector.

As for the case-studies, total AUM alone is not decisive barometer of success, though it is interesting to see that Quona evidences that raising funds can get easier over time. Due to Quona’s distinct investment thesis and clear communication, they were able to fundraise about the same amount of capital as MicroVest did in a third of the time. Having three successful exits after two years of operation, Quona also bears out that there are plenty of exit options at risk-adjusted market-rate returns in emerging countries. FINCA’s capital deployment also affirms that there is demand for patient capital to de-risk the market, which will reap lower returns. The comparison further unmasks a large spread in average investment sizes, which is mostly subject to the fact that the cases target different company stages in addition to various asset classes.

Comparing the portfolios’ diverse strategies for their differing geographical targets can be instructive. While Quona and FINCA clearly specializes in specific regions, MicroVest is active across the globe. MicroVest’s global presence can be explained by the fact that a single investee is less resource consuming for them as it is for Quona and FINCA Ventures. As debt investor MicroVest has legally less right than equity investors to interfere in the investee’s decisions, and since MicroVest does not furnish any technical assistance, they are also less involved with the investee operation, giving them more time and resources to find deals in different regions. FINCA Ventures operates only in places where FINCA has its financial subsidiaries. Thus, FINCA Ventures can take advantage of the existing infrastructure of FINCA there, underscoring the argument that NPOs can give their impact investing unit an advantage and head-start. Quona strategically only sources investment opportunities in locales they know. They are comfortable with and already have an existing ecosystem.

Overall, the case studies represent well the diverse options that the industry offers, as the theory suggests. The large AUM's of Quona and MicroVest though clearly verify that difficulties in unlocking capital can be decreased with a precisely defined investment strategy.

Investor Base
As laid out in the latest GIIN survey the investor base in the impact investing industry has developed to be quite divergent over the last years. Quona and MicroVest managed to attract a respectable conglomerate of investors in a short period of time. Worth noting is that CARE and Accion both are vital anchors in their impact investing units. These units leverage the stellar reputation of their parent NPOs in the market, and their trust in the impact investing units, to attract further investors. This accentuates the suggestion that the experience, knowledge and global network of an NPO yields advantages in impact investing. If it were not for the two NPOs, Quona and MicroVest would have had more difficulties in raising capital, especially for their first funds, although there is a clear gap between the breadth of the investor bases of Quona and MicroVest versus FINCA Ventures. Quona was able to attract the most disparate investor base in the shortest time period.

FINCA Ventures was less successful with their funding strategy. What started out as a time and resource saver, slowly turned into a factor of limitation. Since FINCA Ventures is reliant on FINCA for its capital funds, they are bound by a certain deal size, leaving them with a limited sourcing pool of investment opportunities.

Investee
Quona and FINCA Ventures have the clearest impact investment criteria linked to their impact framework, that their investees must meet. These prerequisites, including financial return targets, approved product-market-fit, geography, and others, prompt vastly different investee profiles across Quona and FINCA Ventures, although both invest equity in early-stage companies. Despite these fundamental differences both strategies are considered impact investments, which advances the argument that some investors get confused with the countless forms and versions of impact investing and thus, urge more standardized products and services.

As for financial return targets, the GIIN interestingly confirms that investors with a higher financial return target (Quona and MicroVest) are more likely to meet their goals than investors with lower financial return aspirations (FINCA Ventures). Contrasting the three cases informs that incentive but also pressure to aim for higher returns is a result of the different investor bases of Quona and MicroVest versus FINCA Ventures, as the other parameters are quite similar. This adduces that financial targets are still the determining factor when it comes to investor base. This observation is in line with the conclusion that even donors are becoming more sophisticated, and expect NPOs to justify their investments and see a return.

Sourcing and Due Diligence Process
All analyzed NPOs follow an elaborate and robust process for their company sourcing and due diligence which they developed themselves, as it is advised by the theory. Interestingly, both Quona and FINCA Ventures use their impact measurements and investment criteria also as *a sanity check* during due diligence to verify the potential investment eventually can reach the targeted impact outcomes in the years to come. Both have specific investment criteria, linked to their impact schemes, that their investees must meet. MicroVest prioritizes its risk evaluation during due diligence, especially the question whether the investments are positively correlated to capital markets in developed countries.

Post-Investment: Monitoring and Engagement Processes
The theory postulates that one of the drivers for the vast array of products was the addition of players and the commercialization of the industry. While commercialization is crucial for a far-reaching appeal, it also has the potential to promote greenwashing[6], which delegitimizes the entire industry and has been established by the GIIN as one of the main challenges. This can be overcome by applying a uniform, quantifiable, and comparable impact measurements system.

Setting the impact measurement frameworks of the three case studies side by side informs that (i) all cases apply their own framework, (ii) all cases derive their frameworks from leading and official tools such as IRIS+ and IMP, and (iii) all are committed to impact principles and guidelines. Unfortunately, none of the frameworks is commensurate with another Quona for example reports that their impact can be measured by 96.7 million lives touched, US$394.5 million in revenue generated, and 7.8 billion payment transactions enabled. MicroVest reports US$1 billion deployed capital since inception, US$10.8 million in active borrowers and US$7.8 million in active deposits. Those numbers are difficult to equate. This lack of comparability has been raised as an issue by experts since the beginning of impact investing, and persists. Institutions such the GIIN or B-Lab have made significant advancements in promoting the industry. Simultaneously, though, there is pressure for accountability, and to report non-financial information, as traditional investors are still slow in adapting.

As part of the post-investment process, early-stage companies require more than financial capital to grow and scale their impact. As experts point out, an additional value creation of NPOs is in delivering post-investment support, as they are optimally placed and experienced to provide such help. Technical assistance became apparent as a widespread solution. Especially for early-stage investors, technical assistance is a much appreciated and suitable additional service. As the theory anticipated, NPOs such as FINCA are perfectly equipped to aid in branding, and communication, or give financial and legal advice. Quona and MicroVest, however, emphatically are not including technical assistance, as they believe that simultaneously making an investment and giving donations (in the form of technical assistance) would confuse their investee. In addition, research indicates that institutional investors are not (yet) comfortable investing in a vehicle that performs technical assistance. They view it as development aid and philanthropy. Thus, institutional investors have generally stayed away from seed investments and leave those investments to the venture capitalists. The theory as praxis are divided on this issue.

5.4. Summary

Success Factors
By continuously adapting to macroeconomic changes and challenges the NPOs and their impact investing units evolved with the industry and consequently report a multitude of lessons learned. While each case-study shows a distinct approach to becoming an impact investor, the cross-case analysis found the following seven common *successes factors* across the cases:

(i) ***Strategy*****:** Following a distinct and precisely defined *investment strategy* that includes quantifiable *investment criteria* to source optimal opportunities

(ii) ***Priorities*****:** Aligning the *investment strategy* with the *requirements of the investor base* before defining the targeted investee profile (targeted financial returns are the determining factor for what company-stage and risk profile one can invest in)

(iii) ***Governance*****:** Hiring a *multilingual leadership* with a *diverse skillset* to combine the understanding of financial *and* impact markets

[6] "Greenwashing involves suggesting a better environmental performance than the actual environmental behavior justifies" (De Jong et al., 2018, p. 79)

(iv) ***Services*:** Defining and communicating precisely about the offered services and support mechanisms (i.e. focusing on investing or including technical assistance)

(v) ***Due Diligence*:** Applying a *rigorous sourcing and due diligence process* closely aligned with the *investment strategy*

(vi) ***Impact Measurement*:** Applying an *impact framework* that is compliant with the industry standards to monitor, measure and report on social and environmental impact

(vii) ***Ecosystem*:** *Building a name* for the impact investor in the impact ecosystem is crucial for *sustainable growth*

The NPOs Role in Impact Investing

The value addition of NPOs – and their respective impact investing units – on the impact ecosystem, however, goes far beyond their role as investors. The supposition here is that Lehner et al. (2019) separate the industry in the three categories; *demand (investees), supply (investors), and intermediaries (asset managers)* (Figure 2). The sector analysis described in chapter 2 intimates that NPOs enter impact investing either as investors, by providing technical assistance, or as ecosystem builders. The cross-case analysis, however, suggests that NPOs operating in impact investing can hardly be placed into only one of these categories. The cases identify as direct investors who also oversee technical assistance and support building the ecosystem. NPOs fulfill multiple roles in impact investing because the industry gives them a broadband of options to further their mission. The cases illustrate that by setting up separate impact investing funds NPOs get introduced to new types of private capital, allowing them and their impact investing units to explore new innovations to alleviate poverty. It also increases their chances to make new alliances with investors fostering new opportunities, and experiment with new business models to increase mission-aligned impact.

While impact investing is clearly helpful for the NPOs, they in turn add real value to the impact investing industry, exactly as implied. The advantages NPOs have over other investors, as suggested, make them a unique player and significant for the entire sector, beyond their role as investor. NPOs know how to access and leverage capital from diverse investors which enables them to reach *across the entire investment continuum*, de-risking markets and *bridging the gap between supply and demand.* Their global footprint, networks and local knowledge give them an advantage in providing technical assistance, and their year-long experience in measuring impact imparts a uniquely informed perspective to the impact investing market. While both aspects help them with their investments they also contribute to the development of the sector as a whole. MicroVest's power and influence, for example, go beyond deploying capital. Because of their track-record and position in the ecosystem, they are perceived as a trendsetter. Their widely respected due diligence process is reason for others to invest alongside them. This makes MicroVest not only a trailblazer but also an important and trusted intermediary in the financial inclusion industry, attracting players on the demand and supply side and closing this gap.

As the theory laid out, experts call for lobbyists who will incentivize change in the rules and mindset. It turns out that NPOs acting as impact investors are in an ideal position to aggregate investment opportunities, exemplifying how social or environmental issues can be addressed as they simultaneously influence others, and thus accelerate impact investing.

6. Conclusion

6.1. Summary and implications

To understand the current favor of NPOs as impact investors, the paper set out three underlying objectives. First, to analyze *why* and *how* NPOs are coming to the fore. Second, to research the success factors for NPOs becoming impact investors, and third, to derive implications the impact investing industry has on NPOs and vice versa.

The detailed theoretical analysis of the impact investing industry showed that while free markets are an unparalleled catalyst for freedom and prosperity, the scope of social and economic challenges and the complexity of the globalized world, demand innovation, a change in mindset and for society to reimagine capitalism. The impact investing industry is in position to be a powerful solution to tackle some of these challenges. The sector profited from strong momentum around 2008, and global unrest, uncertainty and societal puzzles spurred government support, which in turn shaped the ecosystem. Today the sector lists investments worth over one trillion US dollars and experts forecast the industry turning into an investment style, rather than an asset class, making capitalism more socially inclusive. Despite its proliferation, the industry is still in its infancy and needs to optimate its legitimization and accountability before becoming mainstream.

With regard to the current NPO sector, the theory found a perennial capital constraint from traditional sources, and reported that investors across the investing continuum increasingly demand (higher) returns for their capital. As a result, the traditional philanthropy-based business models of NPOs get re-examined as current revenue and operational models are experiencing limitations. To verify and scrutinize the theoretical research, three case studies on NPOs entering impact investing have been carried out. Thereafter, a critical cross-case study analysis was performed, that correlated the single cases with each other and systematically compared them with the existing literature. From this analysis the following can be formulated.

The cross-case analysis found that NPOs tap into impact investing as an alternative solution to proliferate their mission. The industry introduces the NPOs to new funding sources including private capital, and a multitude of new partners, approaches, and business models. The theory and cross-case analysis distills the multitude of parameters an investor has to decide on for its investment strategy, including financial return, investment instruments, geography, sector, organization type, and capital sources. The chosen investment strategy governs all decisions thereafter such as governance and legal structure, but also which operations, services and products the impact investor makes available. In short, the reasoning for *how* NPOs set up their impact investing units comes from their rationale for tapping into impact investing and their investment strategy.

The cross-case analysis upholds that there is no uniform strategy or structure to set up an impact investing unit, as the industry bears an enormous range of interpretations and options. However, despite their specific investment strategies, the paper found seven success factors that hold true for all the case studies. The NPO should have (i) clear investment strategy, (ii) align its investment strategy to the targeted investor base before aligning it with their investee's needs, (iii) hire a multilingual leadership with a diverse skillset, (iv) precisely define what services and products are within reach, (v) apply a rigorous sourcing and due diligence process, (vi) apply an impact framework compliant with industry standards, and (vii) countenance a name for the impact investing unit in the impact ecosystem.

Considering the motivations for NPOs entering impact investing and the status quo of the industry, an interesting assimilation is observed. The case studies detailed how NPOs profit from the impact investing industry. However, as NPOs enter impact investing, they also confer a unique set of values to the impact industry in return. The theory classified NPOs as investees and placed them on the demand side of the ecosystem, but the case studies clearly showed that NPOs take on much more sophisticated roles than simply receiving grant money. Since inception impact investing has come a long way, however, the sector will only be sustainably scalable when the investors' costs of inputs are matched with the value of the outcome. This thesis proved NPOs have a crucial role in moving the impact industry above its threshold to mainstream. NPOs have existed for much longer than impact investing, and bring a unique set of value propositions and skillset to the industry. With their global networks, local knowledge and sector expertise, they are perfectly placed to act as intermediaries and ecosystem builders. Their long-term measurement experience, can help institutionalize and legitimize the industry. In addition, NPOs know how to access capital from diverse investors, which makes them ideal asset managers and lobbyists for the industry closing the gap between supply and demand. Lastly, the case studies showed that NPOs act as pioneers and trendsetters in the ecosystem potentially leading to a change in mindset among investors.

Even if impact investing will not *save* capitalism it is on the right track, shrinking the financial gap existing to address the most challenging social and societal problems. With NPOs entering this market, the impact industry might have gained its most diversely applicable and promising player, as NPOs acting as impact investors take on multiple roles simultaneously, adjust quickly to challenges and are not afraid of the frontier.

6.2. Limitations and further research

The presented thesis analyzed in detail why and how NPOs are materializing as impact investors. Nonetheless, the analysis includes some limitations that present possibilities for further research.

The cases selected for the case studies are operating in financial inclusion. The impact investing industry is much broader and includes sectors such as agriculture, health, education, environment, energy, water and sanitation, and housing and community. Therefore, it would be interesting to conduct a case study analysis across different industries. The geographical focus of the case studies was limited to the U.S.A. Including NPOs from other countries might shed a different light on findings. Finally, the analysis was purely qualitative. As a result, the information included is restricted. Further research could be conducted that includes other data collection methods to provide other insights. A quantitative analysis of the use of IRIS metrics for example could shed light on their real value creation for NPOs.

Due to the limitations of the thesis, no generalizations are possible from the obtained results. Consequently, conclusions for other NPOs appearing as impact investors is are limited. To this end, it would be interesting to extend the pool of case studies across diverse geographic areas and sectors, and include quantifiable research parameters with the qualitative ones to analyze what further implications can be drawn from the gravitation of NPOs toward impact investors and how they can further accelerate the impact investing industry.

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Appendices

A. Interview overview

Case	Company	Interviewee	Date	Interview Type
Accion International	Quona Capital	Kristin Sadler	03.04.2020	Zoom call
CARE	MicroVest Capital Management	Gil Crawford	04.05.2020	Zoom call
FINCA International	FINCA Venture	Melissa Tickle	02.04.2020	Zoom call

B. Case study template

The rationale of this framework is to structure each case-study accordingly, making it easier to thereafter compare the funds and derive success factors. The questions are used as guidelines to build the case study. Those questions, that could not be answered via desk research will be asked during the interview.

<u>PART I: WHY</u>

A. Strategy

- Rationale: Why was the fund created?
- Is the mission in line with that of the NPO?
- How do they differentiate if not aligned?
- Synergies: How will the NPO benefit from the impact investing unit and vice versa?
- What is the investment strategy?
- What are the financial return targets?
- What are the impact targets?

<u>PART II: HOW</u>

B. Structure

Overview

- When was the NPO and impact investing unit founded?
- What are the legal entities of the NPO and impact investing unit?
- Who are the founders of the NPO and impact investing unit?
- Where are the NPO and impact investing unit located
- What is the total assets under management (AUM) of the NPO and impact investing unit?
- How much AUM has already been invested?
- What are the primary asset classes?
- What is the geographic focus of the impact investing unit?
- What is the sector focus of the impact investing unit?

Legal structure

- How is the NPO and its impact investing unit legally and organizationally structured?

Governance structure

- What are the characteristics of team members?
- What professional background does the investment team have?

Partnerships

- Are there any partnerships?
- How is the NPO or fund active in the impact investing network?

Investor Base

- Who are the investors (e.g. HNWI, government, private, corporate)?

The Investees

- What is the investees profile?

C. Portfolio

Overview

- How does an overview of the asset classes look like?
- What is the geographical focus?

- What is the average size of investment?
- What is the total number of investments?
- How many exits did you have to date?

Deal sourcing
- How are the deals sourced?
- Are there plenty of deals?

Due Diligence
- How does the due diligence process look like?
- Are there general investment criteria for investees in place?

Monitoring
- How are the investments monitored?
- (How often) Do investees have to report on impact?
- How are you measuring impact?
- What impact measurement tools are used? One of the industry standards such as IRIS+, IMP or GIIRS?

Post-Investment-Engagement
- What role do you play in the organizations in which you invest? Do you prefer to be an outside observer, or do you want to be engaged directly in operations or governance?
- Is technical assistance offered?

D. Summary and Future Outlook
- What are some lessons learned?
- What are some best practices?
- What challenges did you encounter?
- What is the future outlook?

C. Interview: Quona Capital

Interview with Kristin Sadler, Platform Associate, Quona Capital
April 3rd, 2020, 3 pm - 4 pm CET
Via Zoom
The following is a transcript of the interview

Strategy

Why was the fund created? What was the intention?

Accion started out as a non-profit supported microfinance initiative, viewing that as a powerful way to drive financial inclusion in emerging markets. The story started with a pilot project that spun out of Accion and was still on Accion's balance sheet– the Frontier Investment Group. And the success of that led to start Quona. Prior to 2015 Accion invested in Compartamos Contendera Bank a microfinance bank in Latin America which turned out very successful and had a lucrative IPO. This was the first realization of the idea that profits and purpose could go hand in hand for Accion. Accion used the proceeds from that IPO to start a few initiatives within Accion, including the pilot project which was the Frontier Investment Group a corporate venture endeavor designed to radically improve access and quality of financial services to the unbanked lead by Monica Engel and Accion Venture Lab, a seed-stage investment initiative. Due to its success Engel proposed launching a third–party fund anchored by Accion and financed by private sector players to explore this new world of impact investing. She started Quona Capital in 2018 with Accion's support as an anchor investor. Quona is an independent Venture Capital firm that still has a strong relationship with Accion. Accion is our GP, General Partner.

What is your investment strategy?

We only do equity investments. Our thesis is that of a growth-stage financial inclusion thesis in an emerging market that is by targeting the stage of companies that already have a product-market-fit. The theoretical cut-off is one million in revenue but that is flexible depending on the markets. In addition, the company needs to be able to achieve a 6-10% IRR. The idea is that Quona can provide catalytic capital that enables us to scale and reach customers in emerging markets and drive that impact piece and realize the impact they can have on a larger scale.

We don't set impact targets but theoretical impact targets always having financial inclusion which is vague. There is proven research around the impact on financial inclusion has both on a micro and macro level. So, everything revolves around this thesis. But in terms of setting targets, we don't really do that for example: you need to have X number of transactions for customers within a given year. To them that's a meaningless statistic.

There are tools out there that help us to understand the impact we are having at Quona. Like third party surveys. Right now, we don't do that. We developed our own impact and management approach in collaboration with the industry and aligned with the IMP framework. Our measurement around financial inclusion revolves around three pillars:

1. Access: Who are you trying to create access to financial inclusion services for and to what extent are you doing that. Focusing on the target population and what underserved means in that context.
2. Quality: This is the meat of it of the impact assessment. What exactly about said business model or, or said market, said product puts the power in the hands of the consumers and what advantages does this product give them over what already exists. Often it is significantly lower APRs or additional digital processes that are able to provide working capital within a

day rather than two weeks. General theme is towards a lot more flexible qualities within these products.

3. Markets: For us this is having a bigger ecosystem effect. That's what we are really investing in these companies for in the end. The real thesis about financial inclusion on a macro level is that by doing that and being successful the customers are spurring competition. And that all of these start-ups and fintech's and companies that are more customer centric and focus more on clients and markets that were previously considered undesirable that by all of those parties collectively doing that, that the country/region the power starts to shifts into the hands of the consumer rather than the hands of the powers that used to have them which were traditionally the financial institutions. This was generally because of technology.

Regarding financial return; We are not philanthropic; we have institutional investors who expect market-rate financial returns. So, when we make investments that is always the target. Thus, it is very important for Monica Engel to recruit people that have experience in the financial and social sector and are familiar with our core investment regions. We aim to achieve an IRR of 6-10%.

How are Quona and Accion involved with each other? Are there synergies?
Accion still has their own investment arm where they mostly invest in traditional microfinance banks and they also have a seed stage Venture firm on their own balance sheet called Accion Venture Lab and then Quona who invests in growth stage firms, we do series A, some seed and some series B and some follow-on in between rounds. We work closely with them in terms of pipeline, if something is too early for us we will pass it to them and vice versa. With broader Accion we work with them on broader terms, they have think tank called the Center of Financial Inclusion so collaborate with them in terms of thought leadership sometimes but in terms of how we actually operate, a lot of that is independently run with consulting from Accion, they sit on our boards they sit on our investment committee. So, they are involved but it's still separate.

Does Quona have additional partnerships with other companies aside from Accion?
Yes, there are partnerships, but I view it as we are intermediaries, to strengthen these partnerships on behalf of our portfolio companies. E.g. we introduced one of our Mexican MSE lenders to Paypal a few years ago and they have worked. Hey there are synergies, mutual interest to work together.

Who are your investors?
Accion is our General Partner but around 80% of Quona's financial funds come from third parties such as institutional investors, high net worth individuals, and university endowments. Accion played a great part in attracting those institutional investors. Although we first were hesitant if the NPO would repel institutional investors.

How is your due diligence process structured?
Main steps are pre-screen, stage one due-diligence, stage two due-diligence, in between it goes through the investment committee and they are the ones if it moves forward to the next stage.

Before it even gets to pre-screen it has to meet a few criteria:

1. Financial services, or financial services related, majorly technology employed, so fintech
2. It has to have a very clear financial inclusion thesis. It is important to Quona that the major target population is majorly underserved and not just a bi-product and some countries that's harder to do, such as Brazil due to its huge wealth disparity. There are some fintech's that are targeting, the upper percentiles of them and that's not what Quona wants.

3. Stage of the company: Needs to have an approved product-market fit. Clearly scalable and have a path to exit. And have already hit some milestones such as one-million-dollar revenue.

The investment should also have an approved leadership team, strong management, and strong idea of path forward.

The ecosystem piece is very important to Quona, that's why (third pillar of impact investing framework) we are not investing (even if it's a strong company) in a fintech that doesn't have an ecosystem that would support its growth. When you look at our investments, they are all in similar regions: India, Mexico, Brazil, South Africa are huge because they have supporting ecosystems that can help the companies grow and scale and find partners that grow towards acquisition. So, the infrastructure around the company is very important.

Portfolio Management

What is your total AUM?

AUM is currently US$363 million. This includes both funds, AFIF and AQF.

What is your average investment size?

General check size is US$2-7 million but we have done above and below.

How do you monitor your investees' after investing, especially impact? Are you using one of the measurement systems developed by leading impact networks such as IRIS+ or did you develop your own?

We have teams operating in the different markets we are operating in. The way we set up relations with our investee is that on top of quarterly reports, we tend to lead rounds, meaning that we often have board seat. Very involved in the active governance of the company. We ask for their impact and operational and financial KPIs during the due-diligence process, before we work with clients we identify the metrics they would report to Quona on a quarterly basis, that goes across all of the three. What is important is that we help identify their impact targets so they are in line with ours. Then Quona turns the quarterly received data into a report for their LPs and committees.

Does Quona offer technical assistance to its investees? If not, does Accion?

Technical assistance and capacity building in Quonas view is something that Accion does when they are going to provide cross building services. Quona does support additionally in non-financial ways in two ways:

1. Direct engagement with the investment teams that worked with them, so through the boards and regular interaction with the deal team: investment partner and investment associate, do work with those companies closely
2. Me for example I work on Quonas impact strategy and the platform team. And platform is becoming this function that is increasingly almost the norm in VCs and sometimes there are different words for it but the general consensus is this: unified portfolio support. Basically, complementing the direct support that the investment teams are offering the companies that they've invested in, is how we at Quona centrally provide support. Right now a lot of that revolves around e.g. community management, webinars events, peer engagement, providing platforms for the portfolio CEOs, and other functions for companies to engage with each other and learn best practices, as well as providing marketing and branding support and work centrally to engage with strategic partners that could be of value to our portfolio.

So, there are two ways of support through the investment team and the platform team but I wouldn't call that technical assistance.

Conclusion and Future Outlook

You just closed your second fund? Why did you set up another fund and how does it differ from the first?

The focus and strategy are the same. I think with AQF we will take a lot of the learnings with AFIF, and what that might translate into especially as the industry evolved over the last few years, with AQF we will expand our focus to different ecosystems that have grown. If you look at our portfolio you see that we already have extended to a couple new regions including Indonesia, Thailand and Kenya. In addition, we expand to so-called embedded-finance or fintech adjacencies. These are companies where the initial product wasn't financial services but because of the data and network that they've built they started to layer financial services on. So, an example of that would be Sokolot in AQF portfolio where they are essentially a logistics company and because of the network that they have built out they started to layered on working capital lines to help their clients and advance the supply chain. Another example would be this biking rider app in Africa almost like a cab service, they had this huge data and clients set. So, they included a mobile wallet to help their riders pay for the services.

However, with Covid-19 we will see many unexpected impacts on some business models. Some of which we thought will be superstar sectors, are really going to struggle in the future.

D. Interview: MicroVest Capital Management

Interview with Gil Crawford, CEO, MicroVest
May 4th, 2020, 11 pm - 11.30 pm CET
Via Zoom
As per wish of the interviewee the following is an interview verbatim record, as the interview did not get recorded.

Strategy

You are almost famous for your investment strategy of applying a strictly commercial investment approach. Why did you make this decision?

MicroVest needs flexibility to operate. Cutter and I believed if MicroVest was created within an NPO it would not have the flexibility it needed because the NPO is so different than what MicroVest needs to do. Crawford said he would not work for an NPO as an impact investor as they do not understand the financial intermediation of business.

The decision was to make MicroVest very independent from its NPO owners. I made it very clear from the beginning that the NPOs alone could not bring a deal to the table. MicroVest would always have the last word. My second prerequisite for the fund was that I did not want any technical assistance. A lesson I learned from Martin Connell: When you do business with microfinance institutions, offering donations and at the same time making investments, that seek return, will confuse the investee. At MicroVest we are very clear on who we are: tough but fair.

To your question on the decision for a commercial investment approach and the target of market-rate and risk-adjusted returns: Microfinance was one of the earliest profitable forms of impact investing. It was a priority for me to keep the NPOs and what they usually do (technical assistance) separate from MicroVest to have a clear distinction. Thus, we said no technical assistance and focus on one thing and do it well. For many on Wednesday it is all about microfinance, next Thursday the hype is about small enterprises and next Monday refugees are trending. If you pace your whole business on chasing donor dollars it will not be successful. Thus, we focus on a commercial investment approach.

How are you distinct? What are your financial and impact targets?

A couple of years ago the unhelpful dichotomy of *impact* or *finance* first emerged and presented as if only either or the other could exist. At MicroVest we work towards the elimination of that dichotomy. We get superior returns for our impact investors *because* of our impact screen and not *despite* of it. Real impact investors should focus on looking for market imperfections, and address these with impact investments. MicroVest believes that the bottom 20% of the world represent real opportunities for investments. We understand that if we put our money there and treat clients justly and fairly, they will transform to valuable companies and MicroVest can generate superior returns off of them.

We are distinct in the following matter: Most institutional investors that invest in emerging markets are tightly linked to the global markets such as commodity, and tourism. MicroVest's clients however, did not get the memo of the developed world. They just do what they used to do, for example planting rice. MicroVest realized that they behave very differently in economic downturns. Institutional ready impact investors should be looking for market imperfections.

Structure

What is MicroVest's organizational structure?

MicroVest Holding is owned by the founding NPOs and MicroVest Management. The holding has created six funds and each fund has a GP. Each GP has an independent board member and represents the interests of the LPs of the funds. The GPs role is to look out for the interests of the LPs. MicroVest is the asset manager of the funds and under a management contract with its holding. They can fire MicroVest at any time. MicroVest manages two type of funds. Perpetual funds, which have no state of ending and limited life funds, which are moving towards their natural ending. The short duration fund, is the largest fund, followed by the enhanced debt fund.

Portfolio

Could you please give an overview of your portfolio?

We are invested in over 60 LIFIs in over 30 countries. The debt portfolio in both funds is essentially the same. The biggest difference is that the enhanced debt fund is levered whereas the short duration fund is not. At a certain point the added benefit of diversification is outweigh by having to manage risk and too many assets. We are now comfortable where we are and do not attempt large growth. About 85% of our portfolio renew their loans so by in large we have repeat customers which are part of our permanent capital stack. The advantage of providing debt is that you can build up commitment. While the first loan might be small with time as trust is established more individualized loan agreements can be set up.

Who are your investors?

We have some risk retention capital (skin in the game) by our NPOs and way more HNWI than when we started. The difference to the first fund is that earlier I met most of them personally. Today most HNWI are managed through wealth advisors (stockbrokers). These wealth advisors manage maybe a portfolio of US$10 billion and some portion of that is made across some impact investing funds. There is not a lot of personal contact anymore. We also gained a lot of institutional investors such as pension funds, insurance companies, people who have professional fund managers, and donor-advised funds. There was a shift to people and organizations with a lot of capital. They would always come with their investment team specialized in impact investing. What I've also witnessed over time is that investors in general have become more interested in a transparent monitoring of their investments.

By talking to institutional investors, I realized that they came with the same requirements to impact funds as for their other investments. This realization makes the difference between an early–stage impact investment fund and the ones who are truly ready for institutional investors. The ones who are ready for institutional investors must aim for risk–adjusted returns. To raise real money, one needs to have a commercial orientation like Quona Capital.

Conclusion and Future Outlook

What are your plans for the future?

At the moment everything is sort of on hold due to the pandemic. The virus is the most challenging crisis the sector has seen. Today we experience economic standstill, but the real effects only ripple through in about 9-12 months. And the effects will first show in emerging markets. We had crisis before but the difference this time is that every market is hit at the same time. To use a metaphor, it feels like we are getting hit by an earthquake and tsunami at the same time, but we will get through it, that I believe.

E. Interview: FINCA International

Interview with Melissa Tickle, Investment Associate, FINCA Ventures
Thursday April 2, 2020, 5 pm - 6 pm CET
Via Zoom
The following is a transcript of the interview

Strategy

What was the rational for entering impact investing?

FINCA International (FINCA) is a global microfinance network, operating in 20 countries, focusing on financial inclusion and providing access to savings and loan products for low-income individuals.

FINCA International has been around since the beginning so since 40 years, they are the majority shareholder of FINCA Impact Finance which manages and does the fundraising of all the individual FINCA microfinance subsidiary banks. As FINCA Impact Finance took more control of the subsidiaries and the microfinance banks respectively were becoming profitable, FINCA International as a non–profit needed to think more strategically about the use of funds coming from investors, and how to better support their customer networks. Recognizing the growing importance of having access to finance but for many of our customers it was beyond that they were lacking more than access to financial assets. Many were lacking access to other essential goods and services such as quality education, quality healthcare. Keeping this in mind and also recognizing the importance of basic services and finance so when you are better able to increase your productivity you have a greater demand for financial services. As for the flip side, if you run into health scare and you won't be able to pay back your loan which can make you fall further into debt. Thus, FINCA thought about how to be active in this service space without necessarily creating those products and services ourselves. At the same time FINCA recognized that a lot of businesses and social enterprises were popping up in our ecosystem, that were designing business models to do just this: bringing *access* to basic goods and services to the targeted population that we are interested in.

Thus, FINCA Ventures was then launched in 2017, an impact investing initiative that leverages a global microfinance network to catalyze market-based solutions to poverty by providing patient capital and technical assistance to early-stage social enterprises.

Is the mission statement in line with the NPO?

Yes, while building a pipeline, each investment must help advance the mission of FINCA International.

What is your investment strategy?

To make equity investments in early stage social enterprises. That are focused on bringing basic services to the population that we are targeting at the bank level at affordable prices, really with the idea to increase productivity. We are only doing straight equity investments or through a convertible note. The term patient capital, mentioned on our website, means for us that we are not expecting any return for 6-10 years which gives us more flexibility in the deal sourcing process. FINCA Ventures accepts below-market returns, anywhere between 6-10% IRR and we are happy. However, we do expect our capital back, eventually, they are investments and no donations.

Structure

How is FINCA Ventures linked to FINCA International?

FINCA International is the founder and majority-owner of 20 community-based microfinance institutions and banks across Africa, Eurasia, Latin America, the Middle East and South Asia (FINCA Impact Finance). These subsidiaries have often tried to attract farmers; however, it was hard to screen for good clients.

FINCA International, therefore, chose to keep FINCA Ventures on their balance sheet because they wanted to find a link to create synergies and additional value between their subsidiaries. Many farmers of FINCA Venture’s portfolio do not have sufficient access to financial services. FINCA Venture became the perfect partner to direct farmers that are well positioned for financial services to these FINCA subsidiaries, which before have been harder to reach as a bank. Getting our clients (FINCA Venture) network access to savings accounts is in turn again beneficial for us because we are then able to transfer money electronically rather than bringing cash to farmers every season. In addition, when farmers are getting an account and their presence in a bank, they are eventually able to access future financial services based on more transparent cash flows. FINCA Ventures is optimistic that financial services combined with basic services can drive productivity growth in measurable ways.

Do you have any partnerships outside of FINCA?
FINCA Ventures works closely with the network and resources within FINCA International. Many of the different departments provide technical assistance to FINCA Ventures portfolio. Especially the marketing and communications team that supports the companies with press releases and social media accounts but also the legal, finance and research team provide important technical assistance. FINCA International's research team helped FINCA Ventures in impact work. So, we are more inclined to work with them rather than external partners.

FINCA Ventures has no other formal partnerships rather than *soft-partnerships*. The impact investing space is very open in sharing pipelines and research. A lot of the pipeline comes from co-investors, that we've worked with and others in the space. In addition, we have a strong network with accelerators, and incubators both in Africa and other places that are working with early-stage companies and would potentially meet FINCA Ventures criteria.

We have thought about partnering with lean data, and a few of our portfolio companies utilize lean data through our co-investors, so that might be a potential future partner.

What is FINCA Ventures governance structure?
FINCA Ventures has three people on the investment team. We have a background in private equity and infrastructure investing, consulting, traditional finance and impact investing SME lending. In addition, we have an investment committee and two advisors, with people from FINCA International and external expertise.
While assembling the team it was important to have people on the team who have already worked in the regions, we are focusing our investments on, besides having a background in finance and the impact field. Alex for example worked a long time in Africa for Fenix International before joining FINCA Ventures.

Where does the money for the investments come from?
The same donors for FINCA International are for FINCA Ventures. There are certain larger donor allocations that are specifically for FINCA Ventures but for the most part our fundraising team collects the money and allocates the money among the different FINCA initiatives. So, we don't have any external LPs at the moment.

FINCA Impact Finance is funded by the larger DFIs like IFC.

Portfolio
What is your AUM? And total number of investments?
FINCA Ventures invested US$2 million across 8 different companies since 2017.

What is your average investment size?
The typical investment size is US$150,000 to US$500,000, including all rounds.

How many investments do you target p.a.?
We are looking to make 5-7 investments per year.

How many exits have you had so far?

FINCA Ventures had no exits so far, since our timeline is 6-10 years (patient capital) and we just started in 2017. However, we also did not experience any write-offs, all companies are doing well.

Our exit strategies are very different across markets and sectors. So, either the investees will take on more follow-on capital through series B, so for us getting paid out or the company would get bought by another strategic partner or there will be a founder's buyback.

How do you source your deals?

We don't have very strict criteria since we work across countries, regions and sectors but all need to have that underlying access to basic services, that means different things for a lot of people and without being able to articulate that specifically you have to read through more pitch decks. The fact that everybody has a different definition of impact, makes it the hardest challenge for sourcing and explaining exactly what we are looking for.

FINCA Ventures builds its pipeline from a range of sources. These include past co-investors, graduating cohorts of accelerators and incubators, portfolio company referrals, conference networking, industry ecosystem builders, and inbound requests. Additionally, we scour marketplace news and proactively seek startups that fit our impact thesis.

What we are really looking for by investing in companies is eventually finding a link between the FINCA subsidiary that we operate in and the companies that we invest in. For example, for a lot of our companies that we are working with are networks of small farmers that don't have access to financial services. We are partnering one of our portfolio companies in Zambia with the local FINCA subsidiary to get this farmer network access to savings accounts which is beneficial to our portfolio company because they are able to transfer money electronically rather than bringing cash all the time, and then farmers are getting access to an account and start build up their presence in the bank eventually accessing future financial services based off of more transparent cash–flow. So that is a partnership that probably is much harder for other types of investors due to the lack of network.

Interestingly, it is rather hard for microfinance banks to source and reach clients who are well positioned to receive financial services, so FINCA Ventures is a huge customer acquisition channel for them.

How is your deal sourcing process structured?

From past due-diligence processes we learned that it is important to emphasize face to face time and seeing the operations on the ground of potential investees. It can be challenging to really understand realities on the ground, and from a market ecosystem perspective there is only so much you can do from your desktop. Additionally, it is very important working with founders that are very well connected within the industry in that region. Due to Covid-19 now we are forced to come up quite quickly with new ways to get the same level of comfort with a portfolio company without having the same face to face time. FINCA Ventures hasn't had problems though with finding enough suitable investment options.

Regarding impact measurement, since FINCA Ventures works across various regions and countries we do not have the same impact criteria for every investee. A really important one, however, is that the portfolio company needs to have underlying access to services. However, since that means different things to different investees it can make sourcing more challenging. Everybody has their own definition of impact, and the biggest challenge for FINCA Ventures is explaining exactly what they are looking for.

How is your post investment monitoring process structured?

When a company comes into our portfolio, we look at multiple criteria, but we look at e.g. breath, depth and income level of the customer being served. That assessment we do without any tools, just straightforward: how many customers are they serving, what is their full potential, how impactful are they really going to be to that customer network. Then we write up a theory of change based off of where the company is going to fit in the ecosystem, they work in. For impact data collection we use majority

IRIS metrics so we did a mapping exercise with the use of IRIS + and what they had done with the SDGs, we will go through our investment memo and decide which metrics are important for the specific company to track. 90% are IRIS metrics and the remaining are very specific to the company's business model and that are not appropriately captured in IRIS just because they are so specific. We found it very helpful to standardize as much as possible especially when we are not the only investors at the table, we want to make it as easy for the investee as possible.

We collect financial and impact information from our portfolio companies twice a year. This year our first impact report will come out as well.

How do you evaluate impact?
We are assessing companies based on their impact potential and their business potential and we would never make an investment in a company that we don’t believe could not grow a certain amount during our investment. FINCA Ventures is impact-first, however, after assessing companies based on their impact the business potential and the commercial viability are crucial for FINCA Ventures to make an investment.

Conclusion and Future Outlook
What are some lessons learned?

Our definition of impact has become more open. We start seeing shifts in business models in the markets we work in, we are seeing a real push for, employment, access for better logistics and transportation, which three years ago we might have said this does not cover the basic service definition, but now we are seeing synergies across the ecosystem. We want to be more open towards specific sectors who are extremely instrumental in helping increase income levels for the mass market. So, broadening the impact scope rather than narrowing or shifting it.

What are some challenges you encountered?
When reaching out to donors the average age of a FINCA investor is significantly higher than I thought, and they are so set on microfinance as being a tool and it is new to think of impact investing as a new tool. It is difficult to demonstrate impact, so that's why we go on the ground after an investment and catch the investee in action to show the investors how they are creating impact.

What are some projects for the future?
Just before Covid-19 we were working on launching a fund and fundraising money in 2020 as a separate legal entity. Given the current uncertain situation that project got delayed.

Typically, our investment size is between US$150,000 to US$500,000, including follow-on rounds. We found that a lot of companies are looking for investors that are willing and able to stay on for a couple of future rounds and also start to raise bigger rounds. So, it can be challenging for FINCA Ventures to join in on deals when the companies are hoping that we can 500,000 and plus going forward. We hope that with a fund, where we still hope and plan on the majority of our capital towards small ticket sizes because there is still a huge capital gap there but we hope that with a larger allocation of capital we are able to better support our investees as they continue to raise. Recognizing that series A has taken a lot longer for some of our companies than anticipated, and if we were able to provide more capital, we would be able to support them better.

The idea to start a separate legal identity was because the typical investment size until now is getting too small. A lot of companies are looking for investors for future rounds with bigger rounds. Right now, all the money for the FINCA Ventures is coming from philanthropic donors which are the same as FINCA International investors. With a separate fund we hope to attract more diverse investors, especially HNWI and other LPs.

F. Parameters for juxtaposition of case studies

		Case 1	Case 2	Case 3
	NPO			
1	**Name**	Accion International	CARE	FINCA International
2	**Year founded**	1961	1945	1984
3	**Mission**	Build a financially inclusive world with access to economic opportunity for all	Save lives, defeat poverty and achieve social justice	Promoting economic growth and financial inclusion to alleviate poverty
4	**Annual Budget**	US$350 million	US$345 million	US$330 million
	Impact Investing Unit			
5	**Name**	Quona Capital	MicroVest	FINCA Ventures
6	**Year founded**	2015	2003	2018
7	**Why founded and Mission**	Mission to expanding access to quality and affordable financial services	Mission to extend capital markets via microfinance provide financial inclusion	Mission to promote economic growth and financial inclusion to alleviate poverty
8	**Legal entity and relation to NPO**	Accion is Quona's GP and anchor investor. They are two legal entities however.	Separate legal entities, however, with CARE as a partial owner of the holding	FINCA Ventures is on FINCA Internationals balance sheet, thus also a 501(c) NPO
9	**Investment Strategy**	Quona invests in fintech for inclusive finance in emerging markets	MicroVest invests in LIFIs, which proliferate financial services	Leverage FINCA's network to provide products and services for the poor by providing equity to early-stage SME
10	**Geographic Focus**	Focus on Brazil, India, Africa	Global (60 countries)	Sub-Saharan Africa
	Governance			
11	**Management**	Monica Engel	Gil Crawford	Ami Dalal
12	**Number of people**	18 – hierarchical structure imitates the one of traditional finance funds	23 – hierarchical structure imitates the one of traditional finance funds	3 – lean team, that gets support from FINCA network
	Finance			
13	**Investor Base**	Broad array	Broad array	Developing banks
14	**AUM**	US$344 million	US$340 million	US$2 million
15	**Asset Class**	Growth stage equity with approved product-market-fit	Senior debt, and equity	Early stage equity
16	**Financial Return target**	6-10% IRR	7.5-8% IRR; full interest paid to debt investors	6-7% IRR, but no return expectations during the first six years of the investment period
17	**Average Investment Size**	US$ 2-7 million	US$ 4'200 for microfinance borrowers and US$ 109'000 for SME borrowers	USD 150'000-500'000
18	**Number of Investments**	34	Over 200 RFIs financed	9
19	**Number of Exits**	3	No defaults so far	None
	Impact			
20	**Impact Spectrum**	No binary decision	No binary decision	Impact first
21	**Impact Measurement**	Their own impact measurement framework adopted from industry leading IMP platform	Own impact framework that is derived from the UN SDGs and draws on IRIS+ catalog. ALINUS system and signatory of the IFC	Their own impact measurement framework derived from the SDGs and including IRIS+ metrics
	Extra			
22	**Investment criteria**	(1)related to financial services (2)clear financial inclusion thesis (3)approved product-market fit	Must be LIFIs or RFIs	Early-stage companies with business models where social impact grows with revenue
23	**Technical Assistance**	No	No	Yes

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