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Impact Investment Wholesalers and Fund of Funds:

Design Insights from the GSG Impact Partnership

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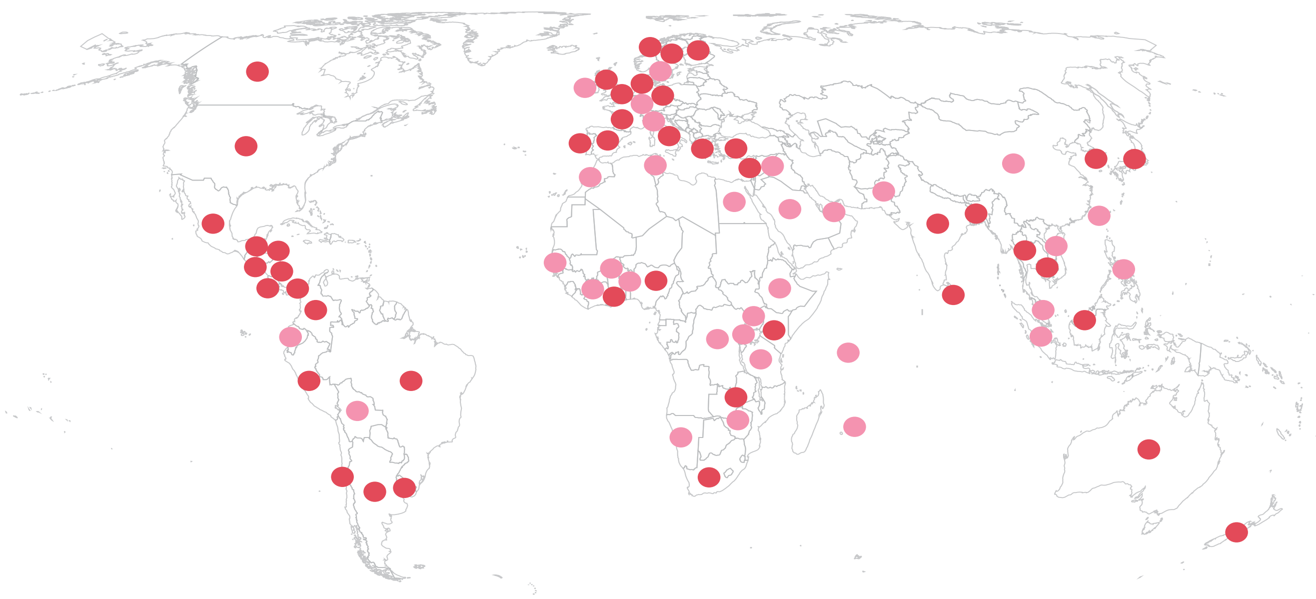
About GSG Impact

Active in over 50 countries, GSG Impact works to progress the transformation of global financial systems, so that every investment, business and government spending decision takes into account impact, as well as risk and return.

The GSG Impact Partnership is a growing community of national partners dedicated to advancing impact locally and globally. GSG Impact supports the development and work of the national partners. We harness our collective voice to advocate for impact globally, and advance impact through innovation, knowledge sharing, convening and collaboration.



Current National Partners

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Belgium
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Canada
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Colombia
Costa Rica
El Salvador
Finland
France
Germany
Ghana
Greece
Guatemala
Honduras
India
Israel
Italy
Japan
Kenya
Malaysia
Mexico
Netherlands
New Zealand
Nicaragua
Nigeria
Norway
Panama
Peru
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South Korea
Spain
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Sweden
Thailand
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Zambia

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China
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Egypt
Ethiopia
Indonesia
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Executive summary

An impact investment wholesaler is an investment vehicle that invests in intermediaries, attracts new capital, and develops the impact investing market.

At a time when social and environmental challenges are mounting, impact investment wholesalers hold enormous potential to build a market of thriving businesses delivering measurable positive impact on society and the planet. As the figure below illustrates, the benefits are a win-win for all involved.

Economy, market, investors, and intermediaries: The market, investors and intermediaries benefit from having an impact investment wholesaler that acts as market champion. Prepared to invest first, a wholesaler unlocks new capital from commercial and catalytic capital providers, enabling new opportunities to invest with impact.

Government: Governments benefit from the delivery of public and social value through improved outcomes. They also benefit by being able to leverage scarce public resources to unlock additional sums of private capital.

Social economy and environmental enterprises and organisations: Social and environmental organisations and enterprises benefit from access to a range of funding and financing options, which in turn allow them to improve their operations and impact, reach new communities, and bring on board new partners.

Philanthropy: Donors benefit from the potential to achieve greater impact by providing patient, flexible, or risk-tolerant investment to de-risk investments, crowd in more commercially-minded investors, and build new markets focused on measurable, positive outcomes.

Communities: The ultimate benefits flow to individuals, communities, and society through the availability of more resources for social purposes, new market-driven approaches to solving social problems and greater transparency and accountability over the outcomes achieved.

19

Impact investment wholesalers or affiliated fund of funds active or in development around the world

representing

280%

increase in the number of impact investment vehicles established or in design since just 5 years ago

USD $3+ billion

in aggregate value

In the UK, Better Society Capital drove

10x market growth in **10 years**

In the UK they attracted

$3.74 USD

of private capital for every

$1.25 USD

invested

At the time of publishing, there are currently 11 impact investment wholesalers or fund of fund vehicles in operation developed by GSG National Partners (NPs) and an additional eight in development, an increase of 280% from the five vehicles in operation five years ago.

The size of this market is $3.1 billion assets under management (AUM) globally, with the potential to grow significantly as more countries explore the creation of new investment vehicles designed to meet the sustainable development challenges of the coming decades. Impact investment vehicles have led to 10x market growth in 10 years in some countries and have generated quantifiable social value. In the UK, for example, the social investment market grew from £830 million in 2011 to £4.9 billion in 2022, representing 10x market growth and a leverage ratio of 1:3, bringing in £3 ($3.74 USD) of private capital for every £1 ($1.25 USD) invested by the wholesale vehicle. Payment-for-results, also known as outcomes-based financing instruments, deployed by the UK impact investment wholesaler Better Society Capital, have demonstrated a benefit-to-cost ratio of 10.20:1, meaning for every £1 spent by the government in outcomes-based instruments, resulted in the equivalent of £10.20 of social value generated.

Heightened familiarity with impact investing, mounting social and environmental challenges, and an urgency to tackle these challenges explain the uptick in the number of impact investment wholesalers in development. The trend highlights the important contributions that social economy organisations, impact businesses, and small and medium enterprises (SMEs) make in today's economies. The social economy represents an estimated 7% of global GDP, a sizable contribution to global growth. In many emerging markets, SMEs account for 70% of GDP and 7 out of 10 jobs. GSG Impact's National Partners (previously known as National Advisory Boards for Impact Investing or NABs) who stand at the forefront of private and public sector market acceleration in 44 countries, and other market builders, are helping to drive change forward by designing investment vehicles that channel affordable financing to these under-resourced segments and emerging asset classes.

To enhance social resilience and prosperity, National Partners and other market builders in both developed and developing markets should collaborate closely with local public and private stakeholders to establish independently managed impact investment wholesale vehicles. These vehicles will be instrumental in building new markets where impact generation is central. The creation of impact investment wholesalers will lead to the development of innovative investment models and instruments, accelerating progress toward impact economies where business, investment, policy, and consumption decisions yield tangible improvements for people and the planet.

Introduction

Small and medium-sized enterprises (SMEs), social economy organisations, impact, and purpose or mission-led businesses (see Glossary for definitions) operate in the real economy and account for the lion's share of employment and GDP in most countries but often do not benefit from a sustained and affordable supply of capital.[1] Many of these businesses deliver solutions to pressing social and environmental challenges. They are the businesses that will help economies meet the challenges of tomorrow. Ensuring these businesses gain access to appropriate sources of financing to develop, grow, and scale is of prime importance.

To support the growth of purpose-driven businesses, the government, the financial, and civil society sectors should enhance collaboration and support the creation of dedicated pools of impact capital that meet the financing needs of these businesses and enterprises. Besides creating pathways for new jobs and purpose-driven businesses to flourish, this would equate to a step forward in establishing a self-sustaining impact economy, an economy whereby business, investment, policy, and consumption decisions deliver tangible improvements in outcomes for people and the planet.[2]

The best way to deliver on this opportunity is through the establishment of **impact investment wholesale funds,** vehicles and platforms that provide flexible, catalytic capital to businesses and intermediaries, grow the volume of private capital flowing to purpose-driven businesses, and contribute to broader market development.

1 Small and medium-sized enterprises (SMEs), social economy organisations, impact and mission-led businesses are grouped together for the purposes of this study. The type of businesses the wholesaler is set up to support, whether SMEs, social economy organisations, impact business, etc., may vary according to the local market context but the common feature of impact investment wholesalers is to build the market for businesses operating in the real economy which provide solutions to social and environmental challenges, specifically the issue areas encapsulated in the UN Sustainable Development Goals. For specific definitions, see the above footnotes.

2 An impact economy is one whereby business, investment, policy, and consumption decisions deliver tangible improvements in outcomes for people and the planet (GSG, 2018). Available at: https://gsgii.org/reports/transition-of-impact-economies-a-global-overview/

Five drivers explain why impact investment wholesalers are of critical importance in today's rapidly changing social, environmental, and economic context:

1 **Public resources as a lever for a stronger, more resilient society:** Across the world, the demand for publicly funded social services is increasing, while public budgets are shrinking. Debt as a factor of GDP is also on the rise, raising concerns about how governments will continue to sustain the organisations and communities that rely on them for support. Investment and partnership models between private and public actors are needed to leverage public resources and draw in additional private capital flows to help meet new and emerging resourcing challenges.

2 **A move to service delivery that is focused on outcomes, rather than activities:** To address funding constraints, social delivery organisations need to focus on achieving outcomes rather than just completing activities. Adopting data and performance management practices from outcomes-based and pay-for-success models can enhance effectiveness. Increased access to outcomes funding and commissioning, often provided by impact investment wholesale funds, allows governments to pilot and scale effective interventions, improving impact measurement and management practices.

3 **Growing sums of private capital is looking for investable social and climate-related pipeline:** Impact transparency[3]

3 Impact transparency involves the disclosure of data by a company or financial entity that clearly shows both positive and negative business impacts, challenging industry and investors to move beyond the desire not to do harm and embrace the ambition to do good. For more on impact transparency, see: The Impact Taskforce, available at https://www.impact-taskforce.com/workstreams/impact-transparency/ and 'Impact Transparency and Integrity.' GSG Impact. Available at: https://www.gsgimpact.org/impact/focus-areas/impact-transparency-and-integrity/

regulation requiring corporates and financial institutions to disclose sustainability data and invest in sustainable solutions has resulted in a growing supply of global capital looking for investable businesses and projects. According to the Global Sustainable Investment Alliance's 2022 report, $30 trillion is now invested in sustainable assets,[4] with the impact investing market, the market subset most focused on the creation of measurable positive impact, growing at approximately 30% per annum.[5] New intermediaries and investable pipelines must be developed quickly and sensibly to absorb these capital flows and ensure social and environmental practices and standards are upheld.

4 **Time is waning and financing gaps are growing to meet the UN Sustainable Development Goals:** According to a recent UN study, only about 12% of the UN Sustainable Development Goals (SDGs) are on track to be met and between $4-6 trillion is still needed annually to address them.[6] Accelerated action among all market actors is needed to transform entire industries and promote more sustainable, inclusive, and equitable practices. Many companies claim to lead in sustainability but often lack the organisational resources, expertise, and innovation needed to tackle the local or national needs. Creating new connections between institutional investors, corporates, and solutions focused on regional and national priorities is essential for meeting the SDGs by 2030. Impact investment wholesalers can significantly speed up and scale resource mobilisation.

5 **Applying innovative catalytic capital to generate an investable pipeline for commercial investors can help match supply with demand:** Catalytic capital[7] and blended[8], or layered, finance are two approaches to de-risking transactions that have been gaining prominence in private and capital markets. Blended finance solutions have been found to leverage $4 of commercial capital for every dollar of catalytic or concessional capital.[9] Unfortunately, only a fraction of this commercial capital has come from the private or philanthropic sectors, with the lion's share put up by public entities. Impact wholesalers stand to play an outsized role in harnessing and further scaling this approach by drawing in actors from all sectors - government, philanthropic, corporate, financial, and impact investing sectors.

Impact investment wholesalers are one of 15 policy tools championed and endorsed by GSG Impact since its inception. They were referenced for the first time in a 2018 GSG Impact report, Catalysing Impact Investment Ecosystems: A Toolkit for Policy Makers, and more broadly expanded upon in the same year in a subsequent report titled, Building Impact Investment Wholesalers: Key Questions in Design of an Impact Investment Wholesaler (GSG Impact, 2018). The report coined the term "Impact Investment Wholesalers" and shared learnings from 5 countries' impact investment wholesale funds, including Better Society Capital (UK), Portugal Social Innovation, SVS (Korea), JANPIA (Japan), and the Social Impact Accelerator (EU).

Today, 11 GSG Impact-affiliated National Partners and Task Forces have launched impact investment wholesalers or fund of fund vehicles, with an additional 8 vehicles in development – a 280% increase from the five vehicles in operation in 2019.

As GSG Impact's National Partners and other market players demonstrate through their respective national efforts and campaigns, the process of developing a self-sufficient and prosperous impact investment market begins with laying out a path for the establishment of

4 GSIA. (2022). *Global Sustainable Investment Review*. Available here: https://www.gsi-alliance.org/global-sustainable-investment-review-finds-us30-trillion-invested-in-sustainable-assets/

5 Global Impact Investment Network (GIIN). Available at: https://thegiin.org/

6 United Nations. (2023). *Progress towards the Sustainable Development Goals: Towards a Rescue Plan for People and Planet*. Available at: https://hlpf.un.org/sites/default/files/2023-04/SDG%20Progress%20Report%20Special%20Edition.pdf

7 Catalytic capital represents investments that are more patient, risk-tolerant, concessionary, and flexible than conventional capital. (MacArthur Foundation, 2019). Available at: https://www.macfound.org/press/article/catalytic-capital-consortium-faqs#Q1

8 Blended finance is the strategic use of public or philanthropic development capital for the mobilisation of additional external private commercial finance for SDG-related investments, (SystemIQ, 2019). Available at: https://www.systemiq.earth/wp-content/uploads/2019/07/BFT_BetterFinance_ExecSummary_FINAL_18012018.pdf

9 Convergence. (2018). *Leverage of Concessional Capital.* Available at: https://www.convergence.finance/resource/leverage-of-concessional-capital/view

an impact investment wholesaler. Often, this involves identifying existing sources of domestically held funds – public and/or private - that can be utilised to build the impact economy.

This report looks to provide an update with new knowledge and data on impact investment wholesalers from around the world. Whereas the 2018 wholesaler report focused on the importance of wholesalers in scaling social enterprises, this report demonstrates the role that impact investment wholesalers and impact fund of fund platforms can play in developed and emerging markets in scaling purpose-driven businesses, whether SMEs, social economy organisations, impact, mission-led enterprises, or other purpose-driven commercial entities.

In the pages herein, we take stock of the growing number of impact investment wholesalers emerging globally, and look specifically at the innovative role of market-based blended finance approaches – the strategic use of public and private sources of capital for the mobilisation of additional external private commercial finance[10] - in market creation, alongside other approaches that serve to de-risk nascent markets, improve transparency and availability of information, and build new skills among demand and supply-side actors. This doc is not intended to size the market, rather, to analyse the market through the lens of the GSG Impact Partnership experience.

One of the main opportunities afforded by impact investment wholesalers is the possibility to act in alignment with a country's national priority objectives, laying the necessary groundwork to build new markets and economies that pave the way for the emergence of a domestic economy that is more resilient, equitable, sustainable, and thriving in the face of mounting social and environmental shocks and challenges.

This report, the second released by GSG Impact on the subject, presents:

- An updated discussion and questions of wholesaler design considerations;
- The enabling factors behind the creation of wholesalers;
- An inventory of wholesalers' financial performance, impact, and the systemic change they are working to bring about.

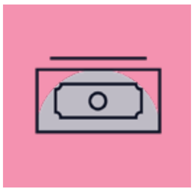
10 SystemIQ (2019). Available at: https://www.systemiq.earth/wp-content/uploads/2019/07/BFT_BetterFinance_ExecSummary_FINAL_18012018.pdf

Part 1. What are impact investment wholesalers?

1. Definition and characteristics

An impact investment wholesale fund is an investment vehicle designed to achieve a specified level of financial return while generating positive social or environmental impact. It does this by investing in intermediaries, attracting new capital, and developing the impact investing market. Impact investment wholesale vehicles share many characteristics with impact fund-of-fund vehicles and platforms. GSG Impact distinguishes wholesalers by their focus on building the entire market across a wide range of sectors—such as property and real estate, venture capital, SMEs, and cooperatives—rather than concentrating on a single sector, as a fund of funds might. This broader market-building role includes consolidating impact data, setting standards, and driving policy reforms that benefit the overall ecosystem.

While this definition serves as a guide, we acknowledge that some impact fund-of-funds may not fit neatly within these boundaries and may target multiple sectors, as multi-asset impact funds often do. Impact fund-of-funds also play a market-building role, though typically focused on their specific sectors. These definitions aim to highlight the critical role wholesalers play in coordinating and facilitating behaviour change among market actors and policy makers, gathering and sharing information, and promoting policy reforms that influence entire domestic markets and ecosystems.



A wholesaler invests. It provides repayable finance to funds or other financial intermediaries. In certain cases where the market is still nascent, it may also invest directly in enterprises, accelerators and incubators, and other initiatives, and may also provide grant funding.

A wholesaler draws in catalytic and commercial investments. It designs instruments and invests in ways designed to draw in capital from a range of capital providers with different return expectations (e.g., foundations, individuals, institutional investors, and government).11

A wholesaler is focused on impact. Advancing market-led solutions to social and environmental challenges that generate measurable, positive impact lies at the heart of what impact investment wholesalers are set up to do. As such, impact investment wholesalers help deliver to the market impact measurement and management data at the wholesale, intermediary, and (if possible) enterprise levels. It works to encourage progress toward shared norms and measuring and practices that encourage the measurement and management of impact.

A wholesaler seeks to develop the impact investment market. It builds the market by methods that may lie outside investment. Among its efforts, it may strengthen enterprise capacity, run educational and investment readiness programmes, encourage policy change, build new intermediaries, and promote market transparency and integrity.

11 For a broader definition and discussion around the forms, roles, and uses of catalytic capital, see Tideline. (2019). *Catalytic Capital: Unlocking More Investment and Impact*. Available at: https://tideline.com/wp-content/uploads/2020/11/Tideline_Catalytic-Capital_Unlocking-More-Investment-and-Impact_March-2019.pdf

2. Wholesalers around the world

There are currently 11 established impact investment wholesalers or impact fund of funds being brought to market by GSG Impact and its affiliated National Partners, with at least eight more at various stages of design and development. This signals an increase of 280% in the number of vehicles in operation or design since 2019, as well as a doubling in the number of countries and the speed at which these vehicles are being developed or implemented.

2023 saw the establishment of new impact investment wholesale platforms by government entities in Australia (Australian Development Investments) and Canada (The Social Finance Fund), along with a new impact fund of funds in Türkiye launched by the country's public development bank. In Nigeria, the Minister for State Finance and Budget announced a formal commitment to provide at least 50% of the capital needed toward the Nigerian Wholesaler Impact Investment Fund's first close.

An additional 7 vehicles are in active stages of design by the GSG Impact Partnership in Australia, Germany, Ghana, Indonesia, Nigeria, Spain, and Zambia. Design work on the 8th vehicle in South Africa was undertaken in 2021.

At the time of going to press, an additional £900 million in dormant funds were expected to be unlocked for charities through the expansion of the UK Dormant Assets Scheme, a demonstrated show of confidence for using unclaimed assets to address the unmet financing needs of social enterprises and impact businesses.[12] Elsewhere in Europe, Spain's Council of Ministers had recently ratified the establishment of the 400 million EUR Social Impact Fund championed by the Spain National Partner, paving the way for its ratification by parliament and deployment.[13] Elsewhere in Europe, the International Advisory Board for Social Innovation of the German Federal Ministry of Education and Research published its latest vision paper describing the 7 key levers to generating an additional 30 billion EUR (USD 32.5 billion) for the German economy.[14] In it, they call for the creation of a 1 billion EUR (USD 1.08 billion) impact fund using German dormant accounts and EU funds that would draw in, according to their estimations, an additional 9 billion EUR (USD 9.7 billion) of private and public capital for social innovation organisations and startups.

With marked progress in 15 countries worldwide, it is exciting to witness the emergence of a new market for businesses delivering social and environmental impact, paving the way toward new domestic and global impact economies.

Table 1 Established impact investment wholesalers and funds of funds around the world (GSG Impact-affiliated)

	Vehicle name	Country/ Scope	Region	Stage	Size	Year established	Mission
1	**Better Society Capital (formerly Big Society Capital)**	United Kingdom	Europe	Operating	GBP 625M (~ USD 782M)	2012	To generate positive financial returns alongside demonstrable social impact, support socially impactful organisations.
2	**Social Impact Accelerator**	European Union	Europe	Completed	EUR 243M (~ USD 263M)	2014	To address the growing need for availability of equity finance to support social enterprise; and to establish a sustainable funding market for social entrepreneurship in Europe.

12 Available at: https://www.thirdsector.co.uk/almost-900m-extra-dormant-assets-expected-unlocked/finance/article/1884550#:~:text=Almost%20%C2%A3900m%20in%20dormant,Financial%20Conduct%20Authority%20has%20said. See also "PS24/10 Expansion of the Dormant Assets Scheme – Second Phase" at https://www.fca.org.uk/publications/policy-statements/ps24-10-expansion-dormant-assets-scheme-second-phase.

13 Available at: https://www.cofides.es/en/noticias/notas-de-prensa/council-ministers-approves-creation-social-impact-fund-fis

14 Available at: https://sozialeinnovationen.net/wp-content/uploads/Vision-Paper-SI-Advisory-Board_ENG.pdf

3	**Access - The Foundation for Social Investment**	United Kingdom	Europe	Fully invested	GBP 35.7M (~ USD 45.3M)	2015	To make sure charities and social enterprises can access the finance they need to sustain or grow their impact.
4	**Portugal Social Innovation**	Portugal	Europe	Operating	EUR 152M (~ USD 163M)	2016	To promote social innovation and boost impact investment in Portugal.
5	**Japan Network for Public Interest Activities (JANPIA)**	Japan	Asia	Operating	~ USD 80M	2018	To supplement the resources of the national and local governments by encouraging the participation of the private sector in tackling the "sustainability of society, including local communities, and the lives of the citizenry."
6	**Korea Social Value and Solidarity Foundation (SVS)**	Korea	Asia	Operating	KRW 28BN (~ USD 21M)	2019	To provide social finance to social economy enterprises; support socially valuable projects; foster social finance intermediaries; research and advocate for strengthening the Korean social finance ecosystem; and raise awareness on social value and social economy
7	**LATAM Impact Fund***	Latin America	Latin America	Operating	USD 71M	2019	To provide investors with access to high growth sectors in Latin America while driving meaningful and measurable positive social and environmental impacts.
8	**Pathway Fund**	United Kingdom	Europe	Operating	Targeting GBP 50M (~ USD 62.3M)	2022	For Black and Ethnic Minorities-led organisations to have greater and better access to finance, to create more positive and sustainable social impact; ultimately leading to equitable and inclusive economic growth in the UK
9	**Australian Development Investments** (ADI, formerly Emerging Markets Impact Investment Fund; EMIIF)	Australia	Indo-Pacific	Operating	AUD 250M (~USD 166M)	2023	To provide early stage and concessional investment to impact investment funds, which in turn give critical early-stage finance to businesses in the Indo-Pacific.
10	**Social Finance Fund**	Canada	North America	Operating	CAD 755M (~ USD 564M)	2023	To accelerate the growth of the social finance market across Canada.
11	**Regional Venture Capital Financial Support Program for Impact Investment***	Türkiye	Asia	Operating	TL 250M (~ USD 8.24M)	2023	To increase the access of enterprises to finance by investing in venture capital funds that will invest and support enterprises and SMEs that can create a positive social and environmental impact, thus strengthening the impact-oriented entrepreneurship and innovation ecosystem.

Table 2 Impact investment wholesalers and funds of funds in design around the worl d

	Vehicle name	Country/ Scope	Region	Stage	Size	Mission
1	**Impact Capital Australia** (working title)	Australia	Oceania	Concept Stage; Discussions taking place with the federal government	AUD 400M (~ USD 260M)	To multiply the opportunities in the field and lead to additional ways of delivering more and better outcomes for Australian communities including through new solutions to complex issues.
2	**German Impact Investment Wholesale Fund** (working title)	Germany	Europe	Initial discussions at the federal government level on the use of dormant accounts for social impact	Not yet defined	Not yet defined
3	**Ci-Gaba Fund of Funds***	Ghana	Africa	In design	Targeting USD 75M	To unlock local funding for West African venture funds and small & medium enterprises for inclusive growth.
4	**Indonesian Impact Investment Wholesale Fund** (working title)	Indonesia	Asia	In design	Not yet defined	Not yet defined
5	**Wholesale Impact Investment Fund (WIIF)**	Nigeria	Africa	Initial government approval	Targeting a first close of USD 100M; USD 50M pledge secured by the government, to be matched by other funding sources	To build a robust social enterprise ecosystem and deploy impact capital to social enterprises addressing Nigeria's ESG challenges.
6	**South Africa Impact Investment Wholesale Vehicle** (working title)	South Africa	Africa	Concept Stage - paused	N/A	To improve the quality of life for unemployed, poor and underserved people in South Africa
7	**Social Impact Fund**	Spain	Spain	Approved	EUR 400M (~ USD 434M)	To contribute to the reduction of inequality in Spain and the consolidation of the Spanish welfare state
8	**Zambia Small Business Growth Initiative** (formerly the Zambia Credit Risk Guarantee Scheme)	Zambia	Southern Africa	In design	N/A	To provide better access to affordable finance for MSMEs through capital relief and loss protection via the provision of a guarantee against qualifying loan portfolios of eligible MSME transactions by the Bank of Zambia to participating financial intermediaries.

* While these instruments contribute to market development by seeding or capitalising intermediary fund managers, GSG Impact does not classify them as impact investment wholesalers since they have less of an explicit market-building mandate in terms of gathering and consolidating market-wide impact data, issuing standards, and promoting policy reform.

For more information about these instrument case studies, see Part 3 detailing the journey and key achievements of established vehicles, as well as vehicles in design.

3. Strategies and funding models

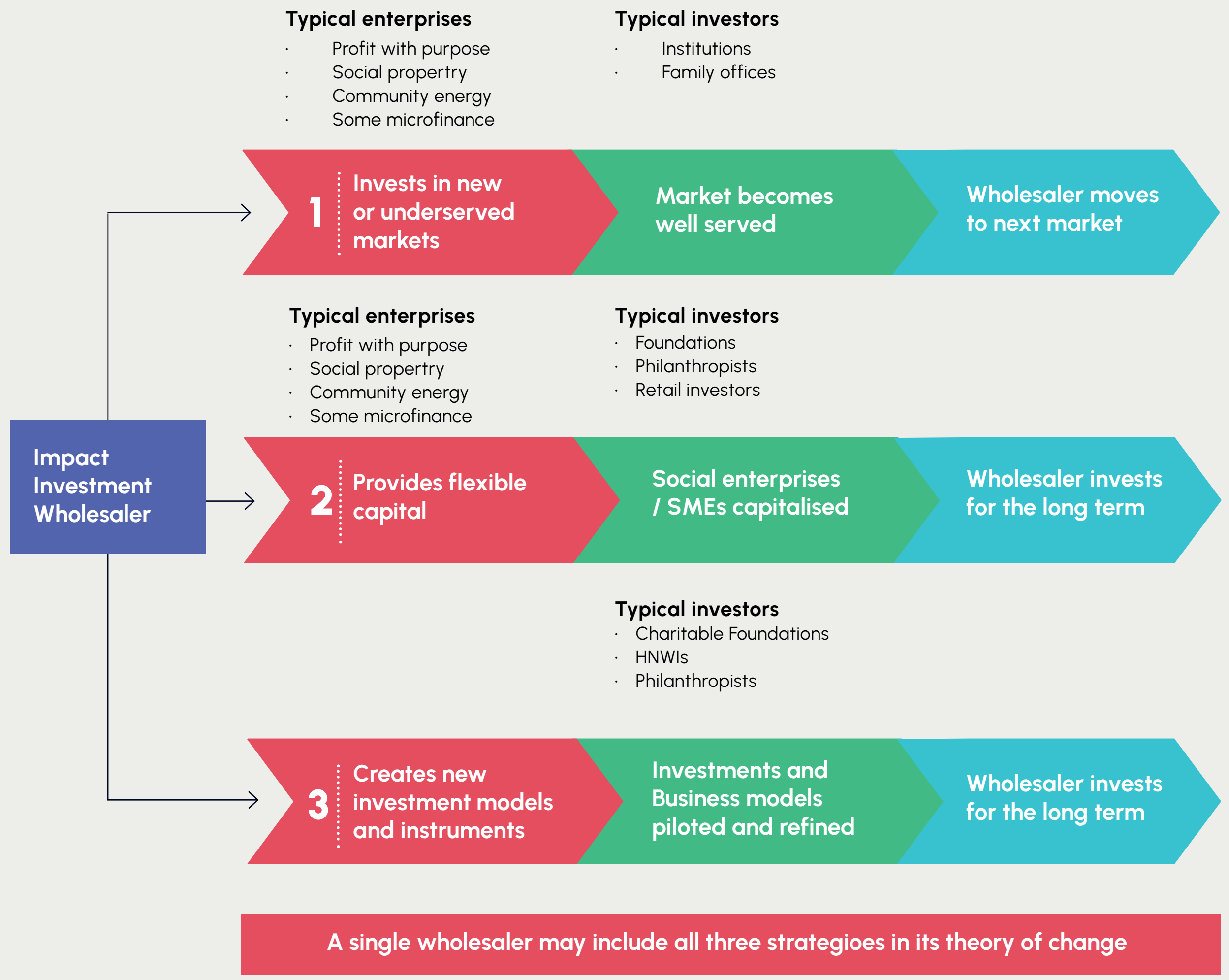
Impact investment wholesalers may pursue one or all of the following theories of change:

- **Invests in new or underserved markets** including specific sectors (such as community energy, social property, etc.); specific asset classes (such as impact venture capital, impact debt); or specific types of organisations (such as social enterprises, cooperatives, small and medium enterprises); or specific themes (such as racial equity, gender lens).
- **Provides flexible capital** tailored to a company's specific needs, including longer investment and return horizons, or financing that can be used to build new skills and capacities among fund managers or the underlying businesses.
- **Create new investment models and instruments** that can better meet the needs of investors and social/environmental enterprises. Importantly, the creation of innovative investment instruments can help to bridge the gap between impact and mainstream investment as well as the demand and supply of impact investment capital, and provide a way for mainstream investors to access impact investments in a way that aligns with their financial goals and risk profile.

The approaches are illustrated in the image below.

Figure 1 Three major strategies in an impact investment wholesaler's theory of change

(1) Invest in new and underserved markets, (2) provide flexible capital, and (3) create novel investment models and instruments



The theory of change pursued by a wholesaler will often inform the type of financing investment instruments it will use to deploy capital and the sectors it will invest into. Impact investment wholesalers investing in new or underserved markets (theory of change 1) may elect to provide **grants** as opposed to (or in addition to) **repayable finance** to intermediaries to support investment readiness among the underlying portfolio companies.

Impact investment wholesalers or impact fund of fund platforms providing flexible capital or investing in novel models and instruments (theory of change 2 and/or 3), or first time fund managers, may elect to apply a structuring approach known as **blended finance or layered finance**. Blended finance combines risk-tolerant capital (referred to as 'concessional capital') with capital seeking market-rate returns (referred to as 'non-concessional capital'). Blended finance transactions enable different stakeholders with common impact objectives to work together, even though they might have different requirements or return exectations for the use of their capital.[15]

For more details on available financing instruments, asset classes, and asset class sub-sets supported by impact investment wholesalers, see Annex 1.

Repayable Finance vs. Grants

Among the 11 established vehicles, a total of nine wholesalers and funds of funds (81% of the sample) provide repayable finance to intermediaries, with another set to begin offering it (via loans) imminently.

- Better Society Capital (UK), Social Impact Accelerator (EU), Portugal Social Innovation, SVS (Korea), Australian Development Investments (ADI, formerly Emerging Markets Impact Investment Fund; EMIIF), Social Finance Fund (Canada), Pathway Fund (UK), Regional Venture Capital Financial Support Program for Impact Investment (Turkiye), LATAM Impact Fund

5 (45%) provide a mix of repayable and non repayable finance

- Better Society Capital (UK), Portugal Social Innovation, Social Finance Fund (Canada), The Pathway Fund, Australian Development Investments (ADI, formerly Emerging Markets Impact Investment Fund; EMIIF)

2 (18%) provide non repayable grants only

- The Access Foundation (UK), JANPIA (Japan)16

Direct and Indirect investing

Among the 11 established impact wholesaler and funds of funds vehicles, a total of 6 (55%) make direct and indirect investments:

- Portugal Social Innovation, SVS (Korea), Social Finance Fund (Canada), Pathway Fund (UK), LATAM Impact Fund, Regional Venture Capital Financial Support Program for Impact Investment (Turkiye)

3 (27%) invest indirectly, (i.e. invest in funds).:

- Better Society Capital (UK), Social Impact Accelerator (EU), Australian Development Investments (ADI, formerly Emerging Markets Impact Investment Fund; EMIIF)

2 (18%) of the vehicles support organisations directly only (i.e. via grants)

- Access Foundation (UK), JANPIA (Japan)

A vehicle's theory of change also informs the sources of capital to set up impact investment wholesalers. Capital has come from an array of different sources:

15 Big Society Capital. (2023). *Blended Finance*. Available at: https://bigsocietycapital.com/information/blended-finance/

16 JANPIA will soon begin issuing repayable finance to investees.

Table 3 Sources of capital and relevant examples[17]

Source of Capital	Wholesaler Example
National, federal, or supranational government budget	Social Impact Accelerator (Europe), Portugal Social Innovation, SVS (Korea), Social Finance Fund (Canada), Australia (concept stage), WIIF Nigeria (design stage), Social Impact Fund (Spain, design stage)
Dormant accounts (unclaimed assets)	BSC (UK), JANPIA (Japan), Germany (concept stage)
financial institutions or publicly-owned companies	Indonesian Impact Investment Wholesale Fund (design stage)
Institutional investors, including pension funds or retail banks	BSC (UK), Australia (concept stage), Ci Gaba Fund of Funds (Ghana), LATAM Impact Fund
Philanthropic organisations, Family Offices	Ci Gaba Fund of Funds (Ghana), LATAM Impact Fund
Development Finance Institutions, Public Development Banks	Ci Gaba Fund of Funds (Ghana), Nigeria (design stage), Zambia Small Business Growth Initiative (design stage), Regional Venture Capital Financial Support Program for Impact Investment (Turkiye), LATAM Impact Fund
Central Banks	Zambia Small Business Growth Initiative (design stage)

For more on sources of capital, see Table 5 in Part 2.

4. The value proposition of impact investment wholesalers: developed and emerging market contexts

By prioritising solutions for social and environmental challenges and building a social innovation market, impact investment wholesalers can fill market gaps.

Impact Investment wholesalers are uniquely positioned to fill market gaps by targeting underserved sectors and developing new investment products. Particularly for enterprises funded through public procurement, or governments pursuing a data-centric approach,[18] wholesalers help use public resources more effectively by offering outcome-based financing vehicles that assist the government in optimising social service delivery and achieving positive outcomes. Wholesalers may also generate new pools of catalytic capital that support market feasibility studies, design new investment products, provide training and capacity-building support for enterprises or intermediaries, and de-risk financial vehicles.

In emerging markets, impact fund of fund platforms, and pooled finance vehicles that invest in intermediaries, can play a crucial role in bridging the SME financing gap, which stands at USD 5.2 trillion globally, particularly for SMEs focused on achieving the SDGs.[19] The development of new fund of fund platforms is needed to support emerging market impact fund managers who possess local knowledge and expertise in directing capital to SMEs – businesses that are too big for microfinance and too small or risky for traditional bank lending - but need increased investor backing, particularly in the form of catalytic capital.[20]

17 Sources of funds refer to sources of funds to capitalise the impact investment vehicle.

18 See for example "Unlocking the Potential of Zambia's Administrative Data," (IGC, 2024). Available at https://www.theigc.org/publications/unlocking-potential-zambias-administrative-data or "Data and Digital Labs," (Social Finance UK, 2024). Available at: https://www.socialfinance.org.uk/who-we-are/teams/data-digital-labs

19 Available at: https://www.ifc.org/en/what-we-do/sector-expertise/financial-institutions/msme-finance#:~:text=The%20financing%20gap%20for%20formal,reach%20the%20un%2D%20and%20underserved.

20 For more on the role of fund of fund platforms in the African context, see Africa Fund of Funds Platforms (CFF, 2023). Available at https://static1.squarespace.com/static/59d679428dd0414c16f59855/t/6579adf52eddbc2c9e5b1f95/1702473238883/231106+CFF+African+Fund+of+Funds+Report.pdf

Box 1. Community of Practice on Blended Finance

The Community of Practice is a UK-based network, working across different sectors, within developed and emerging global markets. Set up by Better Society Capital, Access the Foundation for Social Investment and Save the Children, it aims to facilitate learning and foster connections between practitioners. Since its inception last year, the community has grown to over 150 practitioners, with an official knowledge hub launching in 2024.

Box 2. Case Study – Zambia Small Business Growth Initiative (SBGI) (in development)

Zambia SMEs face an estimated USD 3.6 billion shortfall in financing.[21] Those that are successful in securing loans through formal lending pathways are forced to borrow 22%-30%[22] and collateral requirements preclude many from accessing a loan. To address the financing and affordability challenges, NABII Zambia (GSG Impact's Zambian National Partner) is developing a Small and Growing Business (SGB) Structured Finance Facility that will invest in Zambian SMEs.

The vehicle, currently in development, will provide better access to affordable finance for MSMEs through capital relief and loss protection via the provision of a guarantee against qualifying loan portfolios of eligible MSME transactions by the Bank of Zambia to participating financial intermediaries.[23]

Box 3. Case Study - Portugal Social Innovation: Supporting market creation by equipping market actors with new skills

Portugal Social Innovation (PSI) provides capacity building for social investment, a grant-based instrument aimed at enhancing management skills within teams engaged in social innovation projects. This instrument employs a lump sum approach, providing up to EUR 50,000 to enterprises to develop management competencies. Before applying, teams must undergo a mandatory assessment of training needs conducted by an independent entity. Notably, payments are triggered by the delivery of tangible outputs from the capacity-building process, and the involvement of potential social investors upfront adds to the innovative nature of this approach.

The program spans 18 months and supports up to five enterprises requiring consultancy, mentoring, or certified training in one of several areas: a) value creation model; b) impact evaluation; c) strategy; d) partnerships and growth; e) marketing and communication; f) fundraising; g) organisational governance; h) leadership and human resources; i) financial control and risk management; j) operations; and k) IT management. By equipping enterprises with these new skills, PSI positions these enterprises with the ability to grow and scale their operations.

Box 4. Case Study – SVS: social finance's role in creating new asset classes

Korea's impact investment wholesaler, SVS, has focused on scaling up funding for enterprises and organisations through the introduction of innovative financing instruments. SVS has facilitated the flow of funds towards impactful projects such as Social Impact Bonds (SIBs), community assets, social housing, workers' mutuals, and community energy cooperatives. These projects, which had long been desired

21 This figure represents pre-COVID-19 levels and is estimated to be three times higher. UNCDF (2021). *RFA: Digital solutions to improve MSME business operations and increase efficiency Zambia.* Available at: https://www.uncdf.org/article/7305/rfa-digital-solutions-to-improve-msme-business-operations-and-increase-efficiency-zambia

22 Range based on interviews conducted by NABII Zambia-led Credit Risk Guarantee Design Works team, including GSG Impact, The Collaborative for Frontier Finance, Mentor Me, and USAID EDGE.

23 Design of the vehicle is currently underway. Further information will be available once design components are confirmed and approved for sharing and dissemination.

By aggregating funds and crowding in new investors, impact investment wholesalers can increase the pool of domestic capital directed at social and environmental challenges.

Regulation, shifting public perceptions, and a growing need among major corporations to not only report on sustainability metrics but also invest in sustainable solutions means more capital is seeking investable impact projects. Wholesalers help increase the overall supply of capital available for impact investment by mobilising capital from various sources, including governments, institutional investors, high-net-worth individuals, and/or philanthropic organisations, and directing it to mission-led enterprises, projects, and businesses.

They can also bring new investors to the impact investing market. For instance, by sharing learnings, wholesalers help demonstrate the potential for impact investment to deliver both financial and social or environmental returns. This can help to attract a wider range of investors, including mainstream investors who may have previously been hesitant to invest in impact.

Especially in emerging markets, wholesalers can mobilise capital from local pension funds, capitalising on the double-digit growth observed among African and Middle East pension funds and regulators lifting restrictions on allocations to private equity and venture capital.[24] Development Finance Institutions (DFIs), through their market development mandates can help develop new pathways for local pension fund engagement by providing technical assistance that can help to meet the earlier-stage financing needs of missing middle businesses and improve the pipeline for later-stage investors.[25]

24 OECD. (2022). *Pension Markets in Focus*. Available at: https://www.oecd.org/daf/fin/private-pensions/Pension-Markets-in-Focus-2022-FINAL.pdf. See also, Collaborative for Frontier Finance. (2023). *Unlocking Local Pension Fund Capital*. Available at: https://static1.squarespace.com/static/59d679428dd0414c16f59855/t/6336d650d647c054b1336fbd/1664538207001/CFF+Unlocking+local+pension+fund+capital.pdf

25 See Empowering Fund Managers in Underserved Markets" (CFF, 2023). Available at https://www.frontierfinance.org/blog/2023/12/20/empowering-emerging-fund-managers-in-underserved-markets

Box 5. Case Study – Wholesalers are effective in leveraging private capital

As of March 2024, Better Society Capital (BSC), the UK impact investment wholesaler, had committed GBP 898 million (USD 1.1 billion) in capital. By leveraging its position as a wholesaler, BSC has brought in total capital commitments of GBP 3.342 billion (USD 4.2 billion) from private investors, indicating a leverage ratio of 3.72x.[26]

Similarly, as of the end of 2023, SVS, the Korean impact investment wholesaler, provided KRW 18.3 billion (~ USD 14 million) to social finance intermediaries and social economy organisations through investments and loans. These intermediaries in turn were able to pool funds from a diverse set of sources, including government, corporations, foundations, financial institutions, and self-help funds. The aggregated pool of KRW 95.6 billion (~ USD 74 million) was then disbursed to 280 social purpose organisations, resulting in a multiplier effect of 5.2.

Box 6. Case Study – Wholesalers help governments contend with budget shortfalls

In the mid-2010s, Japan was facing major structural issues, including the world's fastest ageing population, rising childhood poverty, and shrinking public welfare budgets. With commercial banks just beginning to enter the social investment market through participation in a newly launched social impact bond encouraging early detection of colon cancer, and Japan's pension fund warming to ESG investing, the Japanese National Partner and other local market leaders grasped the importance of laying early groundwork that would enable greater private capital flows to address pressing social challenges. This context

26 This refers to capital brought in and managed by BSC investee funds.

provided a backdrop for the establishment of JANPIA, the Japanese impact investment wholesaler, which was capitalised from Japanese dormant assets.
For more information on the policy arguments that have been used by wholesalers, see Annex 2.

Box 7. Case Study – Wholesalers can help established fund managers pivot into impact

In 2014, Cheyne Capital, an established UK-based asset manager launched its inaugural impact fund known as the Cheyne Capital Social Impact Fund. The Fund aims to develop and lease homes to social enterprises, charities and local authorities that deliver affordable housing for people on low incomes. Sized at £100 million, the Fund provides equity-like capital to address a chronic shortage of affordable housing in the UK and aims to attract new investors to social impact investment. As a recognised asset manager, Cheyne was able to draw in institutional investors from its existing investor base and provide access to new impact deal opportunities.

In 2020, owing to this success, Cheyne subsequently launched a second iteration of the fund, the Cheyne Impact Real Estate Trust (CIRET). As of March 2022, CIRET has invested £86 million, delivering 371 homes for over 550 individuals.

By supporting intermediaries and providing catalytic capital, wholesalers can create new investment and intermediary pipelines.

Wholesalers and fund of fund vehicles can strengthen intermediaries and create new vehicles that tackle social and environmental challenges. Working closely with intermediaries and enterprises, the two can support new and existing fund managers to design and develop innovative and flexible financial products that bridge the needs of enterprises with those of investors, contributing to increasing the diversity of the financial product offering.

Especially in emerging markets, impact fund-of-funds platforms that blend different sources of capital - commercial and concessional - play a crucial role in providing affordable financing to under-resourced intermediaries and businesses. These types of catalytic vehicles play an important role by unlocking third-party local and/or commercial investment that otherwise would not be possible.

Box 8. Case Study - Ci Gaba Fund of Funds

Through its **research**, Impact Investing Ghana (IIGh) identified pensions as a promising capital source for impact investing in Ghana. With the pension industry poised for exponential growth—currently valued at $5 billion, nearly matching the SME financing gap of USD 5.8 billion—there's a pressing need for a vehicle that appeals to pensions, unlocking this substantial capital.

As a result, IIGh supported the operational set-up of the Ci Gaba Fund of Funds, an innovative finance vehicle intended to mobilise USD 75 million focused on investing in SMEs, of which 70% will be capitalised with commercial capital, and 30% from catalytic capital. A pension-backed local currency fund-of-funds, the vehicle will introduce risk-tolerant catalytic capital to the market, creating a pathway for mainstream investors to engage in sustainable development in Ghana.

Box 9. Case Study - Australian Wholesalers: Impact Capital Australia (ICA) & Emerging Markets Impact Investment Fund (EMIIF)

Through the establishment of an impact wholesale fund, Impact Investing Australia believes that better support for intermediaries will ultimately multiply the investment opportunities in the field and lead to additional ways of delivering more and better outcomes for Australian communities including through new solutions to complex issues. This desire to develop new models is built into its design. ICA will focus ~80% of its activity on finance for existing and new intermediaries. In its capacity as a wholesaler, ICA will invest in funds seeking to enter the social impact investment market or those looking to grow in key social impact sectors. ICA will also retain ~20% of its capital for investment directly into transactions that promise socially impactful, innovative and scalable solutions.

The Emerging Markets Impact Investment Fund (EMIIF), now rebranded to Australia Development Investments (ADI), is a catalytic capital provider targeting emerging markets in the Indo-Pacific region. EMIIF has committed AUD 5.7 million in first loss equity to bolster the impact investing ecosystem in Southeast Asia. By serving as a first loss funder for SME Funds, EMIIF effectively de-risks investments, thereby attracting additional investors. Its deep understanding of nascent markets and adeptness in deploying first-loss capital underscore its role as a crucial 'start-up' development financing mechanism.

By standardising impact measurement and management and generating data, wholesalers can bring clarity to the market.

Once established, impact investment wholesalers can play a role in clarifying how impact investing will be applied in the local market. A wholesaler can spearhead the establishment of needed impact infrastructure, including outcome frameworks and measurement systems. This helps to shape a clearer narrative around shared investment goals and definitions and standardise impact management and measurement practices. By measuring the impact of their portfolio, wholesalers are also able to generate market data that can help investors make informed decisions.

Box 10. Case Study - Standardising, collecting, and publishing impact and market data

To standardise impact measurement and management generated by intermediaries and their portfolio companies, impact investment wholesalers may consider developing impact tools that investees can use to measure and manage their impact. Soon after its establishment, Better Society Capital (BSC) developed the '**Outcomes Matrix**' that helped investees and front-line organisations define and report on their impact.

To capture BSC's impact on market development, the organisation publishes a State of the Market report, which provides aggregated data on the estimated size of the social investment market in the UK. BSC's 2023 State of the Market report found that in the 11 years since BSC was established, the UK market grew 11x, from GBP 830 million (~USD 1.03 billion) to GBP 9.4 billion (~USD 11.7 billion).

By acting as a market catalyser, convener, and champion, wholesalers can build their impact investment market.

Through their support to new and existing intermediaries, wholesalers can help build new skills and capacity within the market, in areas such as impact assessment, financial management, and fundraising. This has helped to increase the number and quality of viable impact investment opportunities available. In addition, wholesalers can act as a convener and facilitate market connectivity.

With their support, intermediaries help more organisations navigate the market, connect people and organisations and with information and opportunities, and build a critical mass of expertise and talent more rapidly than individual actors would. Being embedded in the ecosystem also allows wholesalers to spread best practices and provide valuable insights to investors, intermediaries, and front-line organisations, helping them to make informed investment decisions and develop impactful strategies. This includes engaging in "trilingual" conversations with co-investors, intermediaries, and front-line organisations to ensure that all stakeholders are working collaboratively towards the same goals and that best practices are shared widely. In doing so, it helps to build a more informed and connected impact investment community.

Finally, because of their independent standing and market-wide perspective, impact investment wholesalers are also well-placed to engage with governments in areas of policy priority, including unlocking the potential of commissioning for outcomes, and working with the government to put in place policies that might further engage private sector engagement.

Box 11. Case Study - JANPIA Impact measurement training for beneficiary organisations

JANPIA requests beneficiary organisations to design evaluation methods and submit evaluations of their programmes, results, and outcomes, in line with the wholesaler's policies. To build and strengthen impact measurement skills across its wide portfolio of beneficiaries, JANPIA provides program officers with the necessary training and support to conduct social impact evaluations. In addition, JANPIA publishes its methodology for social impact evaluation, alongside detailed policies and manuals online on its **website**.

Part 2. How to design impact investment wholesalers

1. Design considerations

For GSG Impact's National Partners and other market builders working to build a wholesaler, the following section provides practical insights and recommendations for how to approach key design questions.

Design considerations are listed in the table below and expanded on further in the sections that follow.

Table 4 Key design considerations

Strategy	· Context - What is your starting point? · Objectives - What are you trying to achieve? · What key questions should be addressed during the instrument's design process? · How long does it take to set up an impact investment wholesale fund? · What should be the wholesaler's scope? · Who should the wholesaler target, enterprises or intermediaries? · What instruments should the wholesaler use? · What market building function does the wholesaler assume?
Funding	· What sources of funding can be used to set up wholesalers and at what terms? · Should the wholesaler raise private as well as public capital? · How much money should a wholesaler raise? · How should the wholesaler price its capital? · Where should the wholesaler look for co-investors? · What role can blended finance play in the wholesaler?
Structure and governance	· Entity Status and Structure - Will the impact investment wholesaler be established as a specific institution, or will it draw together and represent multiple agencies, or functions in a wider institution? · What level of independence will it have from its financial backers? · Will the wholesaler be a for-profit or a non-profit entity? · Will the wholesaler be an evergreen or close-ended fund? · Team - What skills and competencies will staff possess?
Impact measurement and management	· How should the wholesaler measure and manage impact? · What impact information will it gather from investees and publish? · How will it help to clarify how impact investing is defined?

Box 12. Interacting Design Considerations

The process of designing a wholesaler involves taking stock of an array of social, economic, and financial variables. Importantly, some variables interact, resulting in a more intuitive design and decision-making process, for example:

- **Pricing capital | Kinds of Co-investors | Types of enterprises supported by the intermediaries who are supported by the wholesaler:** If the target organisations are small and early stage, the capital is likely to be priced low, co-investors would be philanthropic or governmental. If the target organisations are larger, and pricing is at or close to the risk-adjusted market rate, commercial co-investors would see this as a viable option to invest for market-level returns.

- **Number of eligible front-line organisations | Wholesaler size:** If there are only a few intermediaries in the country, the wholesaler may need to start out by making direct investments into enterprises. However, If there are many intermediaries already in the country, it would be undesirable for the wholesaler to invest directly in enterprises, as this could undermine other intermediaries in the market.

- **Number of impact intermediaries | Decision on whether the Wholesaler should invest in intermediaries or directly in enterprises:** If there are few eligible front-line organisations, the wholesaler should seek to raise modest amounts of capital (i.e. up to $10 million), until the enterprise sector has expanded.

- **Type of financing (grant v. investment) | Readiness of impact intermediaries:** Market actors may wish to invest but often impact intermediaries need additional investment readiness support, typically provided through grants to engage in further market development. These market readiness factors should be taken into consideration when deciding what type of financing the vehicle will provide and how it will be capitalised.

1.1 Strategy

Context - What is your starting point?

Before designing a wholesaler strategy, it is advisable to first gain a basic understanding of the composition of the local impact economy by carrying out a demand size landscape or market mapping study.

Landscape studies identify the relevant market players on the supply and demand side - government, financial institutions, investors, philanthropic institutions, charities and nonprofits, enterprises, and corporates - the spectrum of philanthropic and investment instruments employed and amounts under management, actors in the wider ecosystem who support the market, including advisory firms, think tanks, research institutes, and academic institutions, incubators and accelerators, and the policies and regulations that govern the space.

This information is useful in gauging the size and level of participation in the market as well as its level of maturity. Market maturity is informed by the level of stakeholder awareness, the policy environment, the volume and activity of market players, the variety of instruments used, and the availability of market data.

Landscape studies are often accompanied by an analysis of the gaps, challenges and opportunities of growing and deepening the market, an analysis which can be useful later on in determining the role the wholesaler will play and its theory of change.

Demand side surveys are also useful for understanding available sources of financing in the market and their terms, and gaps in financing among businesses within a certain sector.

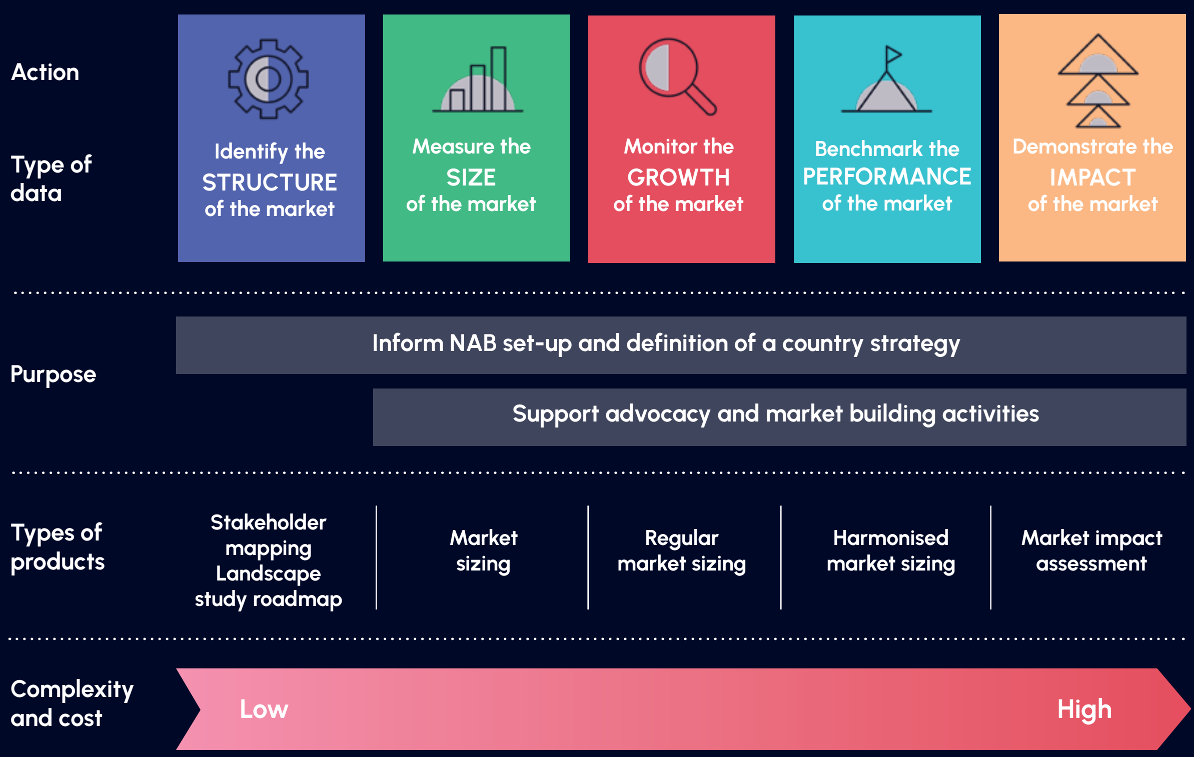
Whether carrying out a demand side survey or landscape study, some key analysis questions to answer include:

- Who are the suppliers of capital in the market for social and environmental outcomes?
- What types of enterprises are they reaching? What enterprises' needs are still unmet?
- What are the broader trends and policy directions the country is pursuing with regard to the promotion of social and environmental impact?

Box 13: From a landscaping study to a vehicle feasibility study

"Impact Ecosystem Data: Resource Document,"[27] a resource for National Partners, lays out the strategic use cases of landscape, market mapping, and market sizing studies. These studies are useful for internal and external purposes, whether setting organisational strategy or informing advocacy and market building strategies. As discussed in the document they can help identify the structure of the market, monitor and measure the growth of the impact economy, benchmark performance against other countries, and demonstrate the impact of the market.

Figure 2 Use-cases for landscape, market mapping, and market sizing studies



Source: GSG (2022). Impact Ecosystem Data: Resource Document (Internal)

The data and insight surfaced in these studies are useful for developing a preliminary hypothesis about the role the wholesaler will play in the market. However, once a vehicle design process is underway, National Partners should seek to undertake a feasibility study to gather more targeted market data and solicit preliminary stakeholder engagement. Feasibility studies go one step further than landscape or mapping studies by looking at the specific financing needs of enterprises or small and growing businesses. Feasibility studies should be undertaken with support from a qualified consultant or advisor who demonstrates awareness as to the key issues related to the underlying business' needs, whether small and growing businesses or mission-led businesses, and an understanding of what capital best meets those needs.

Like landscape studies, feasibility studies should include all segments of society in a consultation process that provides a level playing field for different actors to weigh in and be counted.

27 GSG (2022). Impact Ecosystem Data: Resource Document (Internal).

Objectives - What are you trying to achieve?

Impact investment wholesaler's impact thesis, theory of change, or strategy should look to advance specific growth opportunities evidenced in prior landscape or market mapping studies and should be informed by the level of maturity of a country's impact investment market. It should speak to the direction of travel that many countries are taking in promoting the growth and proliferation of organisations and enterprises that integrate social and environmental impact, alongside job creation. Depending on the stakeholders envisioned to play a role in the wholesaler, the instrument's theory of change may align with thematic objectives defined by the government, such as aims referenced in a national development plan or other multi-year national strategy.

A wholesaler's theory of change may reference the types of entities that are eligible for support, (e.g. intermediaries serving charities, social enterprises, non-profit organisations, small and growing businesses, etc.). Whatever the case, most wholesalers are set up to deliver results and outcomes that are additional, meaning, if not for the impact investment wholesaler, the impact would likely not occur.

See Part 3. Impact Investment Wholesaler Country Cases for a detailed overview of theories of change employed by the various vehicles.

What key questions should be addressed during the instrument's design process?[28]

Equipped with a basic understanding of impact market dynamics and market gaps, National Partners and other market builders can move to the instrument design process. The design process can be thought of in two phases to help foster a process that is constructive, comprehensive, and inclusive.

Phase I: Initial market analysis and scoping of the financial vehicle

- **Market analysis**: National Partners and market builders looking to design an impact investment wholesaler or fund-of-funds should start with a detailed market analysis of supply and demand needs. This should assess the capital needs of local small businesses (or other purpose-driven entities), segmenting them by factors like size, revenue, financing needs, maturity, and industry. The analysis should map financing gaps, approaches used by small businesses, and the type and terms of financing offered by local intermediaries, including non-bank institutions. It should also review relevant data from policy and regulatory bodies on trends, priorities, and the financial system's ability to address small business financing gaps.

- **Feedback and Reactions from Key Stakeholders**: Once findings have been written up and analysed, NPs and market builders may wish to solicit feedback and reactions from market actors on both the demand and supply side, as well as from government, philanthropic, or other relevant entities. This will enable NPs to further refine and hone their analysis.

- **Gather best practices**: NPs and market builders can gather insights and lessons from similar vehicles and instruments developed in other jurisdictions to avoid pitfalls and explore innovative financing models. This includes information on investment vehicles, types of financing, and terms and durations of investments.

- **Obtain technical input**: NPs and market builders should consult technical experts on financing instruments, drawing from capital markets, innovative finance, social innovation, and SME finance. Expertise in climate finance, gender equality, and financial technology can also help identify areas where financing can accelerate enterprise growth and access to capital.

- **Suggest potential funding pathways**: After assessing market needs, gaps, policy opportunities, and comparable financing models, NPs and market builders can propose funding pathways. These should target key needs

28 This section draws upon information and lessons learned from a Phase I & II vehicle design process undertaken by NABII Zambia with support from the Collaborative for Frontier Finance, GSG Impact, Mentor Me, and USAID EDGE, in cooperation with the Bank of Zambia for the design of the Small Business Growth Initiative a platform that will provide affordable finance to Zambia's small and medium sized enterprises.

identified in the assessment, including access to affordable capital, strengthening local financial institutions, improving pipeline development, and enhancing investment readiness for small businesses or other investees.

Phase II: Later stage activities related to the set-up and establishment of the vehicle

- **Refinement of market analysis**: As time may have elapsed since the research undertaken during Phase I, NPs and other market builders should seek to revisit and refine their market analysis. This ensures that a vehicle's investment thesis stands in alignment with the specific challenges faced by small businesses or related intermediaries. It justifies the investment thesis and informs the selection criteria the fund will use to select investees.

- **Set up of the legal vehicle, policy documents, and requisite regulatory approvals**: Once the vehicle has been scoped, NPs or partners will need to choose an appropriate legal structure for the fund. This decision has implications that may impact factors such as taxation, liability, and flexibility. Policy documents lay out the fund's rules and procedures for operating, while regulatory approvals ensure the fund complies with relevant financial regulations and protects investors.

- **Design and implementation of training and capacity building programmes** for both the fund managers and the enterprises – training and capacity building programmes enable the investment team and portfolio companies to develop a shared understanding of the fund's impact measurement and management approach, as well as identify new strategies and partner opportunities.

- **Operational set up** – initial term sheet reflecting a viable financial model, investment memorandum, etc.

- **Engagement with limited partners** – presenting the term sheet can be an iterative process and may result in further refinements to the term sheet.

How long does it take to set up an impact investment wholesale fund?

It can take between 2-10 years to set up an impact investment wholesale fund. Phases I and II typically take a year each to complete, yet the process can take longer depending on whether legislative reforms or approvals are needed, or the political context, or the length of time needed to fundraise.

Countries have had different experiences. In Canada, the journey toward a wholesaler took 10 years, while in Nigeria, it took just two years of early design work before the government affirmed its commitment to contribute a percentage to the fund's first close. Various factors contribute to the length of time it can take, including the source of funds, the political or economic context, National Partner relationships with government, and the level of awareness about the impact investment market.

What should be the wholesaler's scope?

Defining a wholesaler's scope involves defining a set of parameters: geography, sector(s), and longevity. Whatever the scope, the wholesaler's mandate and scope should be broad and flexible. This will allow it to evolve over time, in line with an evolving market.

Scope variants to consider:

- Geography - should the wholesaler have a national or regional set-up?
- Sector - Will it invest in specific sectors and have specific focus areas?
- Longevity - Will the wholesaler's mandate be permanent, or will it be time-limited?

Who should the wholesaler target?

What kinds of front-line organisations will be eligible for support from the wholesaler? Determining a wholesaler's target beneficiaries relies on certain considerations:

- Is your wholesaler trying to achieve a specific goal or advance a certain business segment, for example, helping to build capacity or scale social enterprises or small businesses? Or does it intend to have a broad scope, within which it may deliver

more effectively by having different priorities over time?
- What stage of business size/maturity should the wholesaler seek to support? Answering this question relies on having an informed understanding of unmet financing or affordability gaps in the market.
- What intermediaries currently exist in the market, what type of financing and at what terms do they provide it?

What instruments should the wholesaler use?

Once themes or market segments are identified it is easier to identify the type of financing that is needed and ultimately what instruments should be used. The following questions can also help to answer this question:

- Will it provide wholesale or retail investment or both?
- Will it provide debt or equity?
- Will the wholesaler be a fund investing directly into businesses, or a fund of funds investing into intermediaries?
- Should the wholesaler give grants as well as invest?

Investment readiness grants can be valuable in supporting early-stage enterprises or making breakthroughs in new fields of work. However, enterprises can become over-reliant on grants and from a wholesaler's perspective, providing grants rather than investments will deplete the fund over time. It is important to discern what the sources of the capital will be at the outset and which will be used for grant making.

Box 14. Investment Readiness Programmes

Investment readiness programmes support social enterprises and charities that are already close to the point of taking on social investment. Impact investment wholesalers can provide grant or technical assistance programmes to enhance the capacity of the social economy organisations to raise capital.

Government-led Investment Readiness Program

Canada
Funded by the Government of Canada, the **Investment Readiness Program (IRP)** is a $50 million grants and contributions program designed to support social purpose organisations (SPOs) as they contribute to solving pressing social, cultural and environmental challenges across Canada. The program aims to help SPOs across Canada build their capacity to participate in the growing social finance market and prepare for the Government of Canada's broader investment in social finance via the Social Finance Fund (Canada's impact investment wholesalers).

Australia
Supported by the Australian Department of Social Services, Impact Investing Australia (Australia NAB) and Social Enterprise Australia (SEA) manage **Social Enterprise Development Initiative (SEDI) Grants**, capability building grants of up to $120,000 to support eligible social enterprises to grow their impact.

Wholesaler-led investment readiness programmes

Access
Access - The Foundation for Social Investment, UK's impact investment wholesalers providing grants for social enterprises, offers **Reach Fund Investment Readiness Grants**. It aims to support more charities and social enterprises to sustain their impact or achieve greater impact through being more financially resilient and self-reliant, becoming ready to take on investment.

Pathway Fund
The **Pathway Fund** is structuring partly repayable investment readiness grants to create positive incentives for organisations to successfully fundraise and enable them to start demonstrating their credit history. A proportion of the grant, as per business models and profitability, shall be repaid to the intermediaries to support more enterprises. The payment trigger will be based on being able to raise a threshold level of funding.

What sources of funding can be used to set up wholesalers?

Dfferent sources of funding can be harnessed to set up impact investment wholesalers. National Partners and other market builders should seek grant funding to support the design phases of the wholesalers, while repayable finance, and in some cases a mix of repayable finance and grant capital can be raised to capitalise the vehicle once it is set up and ready to invest.

When capitalising the vehicle, each source of financing comes with specific considerations that national partners and other market builders should carefully evaluate.

Table 5 Sources of capital and relevant considerations

Sources of Capital	Considerations
Dormant accounts	Dormant accounts refer to bank or financial accounts that have been inactive for an extended period, usually because the account holder has not made any transactions or communicated with the financial institution. The period of inactivity required for an account to be considered dormant varies by country and institution. Governments often take control of dormant accounts through specific laws, which allow unclaimed assets to be transferred to the state. These funds can remain under state control until claimed by the rightful owners or beneficiaries, though in many cases, these accounts are never reclaimed. Dormant accounts have been used to capitalise wholesale funds for a few key reasons: • Since the money in dormant accounts is essentially unused, governments can repurpose these funds for public or social benefit without affecting active economic activities. • Using dormant accounts allows governments or market builders to avoid raising new taxes or reallocating existing resources, which might be politically sensitive. It taps into a pool of capital that otherwise would remain dormant. Dormant accounts provide a relatively stable and long-term source of capital for wholesale funds, as the funds are unlikely to be reclaimed all at once, making them ideal for slow-building, long-term projects such as those in the impact investment space
Public financial institutions	These entities may not typically have a strong focus on impact and might face challenges in supporting the intended impact mandate of the proposed vehicle.
Government spending	Risk of political changes and a desire to retain control over investment decisions.
Institutional investors, including pension funds and banks	Financial return expectations may be too high, yet they may benefit from new products and market opportunities.
Philanthropic organisations	Philanthropic organisations may hesitate to use philanthropic investments for return – generating activities, yet often, philanthropic capital in the form of grants is uniquely placed to assist in providing the catalytic capacity for innovation and impact. Grants can be valuable to early-stage enterprises or to designing new investment vehicles based on market gaps. However, enterprises can become over-reliant on grants. Providing grants rather than investments will deplete the fund over time.

Development Finance Institutions (DFIs), Public Development Banks (PDBs)	In accordance with their market building mandates, DFIs may be interested to support the development of new fund of fund vehicles. They can be approached to provide technical assistance to support vehicle set up activities to get the vehicle up and running, especially if initial design activities have been undertaken. Once established, these entities may also look to come in as investors as they will benefit from the creation of new pipeline.
Mixed approaches	Mixed approaches can give the wholesaler more flexibility to absorb capital or work with different types of capital providers (e.g. philanthropic foundations, family offices, impact investors, corporates, etc.

As shown in Table 6, the right combination of sources will depend on market characteristics, as showcased by the diversity of funding sources among existing and planned wholesale funds.

Table 6 Sources of funding among impact investing wholesalers

	Wholesaler	Sources	Amount
1	Better Society Capital (UK)	60% Dormant Accounts, 40% UK retail banks	GBP 625M (~ USD 790M)
2	Social Impact Accelerator (EU)	Public and private institutions incl. EIB, EIF, banks, dev banks	EUR 243M (~ USD 263M)
3	Access (UK)	Cabinet Office, Growth Fund partnership, dormant assets	GBP 35.7M (~USD 45.3M)
4	Portugal Social Innovation	European Structural and Investment Funds 2014-2020, InvestEU (2021- 2027), and the Federal Government	EUR 125M (~ USD 135M)
5	JANPIA (Japan)	Dormant Accounts newly falling dormant	USD $80M
6	SVS (South Korea)	Banks, credit unions, social economy cooperatives, public corporations	KRW 28BN (~ USD 21M)
7	LATAM Impact Fund	Grupo Bimbo, LATAM-based development banks, pension fund, family offices	USD 71M
8	Pathway Fund (UK)	Government, dormant assets, philanthropic foundations and endowments, mission-aligned investors and funders	Targeting GBP 50M (~ USD 62.3M)
9	Australian Development Investments (Australia)	Government	AUD 250M (~ USD 166M)
10	Social Finance Fund (Canada)	Federal government Treasury	CAD 755M (~ USD 564M)
11	Regional Venture Capital Financial Support Program for Impact Investment (Turkiye)	Public Development Bank	TL 250M (~ USD 8.24M)
12	Impact Capital Australia	Targets 50% government, 50% financial institutions	AUD 400M (~USD 260M)
13	Germany	Target concept: Federal Government and EU Structural Funds (Phase 1); Dormant Accounts (Phase 2)	N/A
14	Ci-Gaba Fund of Funds (Ghana)	Local Pensions and Philanthropic Foundations	USD 75M
15	Indonesia Impact Alliance	Family Offices	N/A

16	Wholesale Impact Investment Fund (Nigeria)	Targets 50% government, 50% others, including local pension funds	USD 100M
17	South Africa	Local Pension Funds (Note: the wholesaler is at the concept stage only)	N/A
18	Social Impact Fund (Spain)	Government's Recovery, Transformation and Resilience Plan	EUR 400M (~USD 434M)
19	Zambia Small Business Growth Initiative (SGBI) (in design)	Bank of Zambia; Initiative is designed to attract additional 3rd party capital over time (e.g, from DFIs, pension and insurance companies, etc.)	ZMW 5 billion (~ (~USD 180M)

Table 7 Staging Approach - Steps to Unlocking Dormant Accounts

Step 1	Convene a strong and determined group of people dedicated to liberate these unused accounts for public benefit
Step 2	Engage with the financial institutions that hold dormant monies
Step 3	Ensure that any citizen should be able to reclaim their funds
Step 4	Define the type of dormant funds that can be utilised What type of assets are we looking at? Unclaimed assets can be simple savings accounts, they can be interest bearing accounts, or investments, they could be your pension fund, life assurance, or other insurances
Step 5	Engage with government stakeholders
Step 6	Make the case for an independent impact investment wholesale entity
Step 7	Consider likely legal barriers: Transferring dormant personal accounts, through a reclaim system
Step 8	Establishing wholesale social impact funds
Step 9	Determine whether the wholesale fund will invest directly or via intermediaries
Step 10	Determine the goals Seek to avoid over-specifying the remit - the market will always be changing
Step 11	Clarify the governance structure Seek to avoid excessive rules
Step 12	Bring together a team which includes skills on both financial and social issues - and open the door to your new wholesaler!

1.3 Structure & governance

Entity Status and Structure - Will the impact investment wholesaler be established as a specific institution, or will it draw together and represent multiple agencies, or functions in a wider institution

A wholesaler will have more standing in its market if it is established as a beacon for impact investing that gives confidence in the market. The wholesaler can provide investment into a range of intermediaries. However, there will need to be checks and balances between the wholesaler and its intermediaries.

What level of independence will it have from its financial backers?

If established with government funding, it will be important for the government to have appropriate oversight but have sufficient independence to achieve its goals. For example, the BSC model has a corporate entity, with oversight which considers whether the wholesaler is acting appropriately within its remit. Ideally, if set up with government support, an impact investment wholesaler should be set up as an independent vehicle. Government representatives may be appointed to the board of the vehicle but should remain separate from investment decision making.

Team - What skills and competencies will staff possess?

Impact wholesalers need to understand their market, so staff should bring people from different backgrounds. They should bring on board professionals who have skills and experience in co-investing, experience as a wholesale investor, experience investing in intermediaries, and experience investing in small and growing businesses or purpose-driven or impact enterprises in its particular country,

Because of their impact and market building characteristics, impact investment wholesalers should also have a research, impact measurement and management. and policy experience and qualifications.

1.4 Impact measurement and management

How should the wholesaler measure and manage impact?

In line with industry practice, the wholesaler will likely incorporate the following components and activities into its impact practices at various stages in its design and implementation.

Table 8 Wholesaler impact practices at various stages of design and development

Phase		Description
Pre-establishment	Defines impact thesis* and theory of change.	The wholesaler's **theory of change** explains the vehicle's logic related to what impact and/or systems-level change will be targeted and how it will be achieved.
		Thematic Impact Thesis - Because impact investment wholesalers are often established to support market-led solutions to national social and environmental challenges, the statutory establishment of wholesalers may often be aligned with nationally defined thematic goals and priorities.
		Entity-based Impact Thesis – In other cases, the impact thesis relates to the type of entities that will be supported by the wholesaler, i.e. social enterprises, charities, non-profit organisations, social economy organisations, etc.
Establishment	Defines impact remit*	Refer to the IMP's investment classes and Investor Contribution column in the chart above.
	Sets targets or objectives	To further operationalize the wholesaler's impact remit, it is advisable to set impact targets and objectives involving short-term outputs and longer-term impact. As part of this activity, the wholesaler may define impact thresholds, clarify who its beneficiaries will be, and create the infrastructure and internal capacities to track and measure outcomes.

	Staff perform impact due diligence on investees	Conduct due diligence to assess the likelihood of impact and any associated risks. The IMP's Five Dimensions of Impact[29] provides a useful overarching framework for assessing the potential impact of an asset or investment opportunity according to the following components: **1)** WHAT: The outcome the enterprise is contributing to **2)** WHO: Which stakeholders experience the outcome **3)** HOW MUCH: The degree of change experienced, across breadth, depth, and length of time **4)** CONTRIBUTION: The extent to which the enterprise and/or the investor's efforts resulted in outcomes that were better than what would have occurred otherwise. **5)** RISK: The likelihood that impact will be different than expected. The framework references 9 types of impact risk. Specific questions can then be developed under each dimension to further assess the investment opportunity.
	Measurement and management	Measure impact on a periodic basis. Review data periodically to assess impact, improve impact performance, and address and mitigate challenges
	Reporting and Verification	Report on impact to ensure accountability and transparency of operations and activities. Impact should be verified by a non-aligned, independent third party.

*Note: The wholesaler's impact thesis and remit is likely to evolve as the market changes.

To standardise impact measurement and management and generate market data, impact investment wholesalers may consider developing impact tools that investees can use to measure and manage their impact. Soon after its establishment, Better Society Capital developed the 'Outcomes Matrix' that helped investees and front-line organisations define and report on their impact.

Impact investment wholesalers can also create a market standard around equality, diversity and inclusion. Both Better Society Capital and Access have explicit EDI policies, which it shares with intermediaries and expects them to adopt.

How will it help to clarify how impact investing is defined?

To guide thinking around impact, market builders may consult the 'Impact Classification' and 'Investor Contribution' work developed by the Impact Management Project (IMP), which has emerged as an industry standard for impact measurement and management in the field of impact investing.[30]

According to the IMP, the impact of an investment is a function of the *impact of the asset an investment supports* (assessed as avoiding harm, benefiting stakeholders, or contributing to solutions) *and the contribution the investor makes* to enable the asset (or intermediary/investment manager) to achieve that impact.

A chart developed by the Impact Measurement Project (now Impact Management Platform) plotting these inputs helps to provide a theory of change that explains the general logic of an impact investment wholesaler.

As referenced in the fourth box from the top and the others that follow in that column, an impact investment wholesaler engages actively in impact generation (and market creation), grows new/ undersupplied capital markets, and provides flexible capital.

29 Impact Frontiers. *Five Dimensions of Impact*. Available at: https://impactfrontiers.org/norms/five-dimensions-of-impact/.

30 Impact Management Project. *Investment classifications*. Available at: https://impactmanagementplatform.org/investment-classifications/#:~:text=Signal%20that%20impact%20matters%3A%20investors,and%20the%20market%20at%2Dlarge.

Figure 3. A wholesaler's potential investor contribution

The convention's matrix

Impact of enterprises

Investor's contribution	Avoid harm	Benefit stakeholders	Contribute to solutions
Signal that impact matters: +Engage actively +Grow new/undersupplied capital markets +Provide flexible capital	E.g. Ethical bond fund	E.g. Positively-screened/best-in-class ESG fund	E.g. Sovereign-backed bonds (secondary market) funding veccine delivery to understand people or renewwable energy projects
Signal that impact matters: **+Engage actively** +Grow new/undersupplied capital markets +Provide flexible capital	E.g. Shareholder activist fund	E.g. Positively-screened/ best-in-class ESG fund using deep shareholder engagement to improve performance	E.g. Public or private equity fund selecting and engaging with businesses that have a significant effect on education and health for underserved people
Signal that impact matters: +Engage actively **+Grow new/undersupplied capital markets** +Provide flexible capital	E.g. Anchor investment in a negatively-screened real estate fund in a frontier market	E.g. Positively-screened/ infrastructure fund in a frontier market	E.g. Bond fund anchoring primary issuances by businesses that have a significant effect on environmental sustainability, access to clean water and sanitation
Signal that impact matters: **+Engage actively** **+Grow new/undersupplied capital markets** +Provide flexible capital		E.g. Positively-screened/ private equity fund making anchor investments in frontier markets	E.g. Private equity fund making anchor investments in businesses that have a significant effect on income and employment for underserved people
Signal that impact matters: **+Engage actively** **+Grow new/undersupplied capital markets** **+Provide flexible capital**			E.g. below-market charity bonds, or an unsecure debt fund focused on businesses that have a significant effect on employment for underserved people
Signal that impact matters: **+Engage actively** **+Grow new/undersupplied capital markets** **+Provide flexible capital**			E.g. Patient VC fund providing anchor investment and active engagement to businesses that have a significant effect on energy access for underserved people

Wholesaler's focus

Source: GSG Impact (2018). Building Impact Investment Wholesalers

What impact information will it gather from investees and publish?

Gathering standardised impact data is important, both to understand the social and environmental impact generated across a wide array of intermediaries and to be able to track social and environmental impact, as well as market creation over time.

Box 15. Case Study - Outcome Matrix

BSC allowed intermediaries and enterprises to decide their own metrics, but this resulted in the wholesaler being unable to add up the impact created. In 2011, Big Society and New Philanthropy Capital developed the Outcomes Matrix hosted by Good Finance, which aims to develop a common language regarding social investment and impact assessment in the social sector. The outcomes and measures are not intended to be prescriptive or exhaustive but should provide a helpful starting point for organisations to measure their social impact and communicate them with social investors.

1.5 Lessons learned

Common elements that all impact investment wholesalers share that have been critical to their success include:

- **Impact Investment wholesalers should be independently managed, but have government support:** Independence allows wholesalers to make investment decisions based solely on their mission and objectives, without political interference, whilst the government establishes a favourable regulatory environment. This combination of autonomy and political support helps build credibility and attract investors.

- **Impact Investment wholesalers should connect capital to impact, not impact to capital:** Impact investment wholesalers connect capital to impact, rather than the other way around. They should prioritise the creation of positive social and environmental outcomes.

- **Impact Investment wholesalers should focus on intermediaries:** Strengthening the capacities and activities of intermediaries helps to develop and build the market. Intermediaries play various roles, from research and advocacy to generating and promoting industry standards, to brokering partnerships and creating platforms for collective action. Investment intermediaries are critical for building a market that is financially self-sustaining while also focused on generating measurable impact.

- **Impact Investment wholesalers should adopt a collaborative approach to market growth:** Collaboration between impact investment wholesalers, intermediaries, and other stakeholders in the impact investment ecosystem helps to identify gaps in the market and develop new investment products, strategies, and solutions.

- **Impact Investment wholesalers should increase the flexibility and availability of capital:** Increasing the flexibility and availability of capital enables wholesalers to better meet the needs of investees over the long term. Especially when markets are nascent, flexible capital helps organisations reach key milestones that ensure further success. Increasing the availability of capital also fosters heightened demand from investees and interest among co-investors.

- **Impact Investment wholesalers should be self-sustaining (financially), with material impact:** Wholesalers are tasked with managing two key objectives simultaneously. Both must exist alongside the other to demonstrate proof of concept, retain and attract investors, and grow their impact over time. Being self-sustaining also enables wholesalers to continue operating even in challenging economic conditions and to respond to changing political or market dynamics. At the same time, the focus on being self-sustaining should not at all stand in the way of effectively tackling social issues.

- **Wholesalers should take into account diversity, equity, and inclusion (DEI):** Diverse teams with a wider range of backgrounds and experiences are better equipped to understand the needs and challenges faced by the communities they aim to impact. In addition, by promoting DEI within the investment team and portfolio companies, impact funds can ensure they're reaching a broader range of impactful ventures, especially those led by underrepresented groups.. Recognising its market influence and the ability to affect change which comes from being a distributor of significant sums of funding into the sector, Wholesalers can play an important role in driving change across the entire market.

Part 3. Impact investment wholesaler and fund of funds country cases

1. Established impact investment wholesalers and fund of funds

Better Society Capital (United Kingdom)

1. Introduction

Better Society Capital (formerly Big Society Capital; BSC), the UK's Social Impact Investment Wholesaler, was established in 2012 to grow the amount of capital invested in tackling social issues and inequalities in the UK. Set up as a GBP 625 million (USD 782 million) wholesale fund it was capitalised with GBP 425 million (USD 532 million) from UK dormant accounts and GBP 200 million (USD 250 million) from four UK retail banks.

The role of BSC is to provide funding to intermediaries, investment managers and social banks, who finance charities and social enterprises, whilst being financially sustainable. Its objective is to build the infrastructure for a thriving impact sector that brings investment to social organisations that previously depended exclusively on grants. As an independent entity, it also represents the social impact investment sector in policy discussions with the government about social issues and drives further awareness around impact investment and related issues.

In 2022, ten years after the institution's launch, the total amount of BSC's funds committed since launch reached GBP 883 million (USD 1.1 billion). With over GBP 2 billion in co-investment, BSC has made over GBP 2.9 billion (USD 3.6 billion) available to more than 2,000 UK organisations addressing a wide range of social issues from homelessness to mental health.

Perhaps the most successful impact investment wholesaler, BSC evidences its financial multiplier effect and the broader market-catalysing effects an impact investment wholesalers can achieve. A 2016 McKinsey report found that BSC's impact represented a "decisive shift" in the UK's impact investing market.[31] Its most recent annual market sizing study released in September 2023 valued the UK social investment market at GBP 9.4 billion (USD 11.7 billion), representing 11x growth in eleven years from GBP 830 million in 2011.[32]

2. Context

The UK was the first country to explore the potential of using unclaimed assets to spark real change in society. BSC was established in 2012 following a political process that spanned over a decade.

In 2000, a Social Investment Task Force recommended the establishment of a social investment bank.[33] commissioned by the Finance Minister at the time, it was part of the Treasury's desire to improve the UK's capacity to create wealth, economic growth and employment in the most deprived communities.[34] The Task Force ran for ten years, with their recommendations laying the foundation for the UK social impact investment market and the creation of Big Society Capital.

31 Godsall, J & Sanghvi, A. (2016). *How Impact Investing can reach the mainstream*. McKinsey & Company. Available at: https://www.mckinsey.com/capabilities/sustainability/our-insights/how-impact-investing-can-reach-the-mainstream

32 Big Society Capital. *Market data*. Available at: https://bigsocietycapital.com/our-approach/market-data/

33 The Social Investment Taskforce published 4 reports between 2000-2010: *Enterprising Communities: Wealth Beyond Welfare 2000*. Available at https://static1.squarespace.com/static/5a6f0b584c0dbf370367c95a/t/5b27ccd803ce643d6e7ccb10/1529335005229/SITF_Oct_2000.pdf; *Enterprising Communities: Wealth Beyond Welfare 2003*. Available at https://static1.squarespace.com/static/5a6f0b584c0dbf370367c95a/t/5b27cd1ef950b7fedf445e0f/1529335086558/SITF_July_2003.pdf; *Enterprising Communities: Wealth Beyond Welfare 2005*. Available at https://static1.squarespace.com/static/5a6f0b584c0dbf370367c95a/t/5b27ce070e2e7236482eb363/1529335305895/SITF_July_2005.pdf; *Social Investment 10 Years on 2010*. Available at https://static1.squarespace.com/static/5a6f0b584c0dbf370367c95a/t/5b27ce32562fa7107cd1469e/1529335349485/SITF_10_year_review.pdf

34 Big Society Capital. *About us*. Available at https://bigsocietycapital.com/about-us/our-history/

In 2007, the founding concepts of an impact investment wholesaler were initially laid out in a report issued by the Commission for Unclaimed Assets (CUA) entitled, The Social Investment Bank: Its Organisation and Role in Driving the Development of the Third Sector.[35] Led by Sir Ronald Cohen, the CUA's main argument was that the social sector needed investment in its capacity and infrastructure and that making it more financially sustainable would put it in a stronger position to achieve desired social change.

A year later, the campaign for an impact investment wholesaler reached its watershed moment with the passage of the Dormant Bank and Building Society Accounts Act of 2008. [36] The Act set out the legitimate uses for dormant funds as follows:

(a) Made for meeting expenditure on or connected with the provision of services, facilities or opportunities to meet the needs of young people
(b) Made for meeting expenditure on or connected with—
  a. The development of individuals' ability to manage their finances, or
  b. The improvement of access to personal financial services, or
(c) Made to a social investment wholesaler…'Social investment wholesaler' means a body that exists to assist or enable other bodies to give financial or other support to third sector organisations: 'third sector organisation' means an organisation that exists wholly or mainly to provide benefits for society or the environment.[37]

The Dormant Bank and Building Society Accounts Act 2008 enabled banks and building societies to voluntarily hand over monies unclaimed for over 15 years left in dormant accounts to a reclaim fund.

The Reclaim Fund Ltd was established by Co-operative Financial Services (later re-named Co-operative Banking Group (CBG)) in response to a request from HM Treasury. It was authorised by the Financial Services Authority (now the Financial Conduct Authority (FCA)) and became fully operational in March 2011 as a not-for-profit subsidiary of CBG.

35 Available at: http://docplayer.net/35462834-The-social-investment-bank-its-organisation-and-role-in-driving-development-of-the-third-sector.html

36 For a detailed overview of the initiatives, policies and strategies relevant to BSC's creations see Daggers, Jess & Nicholls, Alex. (2016). *Big Society Capital: The World's First Social Investment Wholesale Bank*. Available at: https://www.researchgate.net/publication/344208183_Big_Society_Capital_The_World's_First_Social_Investment_Wholesale_Bank

37 *Dormant Bank and Building Society Accounts Act 2008*. Dormant Bank and Building Society Accounts Act 2018.

In 2011, the Cabinet Office asked Cohen and Nick O'Donohe, a former global head of research at JP Morgan, to establish a social investment bank along the lines recommended by the Social Investment Task Force in 2000. The Cameron government approved the allocation of £400 million of unclaimed bank assets for this purpose.

In 2012, this money having been supplemented by an additional £200 million from Barclays, HSBC, Lloyds and the Royal Bank of Scotland, went to establish Big Society Capital, with Cohen and O'Donohoe appointed as Chair and CEO, respectively.

Access – the Foundation for Social Investment

Three years later after its establishment, in 2015, BSC recognised the need to provide more targeted support for smaller social enterprises. At that time, there was a growing demand for affordable unsecured loans of under £150,000 from social enterprises, charities, and other social purpose organisations. However, it was difficult for them to access this form of capital from mainstream lenders.

To meet the needs of these enterprises and organisations, BSC helped create a sister wholesale organisation called Access - the Foundation for Social Investment. Access helps charities and social enterprises access the finance they need to sustain or grow their impact by providing investment readiness support, blended finance,[38] and other capacity-building support to charities and enterprises.

Since its founding, Access has continued to work with partners to establish funding vehicles that can help support smaller organisations to deliver impact. It works through the following main avenues:

- The National Lottery Community Fund, the Cabinet Office and Access – The Foundation for Social Investment channel funds into a blended finance Growth Fund to provide small loans (averaging £63,000), and help social enterprises and charities to grow and/or become more resilient.
- Social Investment Scotland and several leading CDFIs established the £52.5 million Community Investment Enterprise Facility (CIEF). The Facility lends to micro and small businesses in

38 Blended finance refers to a combination of grant funding and repayable finance. For more on Access' approach to blended finance see Access. *Blended Finance.* Available at: https://access-socialinvestment.org.uk/blended-finance/

disadvantaged areas to support job creation and increase local economic activity.

Cultural Take

During BSC's strategic period 2014 - 2017, the organisation took a proactive approach to market building by employing the following strategies:

1. **Starting with the social issues and business models**. BSC shifted from being a problem solver to a problem finder, actively seeking out where social investment could be valuable.

2. **Segmenting the market vision**. BSC shifted from trying to maximise impact, financial change, and systemic change for every individual proposal to instead focusing on themes (SME charity lending, participation, innovation, scale) and taking a portfolio view of how to achieve its mission.

3. **Taking a whole market view and building the comms approach**. BSC became clearer about the importance of being trilingual (i.e. speaking to financial, public and social sectors) and investing in communications and engagement to better address stakeholder groups and socialise the topic of social and impact investment.

4. **Building the internal capability to build and look at proposals in-house**. BSC invested £300m over that time and the majority came from programmes and proposals that were developed in-house.

In 2020, with government and social sector financing constrained by the COVID-19 pandemic, BSC's strategy focused on the need and opportunity to double the growth of the social sector, which was providing critically needed social services and enabling social resiliency to vulnerable populations struggling through the Pandemic. Thus, over the current period (2020 - 2025) it has been employing a strategy to build investment ecosystems in the following domains:

- Impact venture - building a venture ecosystem that effectively nurtures and scales innovative ways of tackling social problems.[39]
- Social and affordable housing - building a system that creates more safe, secure and affordable homes for everyone to access regardless of their circumstances.[40]
- Social lending - building a market that meets the needs of a diverse range of social purpose organisations and investors.[41]
- Social outcomes - improving the lives of people with complex needs while creating better value in public service delivery.[42]

3. Theory of Change

BSC's long-term objective is to generate positive financial returns alongside demonstrable social impact and build thriving social impact investment in the UK. BSC works with expert partners, first to understand the issues, and then to design and deliver investments and grow market participation to ensure new programmes succeed beyond BSC's investments.

BSC's Theory of Change illustrates the logic underpinning how its catalytic investment and market-building build an enabling environment that unlocks more capital flow from asset owners to impact-led organisations with a range of business models and different capital needs. As a result of its approach, BSC expects more impact-led organisations to be able to address pressing social issues and maximise their social impact in the UK, with a focus on working with disadvantaged communities. The below image briefly describes its theory of change.[43]

39 Big Society Capital. *Impact venture*. Available at: https://bigsocietycapital.com/our-approach/impact-venture/

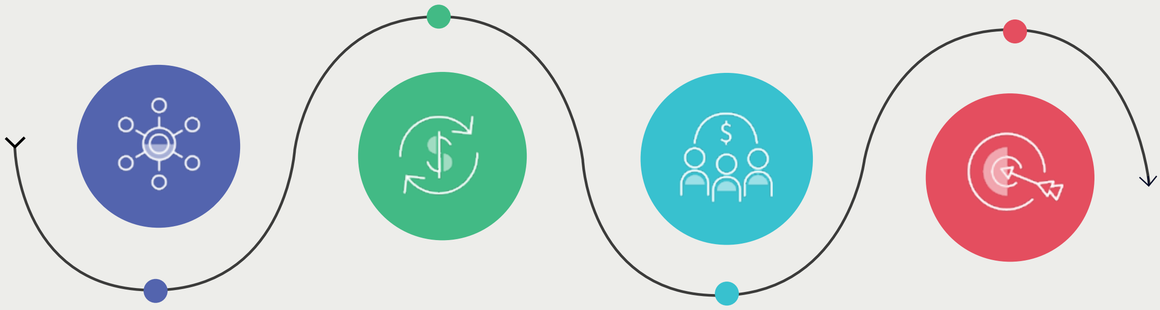
40 Big Society Capital. *Social and affordable housing*. Available at: https://bigsocietycapital.com/our-approach/social-and-affordable-housing/

41 Big Society Capital. *Social lending*. Available at: https://bigsocietycapital.com/our-approach/social-lending/

42 Big Society Capital. *Social outcomes*. Available at: https://bigsocietycapital.com/our-approach/social-outcomes/

43 Big Society Capital. (2024). *Impact Report 2023*. Available at: https://bettersocietycapital.com/impact-report-2023/

Figure 1 Better Society Capital Theory of Change



Activities	Outputs	Outcomes	Impact
We invest ourselves and build the market to scale social impact investment	**An enabling environment for more social impact investment**	**More investment flowing to impact-led organisations**	**More social impact across a range of pressing social issues and reducing inequalities in the UK**
· Catalytic investing: seed, scale and sustain investments · Market building: stakeholder engagement, developing resources and supporting initiatives	· Asset owners' capital facilitated into social investment Increased awareness and understanding of social impact investment · Change in resources, policies and practices	· Increased scale of capital to tackle significant social issues · Increased number and diversity of organisations accessing social investment · Broader range of business models reached through blended capital	· Delivering impact at scale · Achieving important outcome changes for vulnerable people · Reaching disadvantaged communities

Source: Big Society Capital Impact Report 2023

4. Governance

Source of Capital

BSC funds come from two sources: an English dormant bank account invested via The Oversight Trust - Assets for the Common Good (previously known as The Big Society Trust) and four major UK high street banks: Barclays, HSBC, Lloyds Banking Group and Natwest Group.

The Oversight Trust receives its funds from dormant bank accounts managed by the Reclaim Fund Limited (RFL). Surplus funds from these dormant accounts are passed to the National Lottery Community Fund (NLCF). The NLCF, in turn, grants a defined sum from the English portion of these funds to the Oversight Trust. The Oversight Trust then subscribes for shares in BSC, specifically for investment in enterprises domiciled in England. With the launch of BSC, the equity capital base was set at £600 million, of which the Oversight Trust's portion was £400 million.

In the years since the establishment of the Reclaim Fund, a government commission was established to explore additional sources of unclaimed assets for public benefit, widening the remit beyond the simple bank and building society accounts to consider the full spectrum of potentially dormant financial and non-financial assets. The commission concluded that the current scheme should be expanded to include a much wider range of financial assets, which could lead to an extra £1-2 billion of funding to be transferred for the benefit of good causes.[44] In 2018, an additional capital injection of up to £25 million from dormant bank accounts was announced, resulting in a total of £425 million received from the Oversight Trust.

Entity Status and Structure

Shareholders:

- The Oversight Trust – Assets for the Common Good (previously known as The Big Society Trust) acts as the majority shareholder of Big

44 The full findings of the commission are available in the following report, Commission on Dormant Assets. (2017). *Tackling Dormant Assets: Recommendations to benefit Investors and Society*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/596228/Tackling_dormant_assets_-_recommendations_to_benefit_investors_and_society__1_.pdf

Society Capital to ensure that it remains true to its mission.
- The four main UK high street banks (Barclays, HSBC, Lloyds Banking Group and Natwest Group) are also shareholders and have collectively contributed £200 million by way of equity investment.

Committees:

- BSC's **Board** has two Committees comprising non-executive Board and external members with specific expertise:
    - The Audit, Risk and Compliance Committee, is responsible for overseeing management processes and other arrangements to ensure the effectiveness of systems and controls, including risk management. The Nominations and Remuneration Committee is responsible for making recommendations concerning the appointment of directors (including the CEO) and setting levels of remuneration.
- BSC has established three other **operational committees**:
    - Executive Committee Chaired by the CEO, responsible for the day-to-day running of Big Society Capital. The members of the Executive Committee are Big Society Capital's CEO, Chief Financial Officer, Chief Investment Officer, Deputy Chief Investment Officer, Head of Origination and Head of Engagement.
- **Investment Committee** Chaired by the CEO or the designated Deputy Chair, responsible for making investments and for the performance of Big Society Capital's portfolio of investments and reporting its activity to the board. All investments made over £10 million also require approval by the Board. The Committee normally meets weekly on a Wednesday morning to discuss potential investments and pipelines.
- **Valuation Committee** Chaired by the CFO (who is not a member of the Investment Committee), responsible for determining valuations and assessing investment performance, including social impact. This includes identifying key risks and issues within Big Society Capital's investment portfolio. The Chair of the Committee can go straight to the Chair of the Audit Committee with any concerns. Members of the Board and company auditors are invited to observe meetings of the Valuation Committee.
- The CEO may establish an **Advisory Board** to advise on aspects of Big Society Capital's strategy or activities. The Advisory Board is made up of individuals with specific interests and involvement in social investment, including prominent practitioners from the sector. The Advisory Board is a consultative committee with no decision-making powers. Its membership is approved by the Big Society Capital Board.

Eligibility

BSC has specific investment requirements linked to the sources of its capital.

- **Fund managers**: BSC invests with fund managers and social banks rather than directly. The Dormant Accounts Act sets out their wholesaler role as investing to "assist or enable other bodies that give financial or other support to third sector organisations".
- **Frontline Eligibility**: BSC collaborates with fund managers that offer financial or other forms of support to charities and social enterprises. As per the Dormant Accounts Act, charities, social enterprises, or "third sector organisations" primarily exist for the benefit of society or the environment. BSC's objective is to focus the majority of its investments on asset-locked organisations, such as charities and Community Interest Companies (CICs). However, in select strategic areas where its capital can also benefit for-profit social enterprises, it may request additional safeguards.
- **State Aid Compliance**: To be eligible for BSC investment, it is imperative that the initiative addresses a recognized market failure, and you must demonstrate a clear understanding of the State Aid implications associated with your investments.
- **Political Neutrality**: BSC mandates that investment decisions remain free from the influence of party political considerations. We expect a commitment to impartiality in all investment decisions.
- **Transparency**: Transparency is a fundamental principle at BSC. Our investment agreement with you will include transparency requests, ensuring that information-sharing is integral to our partnership.

- **Responsible Business Principles**: BSC requires your commitment to our Responsible Business Principles, and we also expect you to ensure that your investees adhere to these principles. These standards are not intended to be burdensome; they encompass basic ethical practices that most businesses consider standard, including fair treatment of employees and upholding high standards of integrity.

5. Finance[45]

The terms of BSC investments are as follows:

- **Investment Size**: Range from £500,000 to £15 million.
- **Structure**: BSC offers various investment structures, including direct debt through fund managers or pooled vehicles like limited partnerships. In certain situations, BSC explores alternative methods, such as underwriting or direct investments, when they prove to be the most effective approach for addressing market failure and societal issues.
- **Term**: BSC's investments generally span 3-10 years, with provisions for exits to facilitate capital recycling. However, BSC has made perpetual investments, such as in the case of Social and Sustainable Capital's Community Investment Fund, when they align with the mission of maximising social impact.
- **Geography**: BSC's focus is on expanding social impact investment within the UK.
- **Co-investment**: BSC seeks at least a 1x like-for-like match for each investment, with a preference for higher overall matches across its portfolio. On occasion, BSC considers short-term refinancing as a matching mechanism, especially when addressing strategic priorities set by its board.
- **Governance**: In instances where BSC represents a significant portion of total capital, it may request a role in the governance of the investment, such as an observer position on the Investment Committee.
- **Returns**: BSC evaluates financial returns in relation to risk, the potential for impact on people's lives, the capacity to drive systemic change, and the ability to attract other necessary investors. BSC does not adhere to a fixed return target and invests across a wide range of return levels, strategically allocating its portfolio to achieve an overall target gross portfolio return of 3-5%. At the corporate level, BSC targets a net return of 1% after taxes and all costs, and the shareholders don't expect dividends from this 1% since it is expected to be reinvested within the BSC.

45 Big Society Capital. *Investment Requirements*. Available at: https://bigsocietycapital.com/our-approach/making-investments/apply-investment/investment-requirements/

6. Impact

BSC's priority is to support interventions and organisations that enhance the well-being of the most vulnerable and disadvantaged individuals in the UK. BSC may invest in other impact areas if they align with its broader strategic goals.

Impact Measurement and Management Approach

BSC's contributions to impact is assessed at two levels:

- Changes at the market system level, across different market stakeholders (from investors to enterprises) and market infrastructure (system change)
- Changes in outcomes for people and end-users (impact on people)

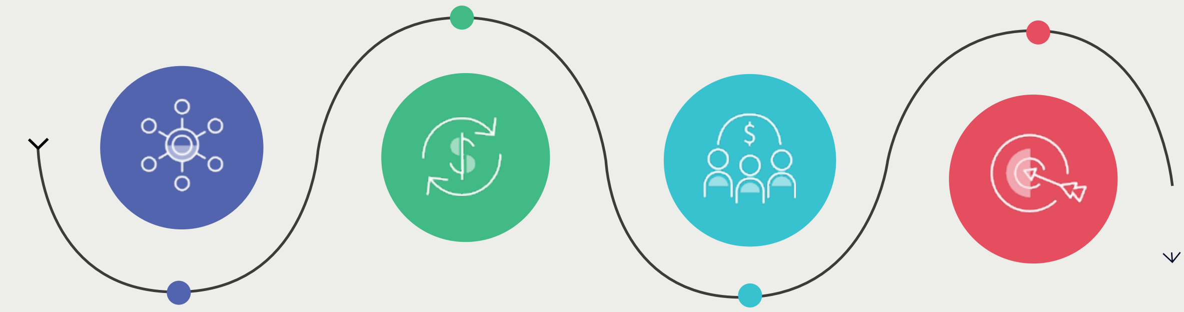
In its early years, BSC developed and utilised an Outcome matrix hosted by Good Finance, which laid out KPIs per sector. Recently, BSC developed an Enterprise Level Impact framework to manage key parts of its theory of change and to validate a vital link in the chain between investment and people. Operational environmental, social, and governance (ESG) factors are also embedded in its investment process. Moreover, BSC is a signatory to the Operating Principles for Impact Management. Its latest Disclosure Statement (March 2024) provides a comprehensive summary description of its impact management approach and its alignment with the Impact Principles.

Recent Impact

According to its 2023 Annual Report, since 2012, BSC has provided funding to over 3,500 organisations. 75% of enterprises receiving investment are focused on serving vulnerable and underserved groups. Additionally, 60% of these enterprises are situated within the most deprived areas of the UK. The following are highlights of BSC's four key themes:

- **Impact venture** Through their venture managers, BSC now has invested in more than 100 impact companies, reaching over 7.4 million people in the UK. 3 million people have received support to improve their mental or physical health and 1.8 million people have been able to better manage their financial situation through improved access to credit, insurance and flexible pay products.
- **Social and affordable housing** BSC helps institutional investors understand how to invest for impact in social and affordable housing, engaging with investors with over £500 billion AUM in 2023. BSC has committed £200 million to help finance 6,690 homes for 15,000 people.
- **Social lending** The size of the social lending market reached £3.5 billion in 2022, with 6% growth since 2021. BSC's investment reached over 2,500 enterprises, with 64% of their investments located in the most deprived areas.
- **Social outcomes** The equivalent of £1.4 billion of public value has been delivered through social outcomes contracts (SOC) in the UK, equivalent to £10 for every £1 of government spending. BSC has committed £215 million to outcomes funding to date, which has reached approximately 55,000 individuals with complex needs such as homelessness, long-term health issues, or vulnerable children.

Figure 2 BSC Impact 2023



Activities

We invest ourselves and build the market to scale social impact investment

· Catalytic investing: seed, scale and sustain investments
· Market building: stakeholder engagement, developing resources and supporting initiatives

>£900m
signed BSC investments since 2012
>570
vc firms joined ImpactVC community in first year of launch
>500.000
Good finance unique website users

Outputs

An enabling environment for more social impact investment

· Asset owners' capital facilitated into social investment
· Increased awareness and understanding of social impact investment
· Change in resources, policies and practices

>200
institutional co-investors
68%
people feel very familiar with social impact investment compared to 65% in 2021 and 37% in 2018
>1.000
downloads of VC Impact Playbook

Outcomes

More investment flowing to impact-led organisations

· Increased scale of capital to tackle significant social issues
· Increased number and diversity of organisations accessing social investment
· Broader range of business models reached through blended capital

£9.4bn
size of social impactinvestment market with 11x growth in 11 years
>6.000
deals in the social impact investment market as at December 2022
£270m
in 33 blended capital fundsto broaden reach

Impact

More social impact across a range of pressing social issues and reducing inequalities in the UK

· Delivering impact at scale
· Achieving important outcome changes for vulnerable people
· Reaching disadvantaged communities

>7m
people supported through impact ventures with focus on financial inclusion and health
>6.000
homes delivered expected to house 15.000 people
>60%
of investments in social lending located in UK's most deprived areas

Source: Big Society Capital Impact Report 2023

7. Market Building

Size of the UK Social Impact Investment Market

BSC's annual market sizing study estimates the value of the total market in the UK, and the four areas where it sees the opportunity for growth in social impact investment – impact venture, social property, social lending, and social outcomes.

As of the end of 2022, the value of the social impact investment market stood at £9.4 billion, an 18% increase compared to the preceding year. This growth trajectory is further underscored by an extraordinary 11-fold increase over eleven years, growing from a modest £830 million in 2011 to its current market value.

Moreover, the market has witnessed the completion of 6,000 outstanding deals, attesting to the burgeoning activity and sustained interest in social impact investing. BSC's annual study reveals that £1.8 billion was committed across 1,310 investments in 2022 alone. Investments spanned diverse sectors, targeting projects ranging from affordable housing to community food banks and innovative tech startups tackling mental health challenges. More information on their market estimation data is available here.

Impact Management Training

BSC has delivered impact management training and bespoke capacity building for fund managers and intermediaries. Over the past two years, BSC trained 400 individuals, contributing to enhanced impact management systems across organisations like Key Fund. Moreover, they have supported the setup and development of standard-setting organisations, such as the Impact Management Project (IMP).

Previously, BSC provided widely-used tools like the Big Society Capital outcomes matrix, downloaded 63,000 times since 2012. Going forward, BSC aims to develop asset-class specific impact frameworks for investors and fund managers.

BSC now leads sub-sector specific impact initiatives, aiming to define and improve impact management within specific asset classes. The Equity Impact Project, launched in 2020 with partners, exemplifies this approach within the housing sector, while ImpactVC builds leadership among VCs.

8. Lessons Learned

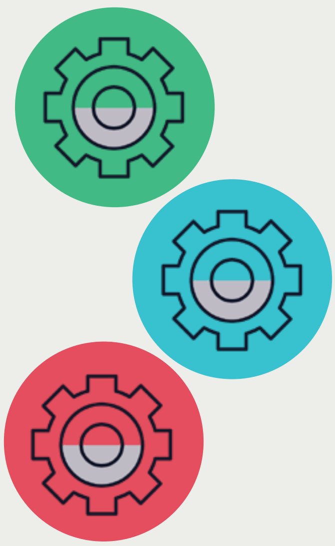
In 2024, Big Society Capital released a paper on 10 lessons learned from 12 years of operation. 10 lessons are as follows:

- Start with the social issue
- Take a whole-systems lens
- Understand our role among others
- Build a catalytic toolkit to seed, scale and sustain
- Investors: consider impact as a source of value
- Government: demonstrate delivery at scale
- Enterprises: blend grants with investment
- Nurture an open learning culture
- It's all about the people

Figure 3 10 Lessons from Growing the Market 10 Times in 10 Years

Summary:

BSC was launched in 2012 with a mandate to increase the amount of capital flowing to organisations tackling pressing social issues for the most vulnerable. Over our first ten years we helped grow the social investment market tenfold, supporting over 6,000 organisations. Here are ten of the most valuable lessons we have learnt along the way.



Method

01 Start with the social issue
02 Take a wholesystems lens
03 Understand our role among others
04 Build a catalytic toolkit to seed, scale and sustain

Movements

05 Fund managers: create building blocks to impact
06 Investors: consider impact as a source of value
07 Government: demonstrate delivery at scale
08 Enterprises: blend grants with investment

Mission-led

09 Nurture an open learning culture
10 It's all about the people

Source: Big Society Capital (2024). Ten Lessons From Growing a Market

Social Impact Accelerator (European Union)

1. Introduction

The EU's €243m Social Impact Accelerator (SIA) was established in 2013 as a fifteen-year fund of funds within the European Investment Fund (EIF), part of the European Investment Bank (EIB), the lending arm of the European Union. The SIA has completed its investment phase, having invested in 17 impact funds across Europe.

2. Context

The SIA was one of six products funded under the EIB Group Risk Enhancement Mandate (EREM). EREM was created in 2013 against the backdrop of a weak economic outlook. The EREM objectives were to increase access to finance for European small and medium enterprises (SMEs) and small mid-caps and to support the development of financial markets.[46]

The EIB set up the SIA to pioneer the impact investing space and respond to the wider EU policy aim of establishing a sustainable funding market for social entrepreneurship in Europe. Recognising the growth of the impact investing market, it sought to launch the fund of funds to increase social inclusion among member states, providing alternative sources of employment for marginalised social groups, and contributing to growth. SIA was set up in the impact investing market's early days to strengthen the existing market infrastructure for social impact investing and imbue the emerging asset class with a path to long-term sustainability.

46 Evaluation of the Social Impact Accelerator. (EIB 2020). Available at https://www.eib.org/attachments/ev/ev_report_erem_slidedoc_sia_en.pdf

3. Theory of Change[47]

SIA was established to strengthen the European impact investment market across three pathways:

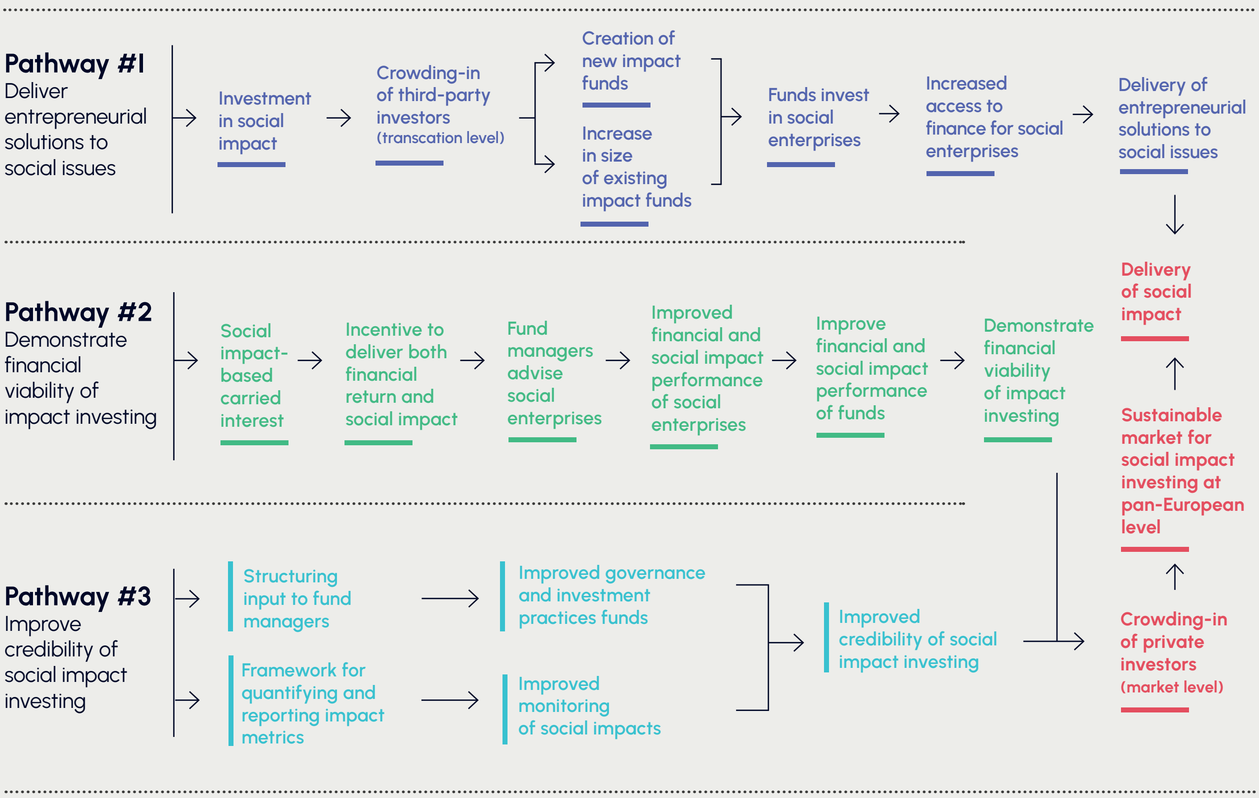
Pathway #1 Deliver entrepreneurial solutions - The EIF intended to address a market gap by increasing the supply of capital available for investment in social enterprises. It did so by investing in social impact funds. The EIF's presence in these funds was expected to crowd in additional investors at the transaction level. The investments made by the EIF-backed funds were, in turn, expected to enable social enterprises to scale up their activities and deliver entrepreneurial solutions to social issues.

Pathway #2 Demonstrate financial viability of impact investing - The EIF introduction of a social impact-based carry mechanism in all the funds it backed. This means that fund managers are only entitled to receive the carried interest (i.e. an additional form of remuneration) if, in addition to delivering a significant financial return, they also achieve their predefined social impact targets. This was expected to incentivise fund managers to pay due attention to both financial return and social impact. Fund managers were, in turn, expected to advise social enterprises and provide support to enable them to improve their financial and social performance. The positive financial and social performance of the enterprises translates into the positive performance of the funds. This was, in turn, expected to help demonstrate the financial viability of impact investing and thereby attract other investors.

Pathway #3 - Improve the credibility of social impact investing - the EIF aimed to improve the credibility of social impact investing and make it more attractive to other investors by providing advice to improve the funds' governance and investment practices and impact measurement approach.

47 Information in this section is reproduced from Evaluation of the Social Impact Accelerator. (EIB 2020). Available at https://www.eib.org/attachments/ev/ev_report_erem_slidedoc_sia_en.pdf

Figure 4 EIB Theory of Change



Source: Evaluation of the Social Impact Accelerator. (EIB 2020).

4. Governance

Initially set up in June 2013, SIA received commitments from various entities including EIF (€50 million), Crédit Coopératif (€1 million), and Deutsche Bank (€1 million). Additionally, the Finnish group SITRA and the Bulgarian Development Bank each contributed €1 million during the final closing, along with funding from EREM. In December 2014, EREM further bolstered SIA with an additional commitment of €189 million, constituting 8.2% of approved EREM finance, thereby increasing SIA's total budget to €243 million.[48]

SIA specialises in investing social venture capital funds, aiming for returns comparable to general venture capital. Typically, it provides between 7.5% and 50% of an intermediary's capital raising, while the remaining portion is sourced from other avenues. SIA maximises its impact by empowering intermediaries to secure the remaining capital needed for their rounds outside SIA through strengthening and enabling them.

Eligibility of Intermediaries[49]

- Funds that finance commercially viable social enterprises and SMEs in the European Union
- Report on social impact
- Provide investee with supplementary advisory support

SIA defines social enterprises as entities with an economic activity which:[50] qualify as SME under the criteria set forth in the Commission Recommendation of 6 May 2003

48 Evaluation of the Social Impact Accelerator. (EIB 2020). Available at https://www.eib.org/attachments/ev/ev_report_erem_slidedoc_sia_en.pdf

49 Evaluation of the Social Impact Accelerator. (EIB 2020). Available at https://www.eib.org/attachments/ev/ev_report_erem_slidedoc_sia_en.pdf

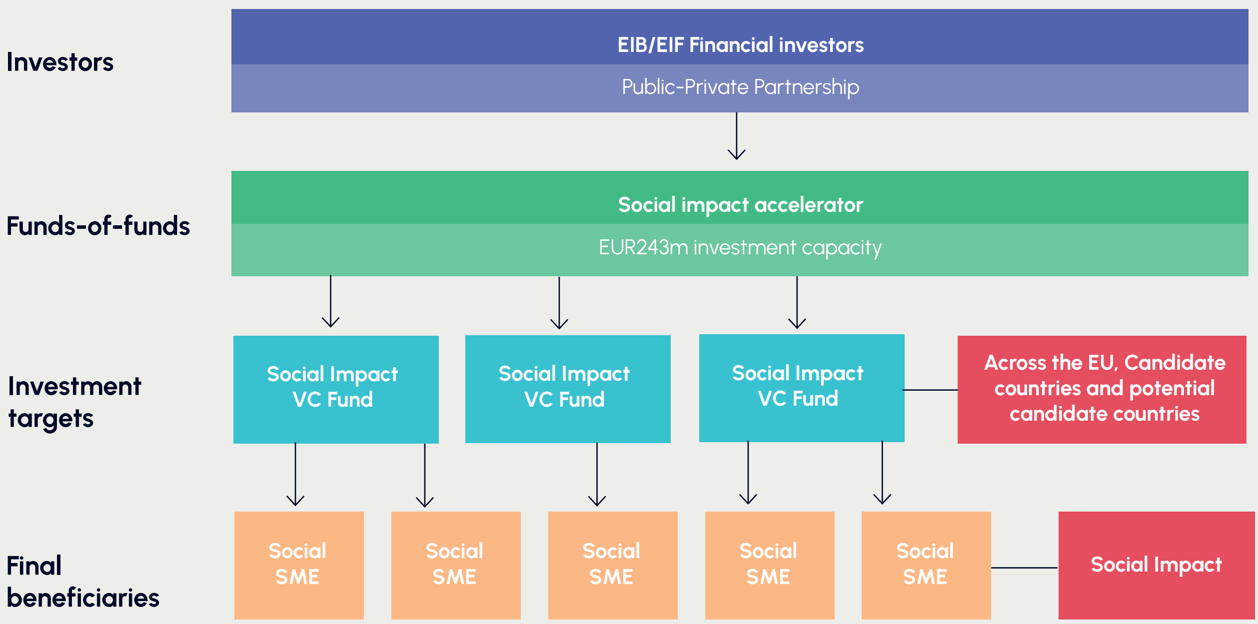
50 The Social Impact Accelerator (SIA) - terms of reference. (EIB 202). Available at: https://www.eif.org/what_we_do/equity/sia/terms-of-reference.htm

(2003/361/EC) have business models and structures which enable them to fund themselves on a non-grant basis with a view to self-sustainability, and to allow investors to hold and sell an interest in them in market-standard terms; have the purpose to achieve social impact by providing entrepreneurial solutions to a societal issue based on a scalable approach, and expressly state such purpose in their articles of association or similar corporate documents; in the frame of their social purpose, define ex-ante their social impact objectives within their business plans and specify associated metrics for directing operations and monitoring their impact ex-post; are organised with a view to being self-sustainable; intend to use their own business growth to advance their pre-defined social targets; and are managed in an accountable and transparent way, taking into account the interests of employees, customers and other stakeholders affected by their business activities.

5. Finance

SIA operates as a fund-of-funds managed by EIF and invests in social impact funds which strategically target social enterprises across Europe. Under SIA, the EIF provides equity and quasi-equity financing to social impact funds, with an average investment of EUR 5-15 million.

Figure 5 Fund Structure



Source: EIF-Managed Instruments in Support of Social Finance

SIA helped to capitalise 17 impact funds across 9 countries, including the UK, Italy, Hungary, France, Denmark, the Netherlands, Germany, Portugal, and Spain. Its investment portfolio include the following funds[51]:

- Ananda Impact Fund III GmBH & Co. KG
- BonVenture III GmBH & Co. KG
- Bridges Social Impact Bond Fund LP
- Citizen Capital II
- Den Sociale Kapitaldond Invest I K/S
- Future Positive Capital Fund
- Impact Creation I
- Impact Croissance IV
- Impact Partenaires III
- Impact Ventures I (Hungary)
- Impact Ventures UK Sub Fund

51 The Social Impact Accelerator (SIA). Available at: https://www.eif.org/what_we_do/equity/sia/index.htm

- Mustard Seed Maze Social Entrepreneurship Fund I, FES
- Oltre II SICAF EuVECA S.p.a
- Phitrust Partenaires Europe SAS
- SIV NL Cooperative Social Impact Ventures NL Fund I U.A.
- Social Venture Fund II (Ananda Ventures)

Moreover, SIA introduced a social impact-based carry mechanism to all impact funds that they financed to align fund manager post-investment activities with impact creation.[52] Under this mechanism, the fund manager is only entitled to receive the carried interest (an additional form of remuneration) if, in addition to achieving financial performance that surpasses a predetermined hurdle rate, the fund also achieves certain social impact targets. The mechanism thus adds an additional condition for distribution of the carried interest, compared to the traditional practice in venture capital markets where only financial performance is considered.

6. Impact

Measuring and managing impact

To measure social impact, EIF developed a new framework for quantifying and reporting on impact metrics at all levels of the SIA investment chain. Social impact funds financed by SIA are asked to define between one and five social impact indicators per portfolio company and set pre-investment quantifiable objectives for each of the indicators. As part of its investment processes, EIF and its co-investors in a social impact fund were expected to monitor portfolio companies' progress towards achieving their social impact objectives. The fund manager was accountable for the social performance of its portfolio companies since this performance will partly affect the distribution of carried interest to the management team.

7. Market Building

As referenced in their evaluation, the SIA increased the availability of finance for social enterprises beyond initial expectations. By the end of 2018, it had successfully leveraged 4x the amount of its initial capital, mobilising 4.324 billion EUR (USD 4.64 billion) compared to its initial amount of 148 million EUR (USD 159 million), resulting in 580 billion EUR (USD 621 billion) of new capital available for European social enterprises.

8. Lessons Learned

The primary goals of the SIA are to improve financial accessibility for social enterprises within the European Union and to foster the growth of an impact investment market across Europe. The evaluation indicates that this objective was particularly pertinent in 2014, the year of SIA's inception, highlighting the crucial role of the public sector in establishing and nurturing the impact investment landscape.

In many countries, public authorities face limitations in addressing the breadth and scale of social challenges, spanning from childcare provision to ex-offender rehabilitation and social care or housing services. SIA believes in social enterprises' role as vital actors in significantly contributing to addressing these societal needs.

The EIB's evaluation of the Social Impact Accelerator provides a comprehensive overview of lessons learned. The study can be accessed here.

52 The Social Impact Accelerator. *Evaluation of the Social Impact Accelerator*. Available at: https://www.eib.org/attachments/ev/ev_report_erem_slidedoc_sia_en.pdf

Portugal Social Innovation (Portugal)

1. Introduction

The first policy-driven initiative of its kind in Europe, Portugal Social Innovation (PSI) was established in 2014 with EU structural funds to promote social innovation and boost impact investment in Portugal.[53] Operating under Portugal's Ministry of Territorial Cohesion, PSI is a national public initiative that aims to grow Portugal's social investment market.

PSI was set up to support the full life cycle of a social impact project by creating an enabling environment for social innovation. By financing the development and scaling of new solutions for social problems, its funding instruments were designed to address needs and opportunities throughout the different stages of social innovation ideation through to deployment and scale.

The programme has been deemed a success. During its initial operating phase between 2014 – 2020, PSI successfully mobilised 152 million EUR (USD 163 million), including 101 million EUR (USD 108 million) from EU structural funds to support 698 social innovation projects. In 2023, the programme was extended to continue through the next EU budget period of 2021-2027. It is slated to complete its financial activities by 2030.

2. Context

In 2011, Portugal began a three-year financial assistance programme (the Economic Adjustment Programme) supported by the European Union, the European Central Bank, and the IMF. Austerity measures meant the public sector budget was under strain and not able to address the mounting social needs faced by significant populations and regions of the country. Within this context, the government of Portugal saw an opportunity to promote social innovation to create new solutions for social problems and to develop suitable financing instruments to finance innovative projects and enterprises.[54]

The government's plan to finance social innovation was realised in large part thanks to the EU-funded 2014-2020 European Social Investment Framework (ESIF). Under this framework, the government of Portugal was able to take advantage of funds allocated under the European Social Fund (ESF),[55] Europe's main instrument for improving social cohesion and investing in people.
At the time, the social investment market activity was carried out by corporations who were supporting corporate social responsibility (CSR) activities, mostly philanthropic activity with little to no impact on investment activity.

Barriers to market development included a lack of a clear public social investment agenda and legal framework for social enterprises, a lack of scale and robustness of social investment projects, ambiguity and a lack of awareness of concepts related to social investment, a lack of access to investment for scaling, and the absence of a network of support entities (local incubators and accelerators) who could help successful solutions scale up. All this would be built from the ground up over the years that ensued.
Portugal Social Innovation was created to foster social innovation and support the development of the social investment market by levering private investors' investments. However, the country was not prepared for capital to only come from private investors. Eventually, buy-in from municipalities became very important for reaching local and impact-driven investors. Targeting corporates would also prove successful. PSI was also able to work with corporates to further adopt social innovation approaches.

PSI's first calls, which required partnerships with social investors, came in 2016, with a first set of 35 projects

53 EVPA. (2021). *Portugal Social Innovation: A new paradigm of social investment to foster the impact economy*. Available at: https://conference.evpa.eu.com/colab-award/portugal-social-innovation-a-new-paradigm-of-social-investment-to-foster-the-impact-economy/

54 EVPA. (2021). *Portugal Social Innovation: A new paradigm of social investment to foster the impact economy*. Available at: https://conference.evpa.eu.com/colab-award/portugal-social-innovation-a-new-paradigm-of-social-investment-to-foster-the-impact-economy/

55 EVPA. (2021). *Portugal Social Innovation: A new paradigm of social investment to foster the impact economy*. Available at: https://conference.evpa.eu.com/colab-award/portugal-social-innovation-a-new-paradigm-of-social-investment-to-foster-the-impact-economy/

approved for funding in June 2017. This emerged as PSI's first milestone; securing funding for 35 projects before there was even a market or pipeline of social innovation projects and very little institutionalised knowledge.

3. Theory of Change

From the perspective of public policymakers, the rationale for establishing a government-led initiative that would foster an ecosystem for social innovation was an openness to experiment with new approaches. Its theory of change demonstrates this shift in mindset most clearly.

1. Ecosystem builder - to enable social investment, capacity building, development and support for local solutions addressing social challenges.
2. Funding of projects that attempt to solve or alleviate a social problem - to promote the transformation of conditions, ways or perspectives of life, with potential for universal reach.
3. Social outcomes contracting (Social Impact Bonds instrument)- to serve as an enabler for the integration of social innovation into policy. Risk would be shouldered by private investors so that the government could experiment with new social intervention models that could be incorporated into policy and social service delivery.
4. Improved financing conditions for projects - to offer attractive investment conditions that would attract new investors and stimulate the growth of the impact investing sector
5. A focus on outcomes-based financing - to shift the focus from outputs to an outcomes-driven mindset among representatives of the public administration
6. The adoption of outcomes-based financing approaches, specifically social impact bonds - to generate potential savings for the government.

From the perspective of social entrepreneurs, contracting with the government would give locally developed social organisations the potential to refine their solutions and scale at a national level.

4. Structure

Entity Status and Structure

PSI was established to administer four innovative instruments that fund projects designated as **Social Innovation and Social Entrepreneurship Initiatives** (SISEI), projects that address challenging social problems through the development of new products, services or methodologies with high potential for social impact. The four instruments were designed to align with the life cycle of social impact projects, address their specific needs and potential at different stages of maturity, and promote the development of partnerships between social entrepreneurs and investors.[56] With the active involvement of public and private investors, the goal of this initiative was not only to support the development, scaling, and financing of new solutions for social problems but also to create an enabling ecosystem for social innovation.[57]

56 EVPA. (2021). *Portugal Social Innovation: A new paradigm of social investment to foster the impact economy*. Available at: https://conference.evpa.eu.com/colab-award/portugal-social-innovation-a-new-paradigm-of-social-investment-to-foster-the-impact-economy/

57 EVPA. (2021). *Portugal Social Innovation: A new paradigm of social investment to foster the impact economy*. Available at: https://conference.evpa.eu.com/colab-award/portugal-social-innovation-a-new-paradigm-of-social-investment-to-foster-the-impact-economy/

Figure 6 Social Innovation and Social Entrepreneurship Initiatives (SISEI) concept journey

Source: Portugal Social Innovation

Portugal Social Innovation funding instruments (2014 – 2020):

1. Capacity Building for Social Investment– A grant-based capacity-building instrument financing the development of management skills in teams involved in social innovation projects
2. Partnerships for Impact – A strategic philanthropy match-funding scheme financing the creation and scaling of social innovation projects covering 70% of their financial needs, co-funded in partnership with social investors (private or public like Municipalities) who provided the remaining 30%.
3. Social Impact Bonds – Outcome-based instrument financing innovative projects committed to achieving measurable social outcomes aligned with public policy priority areas and potential for efficiency gains. Social investors would be fully reimbursed according to the achievement of previously agreed social outcomes
4. Social Innovation Fund (Financial Instrument) – public investment fund providing loan guarantees and equity co-investment alongside private investors.

The Social Innovation Fund was created in 2019, under the National Development Bank, an institution resulting from a merger of three entities. This new entity did not have experience managing assets associated with social innovation, nor did it have tested experience managing assets with high levels of risk. Accordingly, it was difficult to fully optimise this investment channel.[58]

Portugal Social Innovation funding instruments (2021 – 2030):

Portugal Social Innovation was approved to extend its mandate, with funds from the European Social Fund+ to be channelled to the ecosystem through the five regional operational programmes. During its second operating period, Portugal Social Innovation will aim to achieve two complementary objectives: boosting the social innovation ecosystem and contributing to improving public policies.

Its new instruments will be designed to a) respond to specific needs of social innovation projects at different

58 Portugal Social Innovation, September 2022. Unpublished.

stages of maturity, optimising their impact potential; and b) stimulate investments by promoting partnerships between implementing entities and impact investors. The following instruments received an initial commitment of 100 million euros, and will be complemented by social investors:

1. Capacity Building for Social Innovation: The development of management skills in teams involved in the implementation of social innovations;
2. Partnerships for Social Innovation: Supporting the experimentation and scaling of social innovations;
3. Centres for Impact Entrepreneurship: The financing of local or regional centres/hubs to boost innovation and social entrepreneurship ecosystems;
4. Social Impact Bonds: Testing innovative solutions in public policy priority areas, with reimbursement to social investors upon achievement of previously contracted outcomes;
5. Social Impact Contracts: contract specific and measurable social impacts, with previously defined indicators and payment based on public expenditure savings.

Each instrument plays a specific role in promoting and boosting social innovation, entrepreneurship and impact investment. They are generally aligned with the different stages of maturity of impact enterprises and the scale and impact potential of the projects, but also with three general objectives of create, multiply and impact.

5. Finance

Between 2014 - 2020, Portugal Social Innovation launched 18 calls for funding for social enterprises[59] with a fixed budget for each call. 1,116 applications were submitted in total, meaning that demand was 193% higher than the amount available to allocate. 698 applications were approved, with 2/3 of funding coming from Portugal Social Innovation and 1/3 leveraged from social investors.

During its first 6-year period, Portugal Social Innovation successfully mobilised 152 million EUR, 101 million EUR from the European Social Fund and an additional 51 million EUR from social investors, for social innovation and market building. This amount included grants as described above, which originated from both private and public organisations, as well as outcomes financing applied in social impact bonds, equity investments and debt. According to the director of Portugal Social Innovation, this figure "greatly exceeded" expectations around how much investment the PSI programme would mobilise.[60]

Capacity Building for Social Investment - Through its calls, PSI financed 201 capacity-building projects with an approved budget of 7.4 million EUR, with the full amount coming from PSI. The maximum grant amount was capped at 50,000 EUR per project.

Partnerships for Impact - PSI's Partnerships for Impact Programme approved 458 applications with a budget of 101.3 million EUR (70.9 million EUR from PSI, 30.4 million EUR from social investors). Through this programme, a minimum of 50,000 EUR was allocated for new projects.

Social Impact Bonds - PSI supported 22 social impact bonds with a budget of 11.7 million EUR (11.7 paid back to investors by PSI based on achieved outcomes. Portugal is, for the moment, the EU Member State with the highest number of Social Impact Bonds, in total 23 of which 22 were developed with the support of Portugal Social Innovation, in addition to the one launched in 2015 in the framework of a pilot project developed in partnership by the Municipality of Lisbon, the Calouste Gulbenkian Foundation and MAZE Impact.

Social Innovation Fund - The Social Innovation Fund, co-managed with the National Development Bank supported 15 projects with a budget of around 20 million EUR, 10.6 million EUR came from the European Social Fund, and 9.4. million EUR was mobilised from impact investors.

59 This figure does not include the calls launched by the Social Innovation Fund.

60 Conversation between GSG and PSI, September 2022.

Figure 7 Number of approved projects by funding instrument, total funding raised, and amounts mobilised from impact investors

	Approved applications	Total funding	PT 2020 Funding	Social Investment
Capacity Building for Social Investment	201	7,4 M€	7,4 M€	-
Partnerships for Impact	458	101,3 M€	70,9 M€	30,4 M€
Social Impact Bonds	22	11,7 M€	11,7 M€	11,7 M€
Social Innovation Fund	15	20 M€	10,6 M€	9,4 M€

Source: Portugal Social Innovation (2022)

"When the public programme was created in December 2014, no one really knew what social innovation or impact investment was. Not in Portugal, and not in the world more broadly. PSI started to design a completely new set of financing instruments alongside national and European authorities. It was a very new, even strange, application of European funding that was not broadly understood."

Felipe Almeida,
the President of Portugal Social Innovation

Portugal Social Innovation's three financing instruments, excluding the financial instrument of the Social Innovation Fund, supported a wide range of entrepreneurial organisations. The types of organisations and the amount of funding each type received during the 2014 -2020 budget cycle are featured in Figure 8 .

Co-Investment

Over the six-year period, 826 impact investors in total, public and private entities, provided match funding to enterprises, and/or participated in social impact bonds. A breakdown of social investors by type follows below.[61]

Figure 8 Number of organisations funded by Portugal Socal Innovation by type and amount raised (2014-2020)

Entrepreneurial organizations	Number	Public Funding PT
Associations	309	57.662.310€
Charity	36	4.371.957€
Foundation	28	8.146.832€
Cooperative	28	4.917.968€
Business corporation	24	11.500.580€
Centro Social Paroquial	17	971.923€
Universities	13	1.178.367€
Religious Institutions	9	1.142.119€
Mutual Associations	2	110.662€
Total	**466**	**90.002.718€**

Source: Portugal Social Innovation (2022)

61 The information reflected in the table does not include the 18 investors who capitalised the Social Innovation Fund.

Figure 9 Number of impact investors by type and amount invested (2014-2020)

Social Investors	Number	Public Funding PT
Business corporation	489	17.644.255€
Municipalities	166	15.209.932€
Foundations	23	4.883.609€
Other public organizations	101	2.368.636€
Other social organizations	47	1.939.761€
Total	**826**	**42.046.193€**

Source: Portugal Social Innovation (2022)

Businesses and corporations were by far the largest group of social investors by type. Attracted by the new social innovation model, they were drawn in thanks to the credibility afforded by PSI as a public programme, as well as its leveraging effect. Their participation established the Portuguese market as a true pioneer of social innovation vis-a-vis European peers. Intermediaries and incubators partnered with PSI to issue market information and guidance and to set up in-house capabilities within corporates to support more systematic integration of social innovation reflected in new grantmaking or impact investing strategies.

Municipalities too became key partners of PSI, highlighting the relevance of experimentation for local social and economic development and the importance of social innovation in public policy that was becoming increasingly decentralised. Municipalities mobilised additional funds for social innovation, raising 15.2 million EUR. This figure underpins Portugal's leading role in mobilising municipalities to co-finance local and regional social entrepreneurship and social innovation. Moreover, several municipalities established new social innovation units or services, confirming the strategic alignment of this agenda with the vision of local government to develop peripheral regions. At the supra-municipal level, in addition to PSI funds, around 972K EUR of social investment was deployed by 12 Intermunicipal communities.

Three innovations can be highlighted in the design of these instruments:

Innovation #1 - Addressing the capacity needs of an undeveloped ecosystem: As part of the funding application process, all applicants had to undergo a mandatory assessment of training needs carried out by an independent entity. Applicants could tap into the Capacity Building for Social Investment Programme, which awarded a lump sum of up to 50,000 EUR supporting an 18-month programme of consultancy services, mentoring or certified training in one of the following areas: a) value creation model; b) impact evaluation; c) strategy; d) partnerships and growth; e) marketing and communication; f) fundraising; g) organisational governance; h) leadership and human resources; i) financial control and risk management; j) operations; and k) IT management.

Innovation #2 - An innovative approach to capacity building and investment readiness: Payment of the grant was triggered upon successful completion of the capacity building process. Moreover, to ensure entrepreneurs were building investable businesses, private and public impact investors were involved in the capacity building process, and would be asked to indicate their interest in the project upfront. The involvement of public and private investors during the capacity building process ensured that financial and social facets of the businesses were well developed. Private investors weighed in on the financial stability of each project, while public investors provided assurance that the projects are aligned with public policy priorities and would effectively address local or regional social problems.

Innovation #3 - Programmes focused on outcomes and the contracting of social measurable goals - this brought a new perspective on how social investment can be financed and stimulated, putting impact at the centre of the process.

6. Impact

Impact Measurement and management

Between 2014 - 2020, PSI did not have a systematic approach to measuring social impact. PSI funded and contracted projects to deliver specific results. During this period, most of the projects, with the exception of the social impact bonds and the equity investments, did not have a formal social impact approach. With the advent of PSI's new financing cycle 2021-2027, impact evaluation became compulsory for all financing instruments. However, PSI does not have an impact measurement and management system and has not formally evaluated or assessed the specific impact generated by the many projects that have been supported.

Box 1. Examples of social innovation projects supported by Portugal Social Innovation

Between January 2017 and December 2019, PSI's Social Impact Bond programme worked with 174 projects through 9 boot camps in the central Portuguese region of Fundão. One investee, **Academia de Código**, received an investment of EUR 723,500 from PSI, Calouste Gulbenkian Foundation, and ASSOP. Their intervention focuses on handling the mismatched demand and supply in the IT sector, enabling young students to pursue training and employment opportunities in IT.

Knok Care is a tech company that provides medical consultations by video. It raised 1,437,500 EUR of equity investment from an EU ESF financial instrument, SIF, and Mustard Seed MAZE. The COVID-19 pandemic generated a massive boost in demand for telemedicine and became the only option for chronically ill, non-urgent patients living in less densely populated areas of Portugal. During the Pandemic, the platform provided 300 video-consultations daily, with over 20 large clients and 1000 practitioners using its technology.

ColorADD is an innovative and universal code for helping colour-blind people to recognise colours, developed by Portuguese graphic designer and professor at University of Minho, Miguel Neiva. The formulation of the code is based on years of design expertise and scientific research, working with doctors and colour blind people to understand what colour-blindness means to them. ColorADD successfully raised €375,000, €225,000 from the Social Innovation Fund, and the rest from other investors, including from the Fund Common Good and CORE Impact Angels. The project has shown a high success rate. Since its inception until January 2023, it has reached over 108,000 people within the school community, delivered over 43,200 ColorADD kits to students, including more than 500 libraries using the ColorADD code.

PSI Results

- 18 funding calls (not including the Social Innovation Fund)
- 698 applications approved.
- 477 entrepreneurial entities
- 152 million EUROS mobilised in total
- 1.4 million people positively affected by solutions

Themes and Sectors

Between 2014 - 2020, Portugal Social Innovation's three financing programmes supported projects in the following thematic areas:

Figure 10 Number of project by thematic area (2014 - 2020)

Social inclusion	179 projects
Employment	52 projects
Education	71 projects
Health	91 projects
Justice	7 projects
Digital inclusion	18 projects
Incubators	33 projects
Citizenship and Community	32 projects

Source: Portugal Social Innovation (2022)

Profile and Expertise of the PSI team

Staff that were recruited to work at Portugal Social Innovation typically demonstrated the following skills and competencies:

- Familiarity with National and EU Policies, EU funds legal framework
- Familiarity with local social challenges, local development, social innovation and social entrepreneurship

7. Key Challenges

As a new and pioneering concept, Portugal Socal Innovation has faced the following challenges:

- Social innovation projects often have multi sector approaches and don't fit into the European Union's thematic calls; The European Social Fund has been yet been able to launch funding calls that combine social and environmental impacts
- European Social Fund funding is mainly based on the reimbursement of expenses, when simplification is needed
- Heavy bureaucracy outmatches the size and experience of small entrepreneurial organisations
- Limited practice of payment for results in Public Administration
- Lack of data to measure outcomes
- Corporate investors still hard to mobilise
- Lack of competence or tools on how to measure Social Impact

8. Key Insights and Advice to Peers

The implementation of such a new initiative presented several challenges, some of which were unanticipated as they were overseeing the development of a new ecosystem, defying the status quo of existing financing solutions, metrics, and styles of investment engagement with stakeholders. Six years after its first steps, the successful results achieved by PSI highlight the following key success factors and lessons learned:

Box 2. Lessons Learned by the team at Portugal Social Innovation:

"It is now decisive to continue consolidating the culture of social innovation across Europe so it can become the "new normal". Moreover we see:

- The need and opportunity for a more educated and conscious society to be self sufficient in promoting entrepreneurial and innovative solutions
- The importance of innovation for the provision of public services and definition of public policies priorities;
- The need to mobilise of public and private resources jointly to respond to global challenges of society;
- The development of a new economic paradigm to better balance financial returns with the promotion of social and environmental outcomes
- The role of public sector as the core driver of social cohesion and community development, leaving no one behind;

The public sector will never be able to shoulder the cost of social challenges alone; it must act in close collaboration with civil society (e.g. social economy organisations) and the private sector, building synergies for future policies and action.

1. **A Central Public Body is Crucial:** Having a central public entity with resources and a clear mission to promote social innovation allows for consistent communication, network building, partnership development, investment mobilisation, stakeholder relations, and most importantly, supporting and monitoring experimental projects that could become future solutions for local, regional, and national development.

2. **Cross-Sectoral Collaboration among Government Stakeholders is Key:** Social innovation tackles complex social issues and requires a multi-sector approach involving areas like social protection, employment, health, justice, education, and digital inclusion. Breaking down silos in government policymaking is essential for addressing new and collective challenges.

3. **Flexible Funding Models Drive Innovation:** A combination of financing models adapted to each stage of a social innovation's lifecycle, along with partnerships with private and public funders, optimises the use of creative potential and adapts solutions to specific needs of different territories.

4. **Strategic Partnerships Create Impact:** Mobilising all sectors - municipalities, companies, foundations, social associations, and

entrepreneurs - through intersectoral partnerships can have a long-term transformative effect and create a dynamic ecosystem for social innovation and entrepreneurship.

5. **Regional Teams Foster Connection:** A dedicated regional team that ensures connection with local actors and maintains dialogue with local stakeholders is crucial for boosting the social innovation ecosystem. This team can disseminate information, clarify doubts, mobilise entrepreneurs, support projects, follow up on funded projects, and build bridges between investors, entrepreneurs, and other relevant players.

6. **Social Innovation Incubators Drive Growth:** Supporting the creation of a network of Social Innovation Incubators, in partnership with municipalities, is essential for boosting local and regional impact. These incubators play a key role in enabling entrepreneurship, mobilising investment, promoting employment, and multiplying social innovation.

7. **Simplified Cost Models are Essential:** Complex cost models can hinder the development of the ecosystem, as small and inexperienced organisations may struggle to meet requirements or dedicate resources to fulfilling administrative obligations. Focusing on simplified cost methodologies is crucial, especially for instruments like Social Impact Bonds.

9. Summary

Ten years after the pioneering decision to launch Portugal Social Innovation, the challenges that social innovation initiatives seek to address, including employment, healthcare, education, social inclusion, and more, are as central as ever to national policy making and budgetary discussions. They continue to necessitate collective action and coordination to accelerate the transfer or scaling of social innovation and social investment opportunities. For these reasons, social innovation continues to be a policy priority in Portugal and is growing in prominence across Europe.

Regarded as a Europe-wide success story, Portugal Social Innovation work has become an international reference which the European Commission endorses and has actively worked to replicate by supporting the creation of the National Competence Centres for Social Innovation (NCCs), responsible for creating national agendas and supporting the faithful execution of the European Social Fund+'s social innovation priority, mandatory in all EU Member States as part of the 2021-207 multiannual financial framework.62

Today, it is widely acknowledged that the successful adoption and deployment of social innovation models depends on the existence of a sustainable social finance and innovation ecosystem, involving policymakers, social innovators, impact investors, intermediaries, as well as researchers and academics who can evaluate the impact of social innovation models.

62 See https://european-social-fund-plus.ec.europa.eu/en/esf-social-innovation-initiative

Japan Network for Public Interest Activities (Japan)

1. Introduction

In Japan, approximately ¥120 billion (USD 816 million) passes the dormancy threshold each year, with ¥50 billion (USD 340 million) claimed back by owners in 2012, when the National Assembly for Dormant Accounts, a civil society coalition, began advocating for the money in dormant bank accounts to be used to benefit society.[63] Four years later, in December 2016, Japan's national legislature, the Diet, passed the Dormant Deposit Utilisation Act, paving the way for funds in bank accounts that have been inactive for 10 or more years to be utilised to finance social welfare activities.[64] Beginning in 2019, funds were authorised to be allocated on an annual basis to the Dormant Utilisation Fund (DUF), Japan's Grant and Impact Investment Wholesale Fund, where they are put to effective use each year for the public interest.

In January 2019, the Japan Network for Public Interest Activities (JANPIA) was selected as the single Designated Utilization Organisation by the Japanese Government, resulting from a public tender process. JANPIA is in charge of disbursing funds, overseeing human resources, and reporting on results.

As an impact investment wholesaler, JANPIA, was designed to disburse grants and make impact investments. Impact investing, however, is to commence later than expected, with grantmaking representing the dominant strategy since 2019 when the DUF began making its first allocations.

2. Context

Around the time the JANPIA as the wholesaler was established, Japan's social investment landscape was facing major structural issues, including the world's fastest ageing population, rising childhood poverty, shrinking regional economies, and shrinking public welfare budgets.

With commercial banks entering the social investment market through participation in a newly launched social impact bond encouraging early detection of colon cancer, and Japan's pension fund warming to ESG investing, the Japanese National Partner and other local market leaders grasped the importance of the laying early groundwork that would enable greater amounts of private capital to flow into instruments designed to address pressing social challenges.[65]

More recently, the increase in the number of social entrepreneurs pursuing both social impact and financial return has generated interest in new areas and methods to use dormant deposits for public benefit. Familiarity with impact investment is growing too. Today it is considered an effective approach among policy makers and financial actors alike, attracting the flow of new private funds into this arena.

3. Theory of Change

JANPIA's mission is to supplement the resources of national and local governments by encouraging the participation of the private sector in tackling the "sustainability of society, including local communities, and the lives of the citizenry."[66]

JANPIA's activities are guided by two long-term goals:

1. Solve social issues through operations that are not handled by public organisations and governments.
2. Develop an autonomous and sustainable ecosystem for solving social issues and problems.

63 The dormancy threshold in Japan is set at 10 years.

64 Prior to the establishment of the Japanese impact investment wholesaler, dormant bank accounts would be absorbed annually by banks and counted as profit. Because of this, it was possible to foster, and later secure, public consensus to use dormant bank accounts for the benefit of the people of Japan. To approve the move, the government created party caucuses. All the major parties joined together to approve the decision.

65 For more on general trends in Japan's impact investments, please refer to GSG Japan's website, available at: https://impactinvestment.jp/resources/index.html.

66 https://www.janpia.or.jp/en/about/purpose.html

4. Governance

In December 2016, the Japanese government passed the Dormant Deposit Utilization Act. The Act defines an account as dormant after ten years of inactivity. The Act requires banks to transfer dormant accounts to the Deposit Insurance Corporation of Japan. Like the UK's Reclaim Fund, the Corporation manages the accounts, handles claims, and transfers the remaining capital to the Designated Utilisation Fund.

The Dormant Deposit Utilization Act is subject to review every five years to further develop the system by the relevant government members including the Cabinet Office, the Diet members' caucus, and the Council for Utilization of Dormant Deposits, among others.

JANPIA reports to the government on an annual basis.[67]

The Designated Utilisation Fund distribution structure consists of three layers:

a. JANPIA or a Designated Utilization Organization (DUO)
b. Funds Distribution Organizations (FDOs)
c. Players (typically non-profit entities) that work on solving social issues

In principle, as specified by the relevant law, funds may be provided through grants or loans from JANPIA to FDOs, and through grants, and investment or loans from FDOs to the Players that carry out activities for addressing social issues. Although legal terms have since changed, during the first 5 years of JANPIA's operations, the government authorised only the distribution of grants.

Today, the government has a newly added funds distribution scheme for impact investment in accordance with a legal amendment passed in June 2023.

<u>Amendment to the Dormant Accounts Act</u>

Following successful discussions among these various parties, dialogues with related organisations in the social sector including users of dormant deposits and impact investment experts., as well as the expert opinion of JANPIA, in June 2023, the Diet approved an amendment to "the Act on Utilization of Funds Related to Dormant Deposits to Promote Public Interest Activities by the Private Sector." The amendment allows JANPIA to deploy social impact investment as a wholesaler for Fund Distribution Organizations.

The new grant scheme for "Capacity Building Support Organizations" was also included in the above-mentioned amendment of the law. This new additional grant scheme was introduced based on evaluations and a review of five years of JANPIA activities that has focused on direct and indirect support for social sector organisations implementing activities that address social issues using dormant deposits. The scheme is expected to strengthen social sector organisations' overall management and impact creation capabilities. To generate future users of dormant deposits in Japan, the scheme is also expected to help find and incubate social venture startups.

<u>JANPIA's new impact investment policy</u>

In Japan, rapid changes in the economic and social conditions, such as an increase in the cost of living, an ageing population, and the negative impacts of globalisation. There are many social issues that are difficult for the national and local governments to deal with, as it is difficult to adequately respond to them with existing approaches due to legal, budgetary, and constraints. To promote private public interest activities that contribute to solving these social issues, the "Act on the Utilization of Funds Related to Dormant Deposits, etc. to Promote Private Public Interest Activities" was amended in June 2023 allowing JANPIA to commence impact investments in addition to current impact grant schemes. operations for impact investment are expected to commence toward the end of 2024. As the integration of impact investment into the scheme is crucial to JANPIA's agenda, it is expected that impact investments will further develop.

JANPIA is now calling for interest from Funds Distribution Organizations that invest in social startups that are trying to solve social issues using business methods.

<u>Investment Policy</u>: Based on the results of efforts to solve social issues through grants to date, JANPIA has committed itself to establishing a new financing environment for businesses that are employing impact investing to solve social issues. JANPIA calls it an "Impact First Investment" as it weighs impact rather than profitability. According to this policy, when making investments using dormant deposits, programmes should be based on sound management under the following basic policy.

67 JANPIA's Annual Activity Report for FY 2021 (latest) is available here (Japanese): https://www.janpia.or.jp/about/information/pdf/plan/2021_plan_01.pdf. Its annexed data report is available here: https://www.janpia.or.jp/about/information/pdf/plan/2021_plan_02.pdf

a. Goals
JANPIA aims to achieve both social results or generate social impact and profitability brought about by impact investments and aims to achieve an investment ratio of 1x or more for the entire business in which JANPIA has invested.

b. Types of Funding
JANPIA sets two different types of fund investments in accordance with the characteristics and growth stage of the executing organisation's business. One type is investment in funds formed in accordance with the Japan's Limited Partnership Act for Investment as a Fund Distribution Organization and the other is a corporate investment type, a method in which JANPIA directly invests in a corporation as a Fund Distribution Organization.

c. Selection method and investment amount
JANPIA is planning to select about one or two vehicles per year through public solicitation, based on the contents of the business plan and investment policy such as investees' selection policy, portfolio strategy, exit strategy etc. established as a comprehensive support program prepared by the fund distribution applicant organisation. The total amount of investment is estimated to be 1 billion yen per the first RFP, and it will be allocated to both the fund investment type and the corporate investment type based on the status of the public offering applications.

d. Diverse Exits
JANPIA is not limited to IPOs (Initial Public Offerings). JANPIA aims to solve various social issues by the Players that implement activities to resolve social issues and JANPIA, therefore, encourages consideration of various exit methods with the intention of sustainably continuing and developing such "impact first investment" business.

5. Finance

As of February 2024, JANPIA has allocated ¥27.8 billion (~USD 18.7 million) via grant-making activities.[68]

JANPIA operates four grant programmes to promote public interest activities by the private sector and meet the needs of grassroots non-profit organisations (or charities and social ventures). Each scheme provides support for a three-year period. The 5th scheme has a one-year duration term as the maximum period. (see figure 11)

1. Nonprofit Sector's Grassroots Activity Support Programme	This programme works to expand existing grassroots activities that have been promoted in local communities across Japan and improve their success. Projects are categorised into 'Nationwide block' or 'Regional block' buckets so that this system is effectively utilised in response to the diversity of each region/field.
2. Social Business Creation Support Programme	This programme is designed to create and promote business models which innovatively solve social issues. Developing new business models and maximising social impact, while simultaneously maintaining profitability is an important pillar of this programme. Target entities that may use this programme include social ventures and return-generating SMEs with an impact strategy. The programme will also target potential recipients of impact investment and promote greater flows into investment once the scheme is introduced in the future. Focus is also placed on social venture start-ups in line with the government's new form of capitalism in Japan that aims to help startups grow and work on activities that tackle social issues.
3. Innovative Project Support Program	This programme is aimed at creating innovative projects which solve social issues as well as accelerating the implementation by innovative views/methods/cooperation with various sectors/organisations as a model of "collective impact." Through this innovative and collaborative approach it seeks to maximise positive social impacts.

68 As JANPIA has not yet made investments, there is no performance data to report.

4. Disaster Recovery Support Program	Grants are provided to groups that support civil society organisations or non profit organisations which carry out activities for regions or residents that may face or have faced difficulties over the long term due to significant natural disasters. The program consists of three categories; 1) disaster prevention and mitigation support, 2) emergency disaster support, and 3) support for reconstruction and safe livelihoods of disaster victims.
5. One-year Grant Scheme for activities that support vulnerable people and communities etc. affected by COVID-19.	This Scheme has since been expanded to cover activities supporting vulnerable people. with urgent needs caused by the rapid increase in commodity and oil prices in 2021, and to cover issues related to childcare in November 2023.

The legal amendment passed in June 2023 allows these programs to cover activities that take place in and outside Japan.

JANPIA also focuses on support for capacity building of Funds Distribution Organizations (FDOs) and Players. Capacity-building support is discussed in the relevant section below.

6. Impact

JANPIA's efforts focus on 8 themes designated as "social issues that should be preferentially solved" as shown below under three prioritised social areas specified by the relevant law. Some projects that generate a significant impact in specific local communities or areas are also acceptable. This rule is also applicable to the impact investment scheme being processed under the newly published RFP.

Activities supporting children and young people

- Children with domestic disadvantages (e.g. poverty)
- Children and young people facing difficulties in their daily life and development (e.g. NEET)
- Building capacity of young people engaged in social problem resolution

Activities supporting people facing difficulties in their daily life, or affecting their social lives

- People having difficulties working
- Resolution of social isolation and discrimination
- Economic independence for vulnerable women (including single mothers living on or below the poverty line, etc.)

Activities supporting areas in distress (e.g. a decline in social vitality in local communities)

- Issues facing local communities (e.g. job creation and regional revitalization, etc.)
- Developing secure and safe communities

Across these themes, social welfare, vulnerable people, and geographic distribution are key priorities, highly relevant to the UN SDGs. More than 50% of charitable organisations are in big cities, meaning that JANPIA has an extremely important role to play outside the main cities, where grant support is more scarce.

As of February 2024, a cumulative number of 279 intermediaries or Fund Distribution Organizations received grants through the wholesaler. These grants provide support to over 1,073 organisations, including nonprofit organisations, and social businesses in Japan. JANPIA funds have supported organisations in all 47 prefectures across Japan.

Measuring and Managing Impact

All FDOs and their beneficiaries must conduct and submit outcome-based impact evaluations.

JANPIA's grant programs are diversified by region and field of social issues. Programmes are proposed by each Fund Distribution Organization in accordance with JANPIA's RFPs. A set of common metrics to measure their and their players' performance and outcome results are not provided. Instead, JANPIA requests that such organisations design evaluation methods and conduct evaluations for their programs and outcome results in line with the wholesaler's policies. JANPIA also provides FDOs and beneficiary organisations with optional grants with a maximum amount of 5% of their total grant for conducting social impact evaluations. Detailed policy and manuals including JANPIA's methodology for social impact evaluation is made available to FDOs and beneficiaries online (Japanese).

7. Market Building

To date, the government has not been easily amenable to the concept of taking risks on social enterprises and early-stage tech impact ventures. To be able to take on higher-risk investments, the Japanese National Partner and other market builders are looking at the possibility of leveraging resources for social innovation from the corporate sector. For example, the Japan Business Chamber of Commerce Board of Directors facilitates resource-matching opportunities between the business and social sectors.

In Japan, corporations are required to spend 1% of profits on corporate social responsibility (CSR) initiatives. Many are choosing to work with JANPIA to gain access to reputable grantees who produce annual impact assessments, which most departments also need for their own corporate reporting purposes. For this reason, JANPIA is pursuing partnerships with more CSR divisions. Once the wholesaler is given the authorization to invest, JANPIA will seek work with corporate venture capital divisions that are increasingly interested in impact investing. Japanese firms see this as a way of fulfilling their corporate responsibility to the public.

During the COVID-19 Pandemic, JANPIA was able to disperse an additional $40 million USD in grant funding for charities, increasing the number of vulnerable individuals served during this period. At the time, High Net Worth Individuals also became more engaged in supporting charitable initiatives in society and would often provide grants to organisations supported by JANPIA-supported FDOs.

Investment readiness and capacity building

From its early days, JANPIA seeks to identify best practices and solutions of social issues that can be gradually scaled up. As laid out in its mandate, the funds related to dormant deposits may also be utilised to develop infrastructure that promotes the mid-and-long term development of an autonomous and sustainable ecosystem for solving social issues. To support organisations and broader market building under its remit, JANPIA supports the Fund Distribution Organizations to help them enhance and improve their support activities to improve target beneficiaries' capacity building under the following programmes designed by JANPIA:

- **Training for the Wholesaler Team**
  JANPIA works to nurture Program Officers (POs) assigned at FDOs as a core resource to provide the Players with hands-on and accompaniment support to implement their programs successfully and to build overall capacities including areas related to governance, management, human resources, and fundraising. JANPIA's support includes grants supporting payroll and activities, education and training, and networking activities for the exchange of knowledge and experiences.

- **Training for social enterprises/ entrepreneurs**
  All the organisations that use JANPIA's schemes to tackle social issues in their communities or fields using dormant deposits must conduct social impact evaluations based on their impact goals. It is expected that this will encourage them to evaluate and improve their operations. It is also designed to ensure JANPIA's operations are more transparent and accountable. However, as many organisations have very limited knowledge and experience in impact evaluation, JANPIA provides support to FDOs and hands-on assistance for beneficiary organisations to implement social impact evaluations. This includes training by impact evaluation experts and grants for related activities including research and data gathering within the maximum amount of 5% of total grants for activities.

Other support includes learning opportunities such as skills for fundraising, coaching etc.

As JANPIA was established by initiatives of Keidanren (The Japan Business Federation) in 2018, many non-profit organisations and social ventures expect JANPIA to help them connect with business and financial sector engagements. JANPIA is now building dialogues with business firms as part of a stakeholder engagement initiative to create matching opportunities in addition to "matching events" for companies to support organisations through their employees' volunteer and pro bono programs, and through their supply of other corporate resources including funds. While this is the programme's first step, it is expected to expand these relationships to pursue more mutually beneficial partnerships for business and to further collective impact aligned to the SDGs. 325 partnerships between 67 business firms (cumulative number) and organisations using dormant deposits have been generated to date.

Engagement with Fund Distribution Organizations (FDOs) and other stakeholders
When it comes to "stakeholder engagement", JANPIA values equal partnerships and dialogues among three layers of organisations, JANPIA, FDOs and potential partners. JANPIA seeks to establish close collaborations and partnerships not only for smooth and effective implementation of schemes but also for improvement of overall processes. For this purpose, JANPIA has established project teams with FDOs to improve their systems and operations, impact evaluation methodology, and to address capacity building challenges.

JANPIA has held open seminars in partnerships with local governments, intermediary support organisations, business sector, financial sector, industry organisations, and labour-related organisations to raise awareness about the effective use of dormant deposits for social sector organisations and to identify and develop new Fund Distribution Organizations candidates across Japan.

Valuing consultancy dialogues with potential users
JANPIA also focuses on dialogues and two-way consultations for those that are interested in applying for Fund Distribution Organizations under the grant schemes. These two-way consultations help applicants improve the quality of their proposal and prepare for their logic models. These actions are taken before their applications to RFPs for programs to resolve social issues in respective communities or fields using dormant deposits.

8. Key Challenges

Improving JANPIA's current impact grant scheme – JANPIA is addressing the following issues to improve and enhance its current grant schemes and its anticipated impact investment scheme.

- **Diversity among grant recipients and regions (as well as their staff and Board Members)** - It is a vital issue to diversify cooperating organisations (particularly Fund Distribution Organizations), and find and develop potential FDOs in remote areas. JANPIA promotes awareness raising about its grant scheme by partnering with relevant local governments and intermediary organisations in remote areas. JANPIA also included terms in their RFPs related to diversity and gender balance requesting applicants to improve diversity conditions in their staff and officers' members.

- **Further strengthen accountability, transparency and governance including compliance for all related organisations** - This is key for avoiding misconduct and wrongdoings, unnecessary risks, while ensuring and maintaining reliability and credibility of the scheme. Good governance leads to new fund raising from citizens and commercial companies, foundations, and governments as well. JANPIA has introduced whistleblowing systems for all related organisations and their members.

- **Capacity building for Fund Distribution Organizations and Players** - JANPIA has focused capacity building support for FDOs through education and training for program officers assigned at each of the Fund Distribution Organization (FDOs). Program officers are important staff members at FDOs to provide accompanying and hands-on support for their selected players. JANPIA covers the costs to FDOs associated with participation in training and education programs.

- **Exit strategy to continue and scale up or out for granted programs** - General grant programs are implemented for three years. One area of focus is to continue and expand the scalability and sustainability of programs granted by dormant deposits. A key element for such continuity is to secure a stable flow of finances to FDOs and target beneficiaries. There are many potential sources of new funds to explore, from crowdfunding to corporates, government subsidies, and establishing business models that generate both social impact and stable revenues from activities. JANPIA is committed to continuing its support for new and innovative programmes. It convenes dialogues with potential applicants to inform future RFPs.

- **Stakeholder engagement** - JANPIA seeks to have FDOs and beneficiary organisations expand their stakeholder engagement with startups, local government offices, academia and charity organisations to help achieve collective impact for communities. It also seeks to work more with academia and think tanks who can analyse and structure information that can be extracted from JANPIA's database to write up case studies for public and institutional learning on what works.

- **Awareness raising** - In five years JANPIA has implemented over 1073 grant programmes that have had remarkable impact all over Japan. But the scheme and impact are not known to many people and organisations. JANPIA looks to increase awareness through media work and publicity. Its capacity building and awareness raising workshops among FDOs also helps to get the word out among relevant stakeholders.

- **Knowledge management** - JANPIA works together with academic associations and experts to extract, analyse, structure, and visualise knowledge from its database. This helps JANPIA and social sector organisations scale out programs across other regions facing similar issues.

Piloting its new impact investment strategy - Among the challenges, JANPIA is experimenting with a new impact investment policy, established earlier this year but not yet rolled out. JANPIA issued the first RFP for impact investment in January 2024, with details specified in the RFP (Japanese).

JANPIA continues to advocate and spread awareness among stakeholders (including banks, account holders, the general public, etc.) about the logic and significance of using dormant deposits for impact investment. This can also help to identify eligible future GPs and intermediaries.

9. Lessons learned and Advice to Peers

There are many challenges, but as time goes on, JANPIA acquires new knowledge. JANPIA has garnered unique insights from the evaluation of 1,000 grant programmes. The assignments of programme officers to the Fund Distributions Organizations who FDOs them on financial and non-financial management and conduct direct and indirect support for target beneficiaries has proven useful.

Sharing knowledge with other players in the world is also beneficial. JANPIA's focus on strengthening partnerships with business firms to help Fund Distribution Organisations and their beneficiaries enhance and synergise their activities to generate greater impact has proven effective. Partnering with commercial companies has also been beneficial for grantees. As JANPIA was established by the Japan Business Federation or Keidanren, it makes full use of its network to maximise collaborations between its partners and major Japanese companies. Japanese corporates are interested in contributing to SDGs as part of their CSR or sustainability management and business activities. In turn, it makes sense for these companies to collaborate with front line organisations such as charities and social ventures for tackling social issues effectively and sustainably.

10. Summary

JANPIA is currently compiling a "Comprehensive Evaluation Report" of the Dormant Deposit Utilization Programs through the grant system following the first and provisional comprehensive evaluation report (Japanese) issued in September 2023 (see Box 3). .

This comprehensive evaluation will focus on the results of the grant programs selected in FY2019- March 2023. It will look at the impact of support programmes by JANPIA and Fund Distribution Organizations and include analysis of the programs conducted by the grant beneficiaries, as well as tentative validation of the dormant deposits utilization framework. It is scheduled to be released in 2024. The report will provide readers with JANPIA's knowledge and learnings that they have accumulated from not only successful case studies but also those that might have failed, through a look at more than 140 grant programs.

Box 3. Excerpts from an evaluation of JANPIA's initial stage of activities (2019- 2014) commissioned by the Cabinet Office of the Japanese Government.

The following is quoted from the report "Policy for the Review of the Dormant Deposits Utilization Law after Five Years" a report compiled by the Cabinet Office of the Japanese Government looking at JANPIA's first stage activities (2019 - 2014).[69] It reveals the government's rationale for allowing JANPIA to begin deploying impact investments.

"JANPIA's operation of the Dormant Deposits Utilization System has played a significant role in supporting the social sector in Japan by providing grants to NPOs and other organisations working to solve social issues. This system aims to solve various social issues and establish an autonomous and sustainable mechanism to return the results of the utilization of dormant deposits, etc. to the public, considering that the resources of dormant deposits, etc. are valuable assets of the public. To

69 The "Report by the Working Group on Impact Investment - Toward Growth and Sustainability through Addressing Social and Environmental Issues –" was compiled and issued by The Working Group on Impact Investment established under the Expert Panel on Sustainable Finance of the Financial Services Agency, Japan (JFSA) on June 30, 2023. The report may be referenced as it covers the significance of impact investment and basic requirements and measures to promote it.

this end, to maximize the results of the project implementation, the Fund has focused its support on the three areas of "children and youth," "people in need," and "regional revitalization," as social issues that need solutions.

As a result, a wide range of grant programs have been implemented, from support for grassroots activities to support for planning innovations that are expected to bring about major systemic changes in society, and many of these projects have produced the desired results.

In addition, by proactively adopting intermediary support organizations that are active in various regions as the Fund Distribution Organizations, it has become possible to enjoy the results of solving social issues not only in large urban areas but also in all regions of Japan.

Furthermore, to contribute to the realization of a sustainable society in which no one is left behind as SDGs' concept shows, JANPIA has responded to social issues such as loneliness and isolation caused by the spread of the new coronavirus infection. The system's flexible and agile response to changes in the economic and social environment by taking advantage of the power of the private sector can be described as a "social experiment.

While maintaining this attitude, it is necessary to consider the expansion of support methods and scale of support so that more people can experience the results of the program. In addition, to build an autonomous and sustainable framework for solving social issues, after the implementation of the project, it was reaffirmed that the organizational infrastructure for private sector, and public interest activities are still in the process of becoming self-reliant and weak compared to the assumptions made when the program was established, and further strengthening of the social sector was required.

In the search for this, the emphasis placed on the support method of "accompanying and hands-on support" as JANPIA has established this method and it was a notable achievement during this period. It is already a common understanding among those involved that providing non-financial support in addition to financial support through grants is particularly effective in supporting activities in their early stages and leads to their subsequent self-support. To foster more independent bearers of private sector public interest activities in the future, it is desirable to systematize and institutionalize such accompanying support that is provided as an incidental service, and to position the further development of the social sector through such support as an objective of the system for utilizing dormant deposits, etc.

In addition, the recent increase in the number of social entrepreneurs who pursue both solutions to social issues and economic growth has brought about an appeal for new areas and methods of utilization of this system. As one such example, ***the possibility of providing "investment as a new funding method" is considered effective in attracting private-sector funds and promoting the independence of the bearers of these funds.***

As described above, through the implementation of this program over the past three years, we have steadily approached the realization of its goals, but at the same time, new issues and problems that need to be improved have emerged. Therefore, considering the basic principles of this program, and in line with each of the three-tiered organizations, the government would like to review and evaluate the implementation status of the program to organize the issues and to guide the course of action for the review."

Source: **Comprehensive Evaluation Report of the Dormant Deposit Utilization Programs**

Korea Social Value and Solidarity Foundation (South Korea)

1. Introduction

The Korea Social Value and Solidarity Foundation (SVS), the Korean impact investment wholesaler, has been operating since January 2019 with a mission "to prove to Korean society the validity of a humane financial model that provides substantial and specific help to the underprivileged." The fund initially aimed to invest KRW 300 billion (~USD 240 million) between 2019- 2023. At the end of 2022, the size of the fund was KRW 28.1 billion (~USD 21 million). SVS invested KRW 22 billion (~USD 17 million) in 2023.

As of the end of 2023, SVS managed a total of 39 investment and loan accounts, supporting 280 social enterprises and other socially conscious projects. Collaborating with 20 social finance intermediaries (SFIs) across the country, the Foundation has committed or scheduled an additional KRW 18.8 billion (approximately USD 15.7 million) in funding. SVS employs the United Nations Sustainable Development Goals (UN SDGs) to evaluate investees and determine how to allocate funds from its portfolio. The Foundation diligently oversees the progression of its investments and loans, ensuring they produce the desired social value and impact.[70]

2. Context

The concept of an impact investment wholesaler was already well known in the Korean social economy sector, owing to familiarity with the Big Society Capital model.[71] The sector had been actively lobbying for a social finance policy since the late 1990s and managed to successfully integrate it into the political agenda of former President Moon Jae-In (2017 and 2022) during his electoral campaign.

At the same time, in 2017, when impact investing was still a nascent ecosystem, representatives preparing to launch the Korean National Partner for Impact Investment worked to create an impact investment wholesale fund. They advocated to the government's Social Economy Experts Committee, inviting the GSG and BSC to deliver seminars and provide guidance. The idea succeeded in garnering further support from the government and civil society activists as a platform to expand the social economy in an innovative way.

Consolidating these efforts, in February 2018, the Ministry of Strategy and Finance announced the Social Finance Promotion Strategy (Korean), which entails the establishment of a "social finance wholesaler" to provide funds indirectly through social finance intermediaries. Subsequently, the Ministry launched the Preparation Committee as an official task force for the establishment of the wholesale fund, composed of 19 members across financial institutions, the social economy sector, and academia.

In December 2018, the Korean government conferred legal status upon the wholesaler entity, recognising it as a nonprofit foundation. It is noteworthy that the legal form of the wholesale fund was one of the main debate topics in designing the fund. Among various options, 'foundation' was chosen to (a) ensure the fund was not constrained to only function as a wholesale fund in terms of funding supply, and (b) to secure flexible funding to operate across the spectrum of social finance while taking risks through donations.[72] Although there is a restriction that equity investment cannot exceed 10%, indirect investment is possible without restriction.

Consequently, SVS was formally launched in January 2019. However, the size of the fund was not enough to be a wholesale fund as the National Assembly failed to pass the Framework Act on the Social Economy, a prerequisite

70 SVS Impact Report 2022. Available at: https://www.svsfund.org/en/board/31

71 An early iteration of the BSC model occurred at the local government level, with the Seoul Metropolitan Government spearheading the Social Investment Fund's launch, in collaboration with Korea Social Investment, between 2013 and 2016. Initially valued at KWR 50 billion (USD 42 million) in 2012, a blend of public and private funds, the fund facilitated loans to social economy entities through intermediary institutions.

72 While some supported the idea of a PEF, it posed the risk of limiting the wholesaler fund exclusively to equity investment activities. This would conflict with the fund's overarching principle of investee-centricity, which aims to offer diverse forms of financial support, including loans and guarantees, to meet the needs of social value-creating organisations.

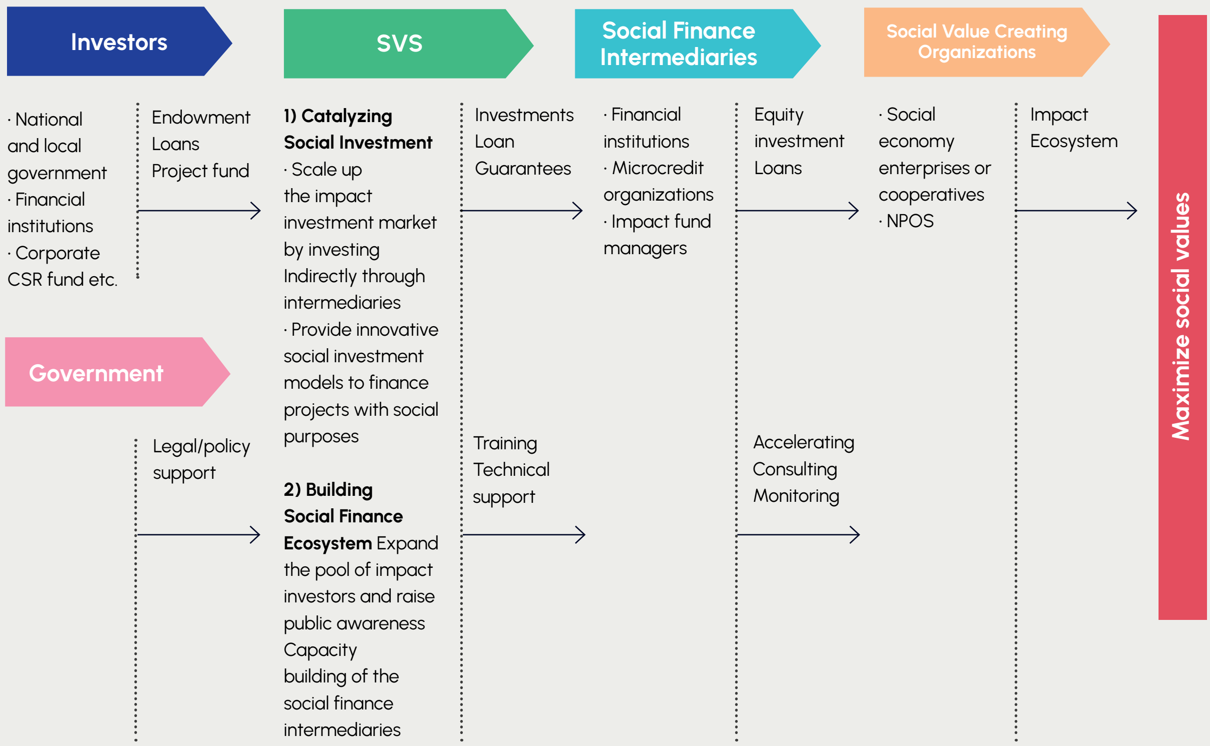
for government funding. Issues regarding the funding and legislation are further explained in the Governance section.

3. Theory of Change

The organisation's objectives encompass the following areas:

- Provide social finance to social economy enterprises in the form of investment, loans, guarantees, etc. through social finance intermediaries
- Support socially valuable projects by providing investments, loans, guarantees, or mixed forms of finance.
- Foster social finance intermediaries through training, consulting, mentoring, investing, etc.
- Research and advocate for strengthening the Korean social finance ecosystem
- Raise awareness of social value and social economy through various events, forums, etc.

Figure 12 SVS Theory of Change



Source: SVS

4. Governance

The idea for the wholesaler was to have 50% of the funding come from the private sector and 50% from the government. As part of a Social Finance Promotion Strategy announced by the Ministry of Strategy and Finance in February 2018, the government intended to support the flow of private donations into SVS by offering to match up to 50% of the total amount of SVS capital.

Altogether, it was envisioned that the wholesaler would raise KRW 300 billion (approximately USD 240 million) and that the government would match private sector inflows on an annual basis for a period of 5 years (2019 – 2023).

However, as the National Assembly failed to pass the Framework Act on Social Economy, which was a prerequisite for government funding,[73] the anticipated funding from the central government to the SVS did not materialise. As a result, the government was unable to signal to private investors its commitment to providing primary funding and supporting the wholesaler initiative.

Despite this challenge, the SVS managed to raise KRW 28.1 billion (~USD 21 million) in the first phase with private funding alone, without government participation. 17 commercial banks and social economy organisations, including credit unions and cooperatives, participated in the fund. While this was only 10% of the targeted amount, the SVS's plan was to increase the amount gradually over the years while combining it with government funding.

It was clear from the beginning that the wholesaler should be an independent body from the government and led by non-public sector stakeholders, as mentioned in the 2018 Social Finance Promotion Strategy by the national government. In line with the principle of stakeholder inclusion in the social economy, SVS' Board of Directors is composed of experts, companies, funders, and public/civil society representatives.

Accordingly, the first board of SVS was formed with seven members as follows:

- One Chair of the Preparation Committee (who was a leader of the social sector, an Anglican Church Priest)
- One Chair of Planning Committee[74] (who was a professor and former chairperson of the Korea Social Enterprise Promotion Agency- under the Ministry of Employment)
- One Representative of the financial sector (from National Credit Guarantee Corporation)
- Three Representatives of the social sector (from the National Association of Social Enterprises, Cooperatives)
- One Representative of government (from the Association of Local Governments for SSE)

5. Finance

Investment types

As of the end of 2023, SVS pledged to provide KRW 18.8 billion ($15.7 million) and executed 97.5% of this pledge. The proportion of investments and loans is 61.5% and 38.5%, respectively. The vast majority (93%) of executed financing went toward 20 social finance intermediaries (SFIs)[75] for indirect investments and loans.
SVS funding has supported a total of 280 organisations.

SVS portfolio consists of three types of investments as follows:

1. **Investments and loans for social economy organisations (SEOs)**, supporting social ventures and impact-oriented startups at various stages of growth and in different financial situations (and the intermediaries supporting them). The type represents 77.3% of SVS' total investments.
2. **Investments and loans for social purposes**, including social impact bonds (SIBs) and shared housing programmes, comprise 18.1% of the total.
3. **Direct investments and loans for social finance intermediaries (SFIs)**, contributed 0.1% of the total investments.

   In 2022, SVS invested KRW 77 billion ($58 million) in 140 enterprises and other SEOs, whether directly or indirectly. These investments took on various forms depending on the growth stages of receiving SEOs (from "seed" to "series-B" and "series-C"), including common or preferred stocks, convertible preferred stocks (CPS), redeemable convertible preferred stocks (RCPS), and convertible bonds (CBs).

   They provided KRW 7 billion ($5.2 million) in total loans for 117 SEOs. Of this amount, 29.4% went toward helping SEOs acquire and improve their capacities, while the other 70.6% went toward helping them with their operations.

73 The Act aims to support social economy organisations such as social enterprises, cooperatives, community enterprises, which pursue both social value realisation and economic profit, and establish legal and policy frameworks for social finance policies as well as for the SVS. First introduced in the 19th National Assembly in 2014, the Act has been proposed more than five times until the 21st National Assembly, but it is still pending.

74 The Planning Committee was a force under the Preparation Committee with the mandate of implementing the administrative and operational tasks of the founding process.

75 For investments, SFIs include impact investors, PEFs, accelerators, SIB executor, etc; and for loans, SFIs include social economy networks, nation/region-based loan providers, etc.

Financial Performance

	Expected rate of return (as of 2023)	Average duration (as of 2023)
Overall	4.54%	6.35 years
Equity investments	6.98%	7.49 years
Soft loans	0.64%	4.47 years

Co-investment

A total of 20 intermediaries have pooled funds from SVS with investments from various other sources, including government, corporations, foundations, financial institutions, and self-help funds, among others.

The 20 intermediaries consist of:

- Eight licensed fund managers
- Eight non-profit associations or organisations managing mutual or local funds for social enterprises/ SMEs/NGOs
- One P2P crowdfunding platform
- One credit union[76]
- One for-profit lender targeting local SEs
- One SIB intermediary.

These intermediaries increase the size of their fund based on SVS' investment by attracting various investors (both impact and commercial investors), according to their own respective approaches.

Of the 20 intermediaries, seven started working as intermediaries after SVS was established, and most of them are nonprofit organisations that raise funds. SVS provides matching funds, technical support (including protocols and guidelines for establishment, operation, and loan management), IT programs, and/or training.

These organisations are mostly local/sector associations, where members contribute to a self-help fund to build the underlying assets. Then a mixed fund is established with the support of local government and local businesses. This collective effort has resulted in the provision of KRW 95.6 billion (USD 74 million) to 280 organisations. Based on the executed amount, the multiplier effect is 5.2.[77]

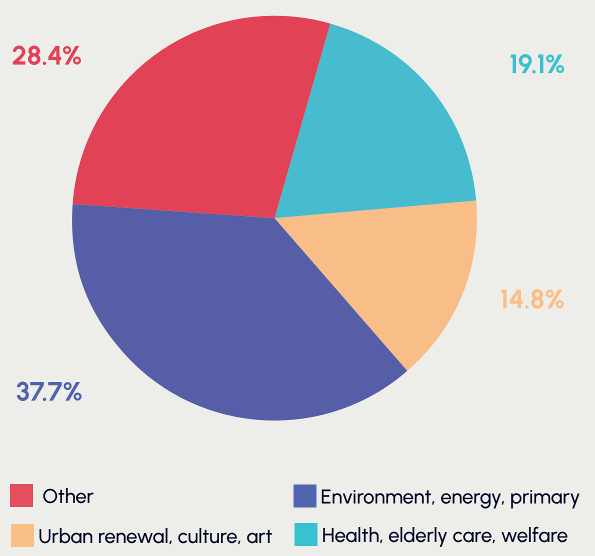
6. Impact

Themes

SVS strives to measure the impact it has on the social economy and the surrounding financial ecosystem. It assesses impact across eight areas, referencing the United Nations' Sustainable Development Goals (SDGs) and other tools on impact classification:[78]

1) Social housing and community asset acquisition
2) Education and childcare
3) Urban regeneration, art and culture
4) Health, elderly care, and welfare of the disabled
5) Environment, energy, and primary sector
6) Social innovation technology
7) Quality jobs and employment
8) Financial inclusion

Figure 12 SVS Theory of Change



Source: SVS

76 Credit unions (CUs) are the community-based financial institutions in Korea. With its long history starting from the 1920s and under the government's strict regulation on financial institutions, many Korean CU's lost their original values of serving the community. However, some CUs still strongly pursue their mission and participate in the local development. Since small-scale local self-help funds do not have the capacity to manage their funds, the local credit union sometimes acts as an intermediary and provides the lending services. SVS participates in this structure by providing seed funds and technical support on the governance of the local fund.

77 By the close of 2023, SVS committed to supplying KRW 18.8 billion (USD 15.7 million), fulfilling 97.5% of this commitment, which equals £18.3 billion. This collaborative endeavour led to the allocation of KRW 95.6 billion (USD 74 million) across 280 organisations, a ratio of approximately 5.2 times the initial pledge.

78 SVS Impact Report 2022. Available at: https://www.svsfund.org/en/board/31

Of the KRW 84 billion (~USD 64 million) that SVS provided in investments and loans in 2022, 37.7% went toward the environment, energy and the primary sector, 19.1% health, elderly care and welfare of people with disabilities, and 14.8% to urban renewal and culture and the arts.

In terms of the number of SEOs that SVS funding went on to serve in 2022 (of which there were 257 in total), 29.6% work on the environment, energy, and the primary sector; 21.8% work on quality jobs and employment; and 13.2% work on education and childcare. SVS funding has had a major impact on helping SEOs focusing on creating quality jobs and providing education and childcare services.

SVS employs the following impact KPIs:

TOPIC	Impact KPIs
Social housing and community ownership	· The number of instances of preventive medical care (quarantine) services being provided for vulnerable groups due to the saved financial cost · Housing cost and total commuting time saved by utilising its service to increase job-housing proximity · The number of interior design projects for customers with complex vulnerabilities
Education and child care	· # of care arrangement for vulnerable children made via its child-youth sitter matching app.
Urban regeneration, art and culture	· # of local creators and brand producers and the turnover generated
Aging, health, disability	· # of care service users and the cumulative number of registered care nursing assistants · # of matches between care nursing assistants and the elderly · # of matches between chronically ill patients and career-interrupted nurses · The level of improvement in the health of service users · # of consultations with teenage female patients via online health care services specialised for women
Environment, energy, and agriculture	· Amount of carbon reduction from solar photovoltaics on factory roofs and the amount of rent paid in advance to SMEs · Reduction of greenhouse gas emission owing to animal protein substitutes · # of contract farms which were enabled to run a stable and sustainable farming operation · The rate of reduction in food waste at manufacturing plants
Sustainable society through tech innovation	· Reduced number of accidents and the shortened construction duration by using the IoT based integrated construction site management platform · The rate of increase in citizen' opinions being incorporated as part of the decision –made process in corporations and public society · Reduced litigation costs after using blockchain-based legal contract platform
Decent job/ employment	· The cumulative number of workers from vulnerable groups and their average duration of employment · The average hourly income for workers with disabilities · The number of deaf and hearing impaired taxi drivers employed · The number of jobs created for senior/career-interrupted women
Income and financial inclusion	· Reduced overseas remittances fees of immigrant workers by using remittance platform services. · # of end users from financially excluded groups using the mobile tariff-integrated solution app

Impact Measurement and Management

The Korean government established the Social Value Index (SVI) in 2018 after gathering input from stakeholders on measuring the social value of social economy enterprises.

Since its launch, SVS has been working with the central government to encourage and monitor the use of the SVI by intermediaries.

In Korea, lending-focused intermediaries tend to use the SVI, while equity-focused institutions use the GIIN's IRIS+ indicators. SVS is currently working to raise awareness of the Impact Management Norms, originated by the IMP, to intermediaries across investment management.

7. Market Building

Research and Market Size Study

SVS participates in the market assessment of impact investment by providing data on non-profit organisations' impact investments, which are not available in the public data on government and financial institutions' investment.

SVS provides data on non-profit organisations' impact investments, which are not readily available through public sources. Estimated by the SVS, the size of the impact investment market in South Korea is KRW 655 billion (~USD 504 million) as of 2022.[79]

SVS published research on social finance including the 2020 Social Finance Intermediary Survey, a 2023 mapping study of local government funds for social economy, an issue brief series, "SVS insight," and more.

Events and Trainings

SVS organized its first international conference, "Social Finance Forum" in May 2023. Since its establishment, it has held periodic webinars on best practices.

SVS also provides annual training for intermediaries at the national level in collaboration with Korea Social Enterprise Promotion Agency.

Policy Change

In Dec 2021, the National Government's Financial Committee issued a revised program on promoting social finance based on the evaluation of the Social Finance Promotion Strategy (see more on the 2018-2021 strategy below). Its key goals were to expand the private sector's participation in the social finance market, based on the market growth by public funding in the last three years. Also, it emphasised agreed-upon standards on social value to facilitate impact investment. However, according to political changes right after this announcement, the implementation of the revised program is still under consideration.

Box 4. Outline of the National Government's Program on Promoting Social Finance

In February 2018, the National government announced its "Social Finance Promotion Strategy (2018-2021)," which was the first integrated and comprehensive policy program on social finance announced by the central government. Key policy objectives and programs included:

1) Supporting to establish the social finance market
   - a. Establishing a dedicated fund for social finance[80]
   - b. Introducing a certifying system for social finance intermediaries
   - c. Attracting private funds and financial institutions to social finance

2) Increasing the social finance provision
   - a. Increasing loans by using mid-term and policy funds for SMEs81
   - b. Increasing guarantees through credit guarantee agencies
   - c. Increasing investment by creating an impact fund or using crowdfunding
   - d. Strengthening the role of local financial agencies, such as credit unions or community banks

3) Expanding the infrastructure of social finance
   - a. Creating a wholesaler to be a catalyst for a sustainable social finance market
   - b. Facilitating cooperation among social finance institutions by establishing an association
   - c. Incubating social finance intermediaries
   - d. Building a monitoring and evaluation system for the social outcome/impact

79 The total value of a year's transactions in an investment market. Market size measures the flow between investors and investors.

80 This is the entity that became SVS.

81 There were already existing policy funds for SMEs, and the government promised to allocate part of the policy fund to social economy actors (the allocated fund size was about USD 38 million.)

8. Key Challenges

SVS' primary challenge lies in fundraising. The organisation has been unable to secure direct government funding, resulting in limited participation from private investors, who were initially engaged to match public funding.

As mentioned earlier, even though the previous government had advocated for foundational laws (i.e., Framework Act on Social Economy) to provide government funds as subsidies to the private funds raised, the Act was not adopted at the National Assembly due to a lack of consensus among political parties. The lack of consensus among political parties made it difficult for the government to budget without an explicit legal basis.

9. Lessons Learned and Advice to Peers

- Collaborative efforts of knowledge transfer are the key to understanding the context in different countries. Technical support from the GSG, BSC, and the Korean National Partner in the wholesaler's early stages contributed to increased awareness and knowledge of impact investing among the research and design team appointed by the wholesale fund Preparation Committee.

- A single source of funding (such as dormant accounts, as used by Big Society Capital) is advisable. The Korean case shows how challenging it may be to have to secure a large sum of investment from many fragmented players, as well as the challenges of promoting an investment strategy that focuses largely on concessionary returns.

- Skills matter. It is important that the people who are put in charge of the wholesaler have the right mix of skills and experience to manage the task. It is important to ensure the wholesaler's leadership is viewed as non-aligned and committed to building the market, rather than loyal first and foremost to their affiliated networks and partners.

- Political support can be a mixed blessing. Political support could be seen as a risk factor from an investor's point of view. it is important to work together to level the playing field and create trust around shared goals.

10. Summary

SVS as an impact investment wholesaler has been operating for four years with funds raised, confirming the validity of the model. Over this time, its funding has been additional, helping to meet financing needs not addressed by other actors. Moreover, SVS has helped to nurture and support investment managers and intermediaries, contributing further to its impact in terms of market and ecosystem building.

Its impact is further highlighted below.

● Enterprises/organisations creating social value, projects with social purpose have proliferated

By increasing the scale of funds provided to individual enterprises/organisations, SVS has supported their growth and facilitated the entry of tech-based enterprises into the social innovation space. It has created an environment where funds can flow to realise impact projects such as SIBs, community assets, social housing, workers' mutuals, and community energy cooperatives. The desire to get these projects off the ground had been around for many years and was virtually inaccessible until social finance as a whole took off and SVS encouraged and supported social economy organisations to participate in this market.

● New financial and impact intermediaries have been created

Various intermediary organisations with social finance as their main business have been launched since the establishment of SVS. There are currently 25-30 social finance intermediaries in Korea. Before 2018, they were mainly engaged in consulting, education, and grant projects, but since then, they have transformed into specialised institutions by acquiring relevant licences such as venture capital fund managers, accelerators, asset managers, and P2P financial institutions.

● New impact investors have emerged around the country, not only in the capital city

New social economy funds have emerged. Local government social economy funds were concentrated in the Seoul metropolitan area before 2018, but since 2019, they have spread to other areas, with a total of KRW 200 billion (~USD 145 million) in funds in 13 municipal and/or regional (provincial) governments. Social economy networks across regions have also increased their efforts to create self-help funds,[82] therefore various small but diverse self-help funds have emerged.

● Public sector has increasingly recognised the approaches utilised by social economy organisations, leading to changes in national and local government programming

Over the last four years, the effectiveness of financial approaches has been recognized in social economy promotion policies, contributing to perceptible changes in national and local government programming. Thanks to the newly established public institutions for social economy (e.g … Gyeonggi Province's GSIC) are making financial support an important function, and existing support organisations are eagerly participating in SVS training programs to design financial programs.

● Credit unions have established social finance headquarters in their central offices

Credit unions who serve an estimated 6.7 million people nationwide in Korea (as of 2022),[83] have emerged as major players in community-based social finance by establishing social finance headquarters in their central offices and launching related products.

The SVS Korea case study was written by GSG and has been endorsed by SVS.

82 Self help funds include funds collected, managed, and utilised by the members of associations, social enterprise networks of the same region or sector.

83 Available at http://www.cu.co.kr/cu/na/ntt/selectNttInfo.do?nttSn=109561&mi=100404

LATAM Impact Fund (Latin America)

1. Introduction

The Latin America Impact Fund, launched in 2019, is dedicated to strengthening the Latin American impact investment ecosystem through strategic support of SMEs. With a size of USD 71 million, the Fund is managed by Fondo de Fondos, a Mexican private equity manager, in partnership with Sonen Capital, a major U.S. impact investor.

To date, the Fund has successfully invested in six funds and six direct companies, with additional approvals pending for two more funds and three additional companies. The Fund's target profile covers a variety of countries in South and Central America in addition to varied asset classes.

2. Context

In 2009, Mexico's venture capital landscape was still in its early stages, with only 10 active VC funds. Fondo de Fondos played a pivotal role in fostering the ecosystem by leveraging a government program that supported early-stage funds, covering up to 49% of their size (averaging USD 5 million). By 2018, the number of VC funds had grown to 80. This support helped first-time fund managers build essential track records for successful fundraising. Subsequently, Fondo de Fondos applied this successful strategy to the impact investing sector, where the number of impact funds in Mexico was still limited. Partnering with Sonen Capital, the largest U.S.-based impact investor, Fondo de Fondos expanded its efforts to the broader Latin American region beyond Mexico and launched the LATAM Impact Fund in 2019.

3. Governance

The Fund is supported by a strong and diverse capital base, including investments from development banks, pension funds, and family offices. The Fund operates as a co-General Partner (Co-GP). Fondo de Fondos, a government-owned Mexican private equity manager, holds 50% ownership, alongside Sonen Capital, a U.S. impact investor. Investments are managed via a U.S. LLC and a Canadian Ontario Limited Partnership.

The Fund targets SMEs across various sectors in South and Central America, with a particular focus on key impact themes such as financial inclusion, healthcare, education, and sustainable agriculture.

4. Finance

The Fund employs a strategic approach to financial assistance, offering both fund investments and direct investments in companies, 50% invested in funds and 50% of direct investments as co-investors (not leading). This dual approach is designed to address concerns over double-layer management fees, which are often a point of contention for investors.

By maintaining a focus on competitive pricing and a venture capital mindset, the Fund ensures that profitability remains a key consideration, which is essential for attracting and retaining investors.

As of February 2023, the portfolio for the LATAM Impact Fund is split into private debt and private equity and primarily focuses on fund investments. Investments in the Fund span South America and Mexico with a heavy focus on Brazil and Mexico.[84] Various sectors are covered, with Financial Inclusion making up the largest part of the investments. Further investments will target investments in mezzanine and real assets strategies.

Target strategy exposure

- 56% in private equity
- 25% in real assets
- 11% in private debt
- 8% in mezzanine investments

84 Sonen Capital (2023). LATAM Impact Fund 2022 Impact Report. https://s3.amazonaws.com/giin-web-assets/iris/assets/files/impact-reports/Sonen-2022-LATAM%20Impact%20Report.pdf

5. Impact

The LATAM Impact Fund's underlying investments across eight impact sectors are intended to generate very targeted and measurable outputs. These outputs result from specific business activities that are delivered by the enterprises in which the LATAM Impact Fund invests. The Fund employs IRIS-compliant impact indicators to rigorously track and report on the outcomes of its investments, ensuring that each dollar invested contributes meaningfully to its five key impact outcomes: Access, Affordability, Opportunity, Empowerment, and Sustainability.[85]

6. Key Challenges

- **Fundraising:** First-time fund managers face significant challenges due to the critical need for a track record to attract new investors.
- **Investor concerns:** Many investors, particularly family offices, prefer direct investments due to concerns over management fees. Pension funds and development banks are still not familiar with impact investing.
- **Education and capacity building:** Persistent misconceptions about impact investing being equivalent to philanthropy.

7. Lessons Learned and Advice to Peers

- **Focus on returns:** To attract investors, it is essential to maintain a strong focus on financial returns, even in impact investing. The LATAM Impact Fund adopts a VC lens focused on returns, emphasising that profitability is crucial to attracting investors.
- **Strategic Positioning:** Avoiding labels like "fund of funds" can help mitigate investor apprehensions and broaden the appeal of impact investments. The LATAM Impact Fund strategically invests in both funds and direct companies, addressing concerns over double-layer management fees. It avoids labelling itself as a 'fund of funds' to mitigate investor apprehensions.
- **Building bridges**: It is important to create a supportive ecosystem for emerging fund managers and build bridges between stakeholders to access a huge pool of funding. The first thing is to recognise your ecosystem and what you need to build in the ecosystem for it to work further.

85 GIIN (2023). LATAM Impact Fund 2022 Impact Report. https://s3.amazonaws.com/giin-web-assets/iris/assets/files/impact-reports/Sonen-2022-LATAM%20Impact%20Report.pdf

Pathway Fund (United Kingdom)

1. Introduction

Established in 2022, Pathway Fund is an impact investment wholesaler dedicated to advancing racial equity in the UK. With a focus on empowering black and minority-led enterprises, the organisation seeks to ignite investment opportunities that drive tangible societal change. Drawing from various sources such as UK Government funding, Dormant Asset funding, philanthropic foundations, and mission-aligned investors, Pathway Fund has secured a committed capital of £2 million as of March 2024, with an anticipated growth to £15 million by March 2025 and a target fund size exceeding £50 million.

Currently, in its final stages of setup, Pathway Fund is crafting its governance structures, assembling a proficient team, and formulating a robust mid-term strategy and learning framework. Concurrently, the organisation is designing its funds, strategising fundraising initiatives, and refining capital deployment processes.

Notably, Pathway Fund is spearheading two pilot programmes: 1) an enterprise development pilot deploying grant and repayable grant capital alongside capacity-building support to Black and Ethnic Minorities-led trading charities and social enterprises via a Black-led social investment intermediary, and 2) a first-time fund manager incubator pilot deploying grant and repayable grant capital and capacity-building support to Black and Ethnic Minorities-led first-time fund managers. In February 2024, Pathway Fund, with its research partners, launched a Racial Equity Scorecard for the UK public market.

Furthermore, the organisation is finalising the framework for a cost-of-living funding programme, aimed at aiding affected black and ethnic minorities-led charities and social enterprises, utilising grant and repayable grant funding, as well as blended financial products, sourced from the Dormant Assets scheme.

2. Context

Market Starting Point

There has been a long-term issue of under-capitalisation within the Black and Ethnic Minority-led sector in the UK. Inclusive business models, such as social enterprises, have a proven track record in developing minority-led entrepreneurship. While social investment can play a crucial role in addressing wealth inequalities at both household and organisational levels, perpetuated by mainstream finance, the social investment sector has struggled to reach diverse organisations that provide essential services to local communities.

Additionally, Black and Ethnic Minorities-led organisations are less likely to apply for social investment. Pathway Fund's primary research, which involved over 1000 Black and Ethnic Minorities-led organisations, revealed that 76% of the respondents believed they had been denied funding due to their leadership, despite 75% of them expressing interest in repayable finance. However, only 45% indicated they would trust and approach social investment houses. Data from certain social investment funds, such as Social Investment Business's Resilience and Recovery Loan Fund, also indicates that a significantly lower percentage of Black and Ethnic Minorities-led organisations secure social investments.

Furthermore, the cost-of-living crisis has exacerbated this disparity. It has hindered the ability of Black and Ethnic Minorities-led organisations to deliver impact in communities most affected by the crisis. For example, Do It Now's Cost of Living Research Brief highlights that the rising costs of doing business, coupled with stagnant or insufficient funding, have presented Black and Ethnic Minorities-led organisations with numerous severe challenges, jeopardising their ability to provide crucial services and support to Black communities.

Cultural Take

Pathway Fund, through its pilots and initial programmes, is investing in/via five Black and Ethnic Minorities-led social investment intermediaries and fund managers. The funding programmes include an Enterprise Development Pilot – deployed by open innovation organisation Do it Now Now, a First Time Fund Manager Incubator Pilot, and a Cost-of-Living Support Programme. Simultaneously, Pathway Fund is engaging with 40 Black and Ethnic Minorities-led intermediaries via round-table discussions and one-to-one conversations to build its understanding of the on-ground challenges, barriers and opportunities. In May 2023, Pathway Fund hosted a roundtable discussion with 40 intermediaries to initiate discussions on co-creating ways of working. Across 2023, Pathway Fund conducted several one-to-one follow-on conversations and in February 2024 hosted a listening session with a subset of 15 intermediaries as part of its ongoing strategy consultation process.

3. Theory of Change

Pathway Fund's vision is for Black and Ethnic Minorities-led organisations to have greater and better access to finance, to create more positive and sustainable social impact; ultimately leading to equitable and inclusive economic growth in the UK.

As a wholesaler, Pathway Fund shall perform all the four roles of a wholesaler – to invest, to develop the market, to draw in other investments, and to measure, manage and report impact and financial data. Pathway Fund has identified three areas of work:

- **Enterprise Development**: with the vision that more Black and Ethnic Minorities-led organisations access investment, thrive and are sustained
- **Asset Acquisition**: with the vision that more Black and Ethnic Minority communities control their own assets and generate long-term income, wealth and impact
- **Learning and Influence**: with the vision that the impact investing sector mainstreams racial equity in all its activities and helps achieve racial justice

4. Governance

Source of Capital
UK Government funding, Dormant Asset funding, capital from philanthropic foundations and endowments, capital from mission aligned investors and funders. Pathway Fund has received set-up grants from The National Lottery Community Fund, and programmatic and core funding from the City Bridge Trust, Joseph Rowntree Foundation, Esmée Fairbairn Foundation, the Connect Fund/ Barrow Cadbury Trust and Carnegie UK. Pathway Fund is in the process of co-designing a Cost-of-Living Support Programme funded by Dormant Asset funding.

Entity Status and Structure / Instruments
The Pathway Funding Body (Pathway Fund) is a Private Company Limited by Guarantee without share capital, registered in England. Pathway Fund is primarily a grant-making organisation, deploying catalytic grant capital.

Eligibility and Beneficiaries
Pathway Fund deploys capital into Black and Ethnic Minorities-led charities and social enterprises through lived experience-led intermediaries. At the intermediary level, Pathway Fund reviews edibility of intermediaries in terms of the organisation's structure, mission fit, leadership, track-record, and understanding of the on-ground challenges. At charities and social enterprises level, the detailed eligibility criteria are co-created with the selected intermediary and at a high level include the organisation's structure, leadership, and trading history/ track record. Pathway Fund invests across the UK, however some of the programmes and funding buckets have regional or place-based focus.

Team
Pathway Fund is built on decades of experience and expertise of Black and Ethnically-Minoritised professionals in the race equality and social investment sectors, as well as on the 30+ years of experience of the three co-founders and their organisations: Stephen Bediako OBE, Black Global Trust, Bonnie Chiu, The Social Investment Consultancy (TSIC), and Kunle Olulode MBE, Voice4Change England. The executive team is led by Dilys Winterkorn, Project Director and Christine Chang, Chief Investment Officer.

- **Stephen Bediako OBE** is a leading social entrepreneur, who over the last 15 years has been growing and advising multiple organisations and initiatives including The Social Innovation Partnership, Project Oracle, UnLtd, the Barbican, the Guy's & St Thomas' charity, Nesta, the Greater London Authority, and the Black Global Trust.
- **Bonnie Chiu** is Managing Director at TSIC and since 2008 has supported over 300 charities and social enterprises in England on impact measurement, income diversification and financial modelling. Her role has included working on 10 projects through Big Potential, and supporting Trust for London grantees to become social-

investment-ready. TSIC has also evaluated emergency funding programmes such as Comic Relief's Global Majority Fund and London Funders' London Community Response – both launched in response to Covid-19.

- **Kunle Olulode** is Director of Voice4Change-England which has deployed over £1.3m and assessed over 1,000 organisations – on behalf of Mind, Sport England and Comic Relief among others.
- **Dilys Winterkorn** is Pathway Fund's Project Director. She has worked in the UK and overseas advising trusts, foundations and charities on their strategies to achieve impact, equity and inclusion. Her past roles have included advising Children in Need's first dedicated fund for Black communities, the Funders for Race Equality Alliance, and Mission 44. Dilys is also a PhD candidate in African Philanthropy at SOAS, University of London.
- **Christine Chang** is Pathway Fund's Chief Investment Officer; she was previously the deputy chief investment officer at Big Society Capital and still serves as a senior advisor there. Christine was responsible for the delivery of client investment products at Big Society Capital, which brought significant further funding into the social investment market, expanding the pool of capital available.

5. Finance

Pathway Fund is primarily a grant maker, initially deploying capital to charities and social enterprises via intermediaries using three specific products.

- **Enterprise Development Grants**: Structured as non-repayable, as they are relatively small ticket sizes, and the administration costs will be lowest if they are structured as non-repayable.
- **Investment Readiness Grants**: Structured as partly repayable, to create positive incentives for organisations to successfully fundraise, and enable them to start demonstrating their credit history. A proportion of the grant, as per business models and profitability, shall be repaid to the intermediaries to support more enterprises. The payment trigger will be based on being able to raise a threshold level of funding.
- **Blended Deals / Grants blended with Loan:** The grant element in blended deals will reduce the amount of debt required, thus eliminating a viability gap between capital need and ability to repay. Clear criteria will be established to confirm whether mainstream lenders are genuinely unable to lend to an enterprise without the grant, and the decision-making process will be clearly recorded by the credit committee on the lender side. Grants in Blended Deals shall not exceed 50% of the total deal size.

Furthermore, Pathway Fund also mobilises capacity building funding to intermediaries, this capital can be used by intermediaries as core-funding to build their understanding of and ability to deliver social investment. A key part of Pathway Fund's capital deployment is the focus on understanding and delivering the actual cost of capacity building and capital deployment into Black and Ethnic Minorities-led organisations, particularly given the ticket sizes tend to be smaller on average. Pathway Fund anticipates that the true cost of deploying capital to Black and Ethnic Minorities-led organisations is higher than sector average. Using the learnings from the pilots and initial programmes, Pathway Fund aims to build specialised products and demonstrate best practices to not only deliver capital to the undercapitalised spaces in an efficient and effective manner, but also to ensure that the true cost of delivering these programmes is not absorbed by the intermediaries that are themselves often underfunded.

- **Involving co-investors:** As a grant-maker deploying capital in blended deals, Pathway Fund can co-invest with mission aligned social lenders. Pathway Fund is in the co-design phase of its first co-invested blended deals as part of its Cost-of-Living Support Programme.
- **Pricing:** Via its pilots and initial programmes, Pathway Fund is building the evidence and understanding of the actual cost of capacity building and capital deployment into Black and Ethnic Minorities-led organisations. Pathway Fund anticipates it will be in the position to share evidence-based understanding of the pricing in the near future following the administration of its programmes.
- **Financial performance:** N/A – Pathway Fund is currently only deploying grant capital, although this includes some portion of repayable grants the funding is still at its initial stage and has not reached any repayment milestones.

6. Impact

Themes and Sectors Supported: Pathway Fund is sector agnostic but with a thematic focus on Racial Equity and a demographic focus on Black and Ethnic Minorities-led organisations and communities. As a social investment wholesaler, Pathway Fund focuses on creating organisation level impact, to support Black and Ethnic Minorities-led charities and social enterprises to build financial resilience, trading models, enterprise models in order to access further social investment capital.

The Fund is currently developing its impact measurement and management framework.

7. Market Building

Enterprise Development Pilot Program

The Pathway Fund is implementing an Enterprise Development Pilot program aimed at supporting Black and Ethnic Minorities-led enterprises. This initiative emerged from research showing that 63% of diverse-led organisations applying to the BII/UnLtd Growth Impact Fund lack well-developed trading models, and that a significant portion of their financing comes from personal savings and employment income of their directors.

The pilot program, called "Make it Big with Pathway Fund," involves providing grants and dedicated support to improve the capacity of these enterprises and remove barriers to pursuing trading activities. Pathway Fund conducted extensive research and a co-design process with the selected intermediary, the open innovation organisation Do it Now to develop a shared understanding of the program's core values, key learnings, and success metrics.

The implementation is currently underway, with Do it Now receiving over 80 applications, of which 23 met the eligibility criteria. After a thorough review process, including a selection panel with lived experience, 12 organisations will be chosen to receive a participation grant of £3,000 and a repayable grant of £30,000, contingent on raising further funding. Alongside the grant support, these organisations will receive bespoke capacity-building support and coaching, including cohort and one-on-one sessions.

The program incorporates a learning agenda and data collection processes, with application forms, program completion surveys, and regular check-ins between the intermediary, coaches, and participating organisations. This approach aims to gather insights and learnings to inform future initiatives supporting Black and Ethnic Minorities-led enterprises.

Capacity Building for First Time Fund Managers

Recognising the lack of diversity among social investment fund managers in the UK, with only a handful having non-white CEOs, Pathway Fund is developing a First-Time Fund Manager Incubator Pilot. This initiative aims to deliver core funding and capacity-building support to a small cohort of Black and Ethnic Minorities first-time fund managers.

The poor diversity track record in the social investment sector mirrors the mainstream asset management industry, where less than 1% of asset managers are Black. This disparity exists despite Black and Ethnically Minoritised communities making up more than 15% of the UK's population, with London having a 40% Black and Ethnically Minoritised population.

To address this issue, Pathway Fund is creating a dedicated incubator program for Black and Ethnic Minorities-led, first-time impact investors, as existing programs often provide only capacity-building support without grant capital. The research and design phase involved conducting desk reviews, learning sessions with similar organisations, and recruiting an external selection committee member with experience as a Black and Ethnically Minoritised person starting a new fund.

After launching a "Register your Interest" call and receiving 44 responses, Pathway Fund reviewed applications, conducted interviews, and selected teams to be the final attendees. Customer due diligence was conducted on the final attendees, and a webinar was hosted to share knowledge with unsuccessful applicants and maintain connections.

Currently, the program design is underway, with Pathway Fund using onboarding surveys to inform the learning curriculum's tailoring to the attendees' needs. An external consultant is leading the design process, after which Pathway Fund will seek partners to support the program's delivery.

8. Key Challenges

An Oversight Trust report, published in June 2021, highlighted the underlying problem: "The social investment sector does not appear at all diverse and has not reached all organisations that could benefit from a truly inclusive mode of operation."[86] This issue was also raised by the Adebowale Commission on Social Investment, which concluded that social enterprises, particularly those led by disadvantaged groups, have been underserved by social investment; and also that social investment has a "serious problem with inclusion and equity particularly, although not exclusively, in relation to race."

As a wholesaler focused on working collaboratively with actors across sectors including social investment, philanthropy and race equality, Pathway Fund aims to respond to existing challenges within the following themes:

- **Widen the range of funding models available:**

This is one of the key leverage points to ensure uptake of social investment from minority-led organisations. Pathway Fund will leverage its status as a new wholesaler to pilot even more innovative forms of funding that can work for ethnic minority-led organisations.

- **Overcome inequalities in access:**

Pathway Fund is specifically focused on widening access to minority-led organisations, and as a wholesaler will be focused on addressing systemic barriers.

- **Address concerns about the wholesaler model:**

As a new wholesaler, Pathway Fund will address these concerns from the outset in its governance structures and how it delivers programmes.

- **Affordability of social investment:**

Pathway Fund will prioritise affordability. Pathway Fund will focus on leveraging grant capital to provide more affordable and flexible social investment options for minority-led organisations.

9. Lessons Learned and Advice to Peers

Funding should respond to the needs of the sector.
Most grant funding tends to be programme related, with programmes designed by funders and wholesalers. This can limit intermediaries' flexibility and risk appetite, in deploying capital according to market needs. There is a need for unrestricted flexible capital with higher risk appetite.

Funders and wholesalers should co-create programmes and products together with intermediaries and lived experience-led organisations, in order to respond to on-ground realities.

Similarly, the funding process should also be responsive, although most funders have dedicated relationship managers once the funding has been approved, the process of applying for funding is an onerous one. In such a situation, organisations tend to go through application fatigue, particularly in an environment of limited funding availability.

Wholesalers should support intermediaries to build awareness and capacity.
Understanding social investment and financial products can be challenging. Furthermore, given Black and Ethnic Minorities-led intermediaries tend to be stretched, as they are providing on-ground support to enterprises and communities, it can be difficult to find resources internally to build awareness and capacity.

Wholesalers can therefore mobilise financial and non-financial support to Black and Ethnic Minorities-led intermediaries for capacity building. This is particularly important as many Black and Ethnic Minorities-led intermediaries are currently in the process of building their knowledge, understanding and experience of social investment.

Wholesalers should adopt a long-term mindset and support the learning journey.
Social enterprises and intermediaries lack the space to fail, learn and grow. Wholesalers should include space in their models to support the development cycles of intermediaries, and enable intermediaries to provide similar support to enterprises. Wholesalers should adopt a learning mindset that focuses on growth of the intermediaries.

Representation is important, at all levels where sector stakeholders interact.
Most decision makers that deploy capital, as well as most advisers and mentors to Black and Ethnic Minorities-led enterprises and organisations tend to not be from the Black and Ethnically Minoritised communities. This leads to gaps in cultural competency, where decision makers and advisers are focusing on solutions when they do not identify with the problems.

86 The Oversight Trust. (2021). Agenda & Minutes from the Board of The Oversight Trust, 14 June 2021. Available at: https://www.oversighttrust.org/files/ugd/5f2935_114cacfa65e64e1a98afec6de4679e2a.pdf?index=true

Social Finance Fund (Canada)

1. Introduction

Canada's impact investment wholesaler, the Social Finance Fund (SFF) was launched on May 30, 2023, after a journey of nearly a decade.

Its mission is to advance the growth of the social finance market in Canada and attract more private-sector capital.[87] Capitalised with CAD 755 million CAD (~ USD 564M) from the government, the Social Finance Fund will support three funds, targeting different populations, sectors, and regions in Canada, respectively.

2. Context

In 2010 Social Innovation Generation (SiG), a national partnership led by a family foundation, an impact advisory firm, and two academic institutes formed a Social Finance Task Force with the aim of creating a culture of social innovation to address Canada's social and ecological challenges. SiG's report, *Mobilising Private Capital for Public Good* (2010)[88] released at the end of that year, called for parallel and concurrent action from the federal and provincial government, the financial sector, philanthropic leaders, and the community sector and made 7 recommendations which, if pursued, would advance social finance in Canada.[89] Among its recommendations was the establishment of a pooled social finance fund capitalised jointly by government, private, institutional, and philanthropic investors to help "existing regional funds to reach scale and catalyse the formation of new funds."

In response to SiG's report, the Canadian Federal Government launched a consultation process, "Call for Concepts for Social Finance," gathering feedback from across the country and inviting people to weigh in as to how social finance might benefit their organisations. *Harnessing the Power of Social Finance* (2013) captures input from many of the submissions they received, reflecting the benefit and demand for social finance reforms from organisations themselves. Though the paper was published, no immediate action came from it.

In 2014, MaRS Institute, an independent organisation championing mission-driven innovation assembled Canada's GSG Impact National Partner. The Canadian National Partner issued another paper, *Mobilising Private Capital for Public Good: Priorities for Canada* (2014)[90] along similar lines as what had been issued by the Social Finance Task Force four years prior. Once again, the National Partner called for regulatory changes, pay-for-success mechanisms, and the establishment of the pooled social finance fund.

In 2015 a major turning point occurred when the government's Mandate Letter, a document issued to newly appointed ministers by the Prime Minister laying out ministers' top priorities for the coming year, referenced social finance. The Mandate Letter was directed at two ministers in particular expected to work together to create a social innovation and social finance strategy. It became a major touchpoint for National Partner advocacy to the government.

Heeding pressure from the National Partner, the government established the Social Innovation and Social Finance Strategy Co-Creation Steering Group in 2017. Composed of 16 people from the impact investment sector and one person from the government, the Steering Group consulted across the country, asking people what they thought a social innovation and social finance strategy should do. The Steering Group also gathered input from Portugal Social Innovation and Big Society Capital who provided data and information from its own activities.

87 Jeffery Jones. (2023). Ottawa Picks Three Managers for $400-million Social Finance Fund. Available at https://www.theglobeandmail.com/business/article-hard-embargo-4-am-ottawa-picks-three-managers-for-400-million-social/?login=true

88 Canadian Task Force on Social Finance. (2010). Mobilising Private Capital for Public Good. Available at https://mcconnellfoundation.ca/wp-content/uploads/2017/07/FinalReport_MobilizingPrivateCapitalforPublicGood_30Nov10.pdf

89 For an overview of these early recommendations, see https://mcconnellfoundation.ca/wp-content/uploads/2017/07/FinalReport_MobilizingPrivateCapitalforPublicGood_30Nov10.pdf

90 MaRS. (2014). Mobilising Private Capital for Public Good: Priorities for Canada. Available at: https://www.marsdd.com/wp-content/uploads/2014/09/MaRS-National_Advisory_Board_Report_EN.pdf

While the Steering Group's official mandate soon ran its course, it continued to function as its own collective, focusing on supporting the establishment of a social finance fund as its main objective. Members began lobbying various ministers and talking to civil servants. In fact, having someone from within the government as part of the initial group proved to be effective. It prompted government representatives to perceive the Steering Group's continuous advocacy efforts as a set of recommendations that came from within the government.

The initial announcement of an impact investment wholesaler prompted key questions:

- What will be the government's next steps to shape the establishment of the fund?
- Will the wholesaler be a national organisation? A national organisation with regionally empowered "arms" or "desks"? Will there be distinct organisations? (Canada is a vast country of different regions with different languages and cultures). How to make sure the fund fits local realities and diverse needs.
- Concerns: high administrative costs, concerns about not learning quickly enough when the fund has to deploy across the country and not being able to adequately aggregate knowledge.
- Will the fund invest solely repayable capital into intermediaries? Will some be disbursed in the form of grants?

In August 2018, the Government published the Steering Group's report, *Inclusive Innovation: New Ideas and New Partnerships for Stronger Communities* (2018).[91] which included 12 recommendations for the government to guide the development of a Social Innovation and Social Finance Strategy for Canada. In its Fall Economic Statement (2018), the federal government announced its intention to establish a $50 million investment for social purpose organisations to build their capacity to access social finance capital and a CAD $755 million (~$564M USD) repayable Social Finance Fund, which must be deployed within 10 years and is repayable for 16 years to provide access to capital for social purpose organisations, in its own words, "support investments that are not yet viable in the commercial market." Budget 2019 reaffirmed these investments and directed $50 million of the Social Finance Fund to an Indigenous Growth Fund and committed to devoting $100 million towards projects that support greater gender equality.[92]

Via the Department for Employment and Social Development, the federal government would make repayment investments into 3-4 wholesale entities. Alongside this, they would also set up a 2-year investment readiness program with 50 million CAD to build demand for social finance. The government issued a competitive call for expressions of interest to identify appropriate entities, entities already in existence.[93] Through the call, entities were asked to explain how they would use the money.

During that time, the Department for Employment and Social Development also looked into the option of the federal government issuing loans to the wholesale funds but understood that loans would not allow them to achieve their goals; loans would not allow the funds the leeway to bring in private capital. It would also preclude them from making investments into high-risk projects. Instead, it was decided that the Government of Canada would make equity investments into limited partners managed by the wholesalers. This approach had a variety of advantages, namely, that the approach would be more familiar to fund managers.

In 2021 the government launched the Investment Readiness Program (IRP), a 2-year $50 million program (2021 to 2023) designed to advance social innovation and social finance in Canada.[94] The pilot program supported over 680 social purpose organisations (SPOs) in capacity-building activities through 24 delivery partners who worked to implement the program.

A renewed IRP announced in 2022 was launched to continue to advance SI/SF in Canada. It sought to strengthen the SI/SF ecosystem by supporting SPOs to build their capacity to access social finance. The program will expand support to organisations led by or serving equity-deserving groups, such as (among others):[95]

91 Government of Canada. (2018). *Inclusive innovation: New ideas and new partnerships for stronger communities.* Available at: https://www.canada.ca/en/employment-social-development/programs/social-innovation-social-finance/reports/recommendations-what-we-heard.html

92 https://oecd-opsi.org/innovations/co-development-of-a-social-innovation-and-social-finance-strategy-for-canada/

93 Government of Canada. (2021). Call for expressions of interest to become a social finance wholesaler under the Social Finance Fund: Closed. Available at: https://www.canada.ca/en/employment-social-development/services/funding/social-finance-wholesaler.html

94 Government of Canada. (n.d). About the Investment Readiness Program. Available at: https://www.canada.ca/en/employment-social-development/programs/social-innovation-social-finance/investment-readiness.html

95 Government of Canada. (n.d.). About the Social Innovation and Social Finance Strategy. Available at: https://www.canada.ca/en/employment-

- women
- Indigenous peoples
- low-income people
- Black Canadians and other racialized peoples
- people with disabilities
- members of the LGBTQ2+ community
- official language minority communities
- recent immigrants and refugees

The renewed IRP has been delivered by funding partners under 2 streams:

Stream 1: Readiness support partners will provide funding to Social Purpose Organizations (SPOs) to build skills and capacity to access social finance investment. SPOs will use the funding to:

  - get help to do market analysis
  - develop new products and services
  - build business plans, and
  - acquire technical expertise

Stream 2: Ecosystem builders will invest in projects that help grow and strengthen the SI/SF ecosystem by being more inclusive and integrated. This ecosystem includes connections between:

  - social purpose organisations
  - networks
  - experts
  - social finance intermediaries
  - researchers, and
  - the government

3. Theory of Change

The objectives of the SFF include:

1. Generating social and environmental impact
2. Creating a sustainable social finance market
3. Broadening the reach of social finance into underserved areas
4. Enhancing social equity practices in the social finance market

By increasing access to flexible financing opportunities, the SFF will help social purpose organisations grow, innovate, and enhance their social economic, and environmental impacts. The fund will also improve access to funding among underserved populations, sectors, and regions, including rural and remote communities in the country's north.

social-development/programs/social-innovation-social-finance.html

4. Governance

Canada's Social Finance Fund is part of a long-term effort to advance the growth of the social finance market in Canada.[96] It comprises one pillar of the Canadian Government's Social Innovation and Social Finance Strategy, alongside the Investment Readiness Program and Social Innovation Advisory Council.

After a competitive tender process, three fund managers were selected to deploy funds:

1. Boann Social Impact – a new joint venture between social purpose fund manager Encasa Financial and Table of Impact Investment Practitioners (TIIP), a group that includes 80 Canadian social finance intermediaries.
2. Fonds de Finance Sociale – CAP Finance represents Quebec-based organisations. It is led by Réseau d'Investissement Social du Québec and Fiducie du Chantier de l'Économie Sociale
3. Realize Capital Partners. – Realize is a joint venture between Rally Assets and early stage venture capital fund manager Relay. Realize Capital Partners will operate as a closed-end multi asset fund and aims to generate market-rate financial returns, at scale.[97][98]

CAP Finance will focus on investments in Quebec, while Boann Social Impact and Realize Capital Partners will invest in the rest of Canada.

96 Government of Canada. (2023). Government of Canada Officially Launches the $755 million Social Finance Fund to Advance the Growth of the Social Finance Fund to Advance the Growth of the Social Finance Market in Canada. Available at: https://www.canada.ca/en/employment-social-development/news/2023/05/government-of-canada-officially-launches-the-755m-social-finance-fund-to-advance-the-growth-of-the-social-finance-market-in-canada.html

97 Closed end multi-asset funds invest in private equity, private debt, real estate, infrastructure, natural capital solutions, etc.

98Government of Canada. (2023). Government of Canada Officially Launches the $755 million Social Finance Fund to Advance the Growth of the Social Finance Fund to Advance the Growth of the Social Finance Market in Canada. Available at: https://www.canada.ca/en/employment-social-development/news/2023/05/government-of-canada-officially-launches-the-755m-social-finance-fund-to-advance-the-growth-of-the-social-finance-market-in-canada.html

The SFF will support charities, non-profits, social enterprises, co-operatives and other SPOs working at the forefront of affordable housing, food insecurity, and poverty.

A minimum of 35% of investments will promote social equity, 15% of which will go toward initiatives promoting gender equality.

5. Finance

Over the next 5 years, $400 million CAD will be disbursed through the three fund managers, with an aim to mobilise an additional $800 million in private investment.

Under the programme, Boann will receive $151.1 million CAD, CAP will get $89.8 million, and Realize will receive $153.4 million. Most of the funds will be expected to be repaid to the government after 16 years.[99]

6. Lessons Learned and Advice to Peers

While it is difficult to determine precisely what prompted the government to continue consistently exploring the topic of social investment over a roughly 10-year period, it is clear that various administrations promoted a set of initiatives related to building the social finance market. Success factors in the Canadian case include:

- **Consistent presence and evolution of the social finance market from the bottom up**: local community organisations were involved in building the case for social finance for upwards of 20 years, prior to the announcement of the formation of the fund.
- **Political context and messaging**: Canada in 2018 was governed by a liberal agenda. At the time, the Liberal government was talking a lot about the middle class and those working hard to join it. They were focused on jobs and also keen to see social progress. The wholesaler idea was easy to sell because it aligned with the notion that the government would be *investing* money, rather than *spending* money, building the economy and doing good, all at the same time. Moreover, in addition to championing social good, the announcement referenced the creation of 100,000 jobs.
- **Establishment of a policy precedent**: The Prime Minister's 2015 Mandate Letter provided the government's commitment to establish a social finance fund which led to the establishment of the Steering Group: The written commitment from government served as a tool for leverage and continued advocacy vis-à-vis government officials. Members of the Steering Group and other advocates were able to hold government actors to account for their prior commitments. (This is similar to the UK case in which the establishment of Big Society Capital, the UK's impact investment wholesaler was included in the Conservative's election platform in 2011).
- **Multi-sector buy-in**: Establishment of a Steering Group representing a diverse set of stakeholders, including government representation, rallying around a common message: The Steering Group represented people from many different sectors who didn't necessarily agree on everything, but they managed to rally around a core set of recommendations. Also, the Steering Group successfully drove momentum within the government. A group of civil servants and ministerial staff followed and closely supported the Steering Group's efforts. Having insiders with the knowledge and the status within government to help decision makers understand the recommendations was critical.
- **Sharing existing examples from the world with key policy makers**: Bringing representatives from Portugal and the UK to present successful wholesale models to the Minister of Finance helped make the Social Finance Fund more concrete and helped get it rolling within government.
- **Timing**: The announcement was made before a general election. In Canada, parties reportedly like to spend a lot of money before an election. It shows they are spreading that money around, ostensibly in any community, which ostensibly impresses the public.
- **Data and financial modelling:** According to National Partner representatives, an important factor that helped promote government action to establish the social finance fund was the work of the Table of Impact Investment Practitioners (TIIP) (previously known as National Impact Investment Practitioners Table) . TIIP is a pan-Canadian,

99 Jeffery Jones. (2023). *Ottawa Picks Three Managers for $400-million Social Finance Fund*. Available at https://www.theglobeandmail.com/business/article-hard-embargo-4-am-ottawa-picks-three-managers-for-400-million-social/?login=true

mission-driven, bilingual and practitioner-led community of practice. Its membership currently represents 20 social finance funds valued at $522 million. Individual funds range in size from $300,000 to $140 million with a median fund size of $17.3 million. The Table also includes 7 new funds under development valued at $1.2 billion. This was a group of impact investment funds who joined together to share practical experience as investors, crunched the numbers, and provided some of the arguments about how the funds would be used - and used well.

The Practitioner Group issued a report, *Leveraging Canada's Social Impact Funds: Implementing the recommendations of the Social Innovation and Social Finance Strategy for Canada* (2018) detailing how much money had been invested by members, what kinds of losses those funds experienced, and what kinds of returns they earned. **This proved to be key information for the Ministry of Finance** and civil servants doing analysis of the financial implications of the fund.

7. Summary

In the words of Karina Gould, Minister of Families, Children, and Social Development, who announced the establishment of Canada's Social Finance Fund, "The fund is an innovative and first of its kind program." The Social Finance Fund marks a significant turning point for Canada. Through a focus on sustainable agriculture, microfinance, and accessible health care and education, the wholesaler will help Canada meet its United National Sustainable Development Goals. The investment programme also has the potential to accelerate social equity by investing in initiatives that promote gender equity and racial justice, promote Indigenous reconciliation, and drive sustainable development in villages, towns, and cities across the country."

More will be seen in the years to come as the Social Finance Fund implements its activities.

The Canada Social FInance Fund Case Study has been written by GSG with support from its Canadian National Partner.

Regional Venture Capital Financial Support Program for Impact Investment (Turkiye)

1. Introduction

In 2022, the Ankara Development Agency launched the Regional Venture Capital Financial Support Program for Impact Investment, offering 250 million TL (USD 7.7 million) in financial support. The program promotes sustainable regional venture capital initiatives through public-private partnerships. These initiatives aim to support high-potential enterprises capable of rapid growth, generating positive social-environmental impact and added value in the TR51 Region (Ankara) and in the provinces where a state of emergency was declared in 2023 due to the earthquake (Adana, Adıyaman, Diyarbakır, Gaziantep, Hatay, Kahramanmaraş, Kilis, Malatya, Osmaniye, Şanlıurfa and Elazığ).

2. Context

This programme was conceived to support the implementation of a sustainable regional venture capital market based on public-private partnerships. It seeks to provide financing support to initiatives with the potential to generate rapid growth and add value, as well as to create positive and measurable social and environmental impacts in the TR51 Region (Ankara), as well as initiatives in provinces declared under a state of emergency following the 2023 earthquakes. These areas include Adana, Adıyaman, Diyarbakır, Gaziantep, Hatay, Kahramanmaraş, Kilis, Malatya, Osmaniye, Şanlıurfa, and Elazığ.

For more on the underlying context of impact investing in Turkiye and current trends, visit the website of EYDK, GSG Impact's National Partner in Turkiye.

3. Theory of Change

The programme aims to increase the access of enterprises to finance by investing in venture capital funds that will invest and support enterprises and SMEs that can create a positive social and environmental impact, thus strengthening the impact-oriented entrepreneurship and innovation ecosystem.

4. Governance

Eligible applicants include fund managers, whether individuals or legal entities, responsible for establishing, managing, and advising venture capital funds established or to be established in or outside the TR51 Region and having the following characteristics:

- Venture capital investment funds subject to the Capital Markets Board of Türkiye's legislation and funds to be established within the framework of the relevant country legislation,
- Venture capital investment trusts subject to the Capital Markets Board of Türkiye's legislation

5. Finance

Supported funds can receive between 5 million TL and 30 million TL to be utilised for investments in a maximum of five years. The Ankara Development Agency contributes up to 25% of the total commitment size, requiring this amount to be invested in impact-oriented initiatives within the TR51 Region (Ankara) and provinces where a state of emergency was declared due to the earthquake in 2023. .

6. Impact

The programme primarily supports existing venture capital funds willing to invest in innovative, technology-driven ventures with sustainable impact potential and establishment of brand-new impact funds. Preference for investment decisions of supported funds is given to businesses with the potential for rapid growth, export capabilities, and job creation. The selection criteria involve assessing local and global market potential, income model scalability, and measurable social and environmental impacts.

2. Impact investment wholesalers and fund of funds in design

Impact Capital Australia (Australia)

1. Introduction

The Australian SII wholesaler, Impact Capital Australia (ICA)[100] as it has been named locally, would be a game-changing platform that would enable the impact investing market in Australia to reach much-needed scale. It is designed to be independent, with a mission, investment mandate and sufficient catalytic capital at AUS 400 million, to "get noticed" and significantly accelerate market development. As a predominantly wholesaler investor and market champion, ICA could provide seed capital to new impact funds, and bring tools and expertise to the structuring of products including the measurement of outcomes.

Short of approving an impact investment wholesaler, in May 2023 the Australian government announced a series of groundbreaking social finance initiatives including, the launch of a AUS 100 million outcomes fund, an AUS 11.6 million Social Enterprise Development Initiative, and a AUS 210 million expansion over four years to expand the Emerging Markets Impact Investment Fund, an impact wholesaler investing in emerging markets. These initiatives, together with ICA, were part of a series of concrete recommendations delivered by a government-commissioned Social Finance Task Force.

While the government stopped short of backing a nation-wide impact investment wholesaler, supporters are adamant that their continued engagement will help to bring it about one day soon.

100 Information on the Australian Wholesaler Fund has been adopted from Impact Investing Australia's (the Australian National Partner) Pre-Budget Submission Report 2021-2022. Available at. https://impactinvestingaustralia.com/wp-content/uploads/2021/01/Impact-Investing-Australia-2021_22-Pre-Budget-Submission.pdf

2. Context

ICA is part of the strategy to catalyse the impact investing market developed in 2014 by Impact Investing Australia (IIA), GSG Impact's Australian National Partner, which articulates the need and potential for a social investment bank or additional wholesale platform to attract institutional capital at scale in the country. [101]

In October 2015, IIA launched the Blueprint for ICA to accelerate development and achieve scale for impact investing in Australia, followed the collective efforts led by the Working Group, which comprised leaders from the Community Council of Australia, NAB, Social Enterprise Finance Australia, Social Ventures Australia, Australian Impact Investments, Grace Mutual, Blue River Group, Evans & Partners, The Benevolent Society, Philanthropy Australia, GVT Capital, and AMP Capital. A.T. Kearney and Ashurst offered expert guidance in this initiative.

In 2020 the Australian government established a Social Impact Investing Task Force. It was run out of the office of Prime Minister and Cabinet, with its Secretariat sitting within that office. The Task Force had a panel of experts chaired by Michael Trail, who incidentally had also chaired a previous task force on social investment.

The Task Force undertook a comprehensive round of convenings in the Australian market, in which it gathered input from a wide array of stakeholders, from integrators and foundations to large scale institutions. Its aim was to explain why a wholesaler as well as other various pieces of market infrastructure were needed from the perspective of all those stakeholders.

101 Impact Investing Australia. (2014). *Delivering on Impact - The Australian Advisory Board Breakthrough Strategy to Catalyse Impact Investment*. Available at: https://www.impactstrategist.com/wp-content/uploads/2015/12/0109Delivering_on_impact-FInal.pdf

Australia Development Investments (formerly EMIIF)[102]

In August 2023, the Australian Government established Australian Development Investments (ADI), an AUD 250 million impact investment wholesale fund, building on the successful Emerging Market Impact Investment Fund (EMIIF) pilot. EMIIF was a development financing mechanism launched in June 2020 by the Australian Government, Department of Foreign Affairs and Trade (DFAT). The AUD 40 million EMIIF program mobilises investment capital for the growth of impactful SMEs in Asia and the Pacific.

EMIIF's results include:

- Mobilising five dollars from the private sector for every one dollar invested
- AUD 175 million in additional salaries generated for workers
- AUD 11 million in tax revenues for partner governments through the growth of businesses
- 10,737 jobs created, of which 42 percent are for women
- 20,000 students with improved educational services
- 20,000 businesses with improved integration to agricultural supply chains
- Over 1 million micro enterprises provided with finance

ADI retains EMIIF's assets, partners, and governance, focusing on larger-scale investments and emphasising climate and gender impacts in the Indo-Pacific, aligning with Australia's development objectives. ADI provides early stage and concessional investment to impact investment funds. These funds in turn give critical early-stage finance to businesses in the Indo-Pacific. This finance helps these businesses to innovate, grow their employment, and deliver goods and services to their communities. By blending Official Development Assistance and private finance, ADI sends a powerful signal to the finance sector about the opportunities to generate financial returns and development impact in the region. As ADI expands it will focus on:

- **Market building**: ADI's investments will seek to grow the market by supporting new and emerging fund managers. It deploys early and concessional finance to help de-risk impact funds and crowd in greater sources of private capital.

- **Development impact**: All ADI investments will deliver concrete and sustainable development or climate impact – issues increasingly at the forefront of investors' minds.

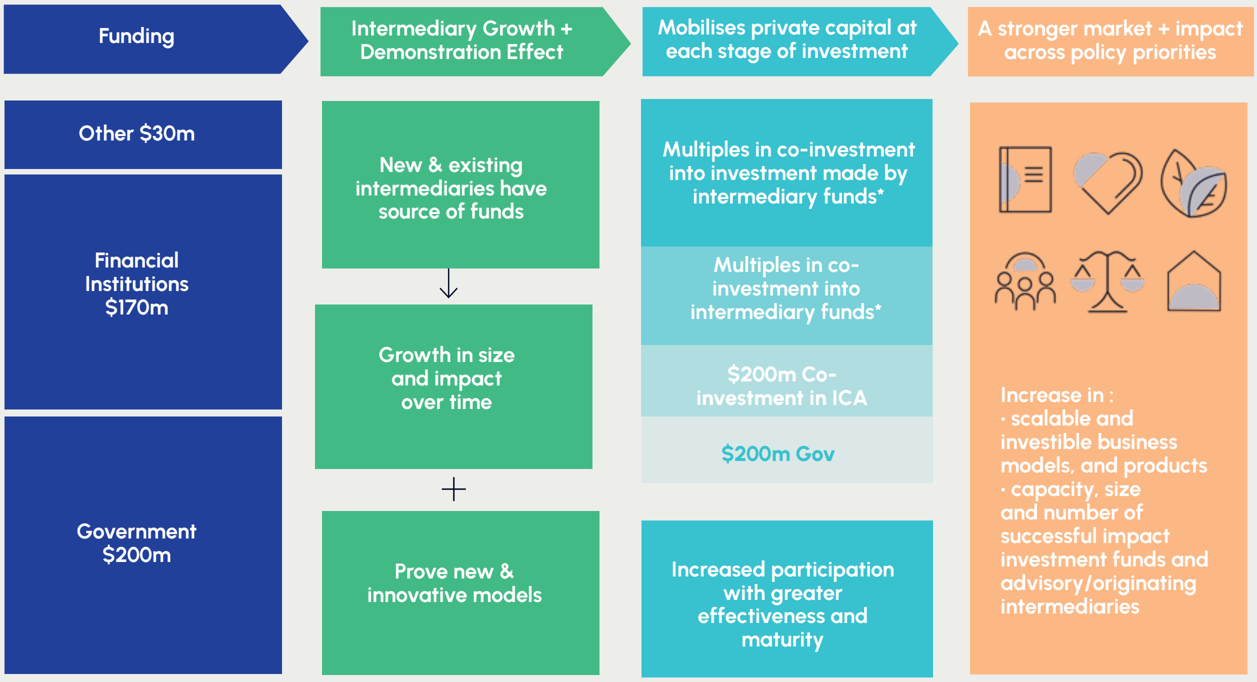
- **Connecting Australian investors to the region**: ADI will create investment pathways for Australian impact investment into the region, further strengthening the connection between Australia and Indo-Pacific countries.

3. Theory of Change

ICA's multiple layers of co-investment will create a multiplier effect on the Government's $200m contribution. As the image below demonstrates, at each stage of investment more private capital is unlocked for public benefit. While in a tight budgetary environment, the leverage on government capital is incredibly important, so too is its efficacy. In addition to the capital unlocked, support of intermediation enables the attraction of talent and capacity building. Measurement and monitoring of intermediary impact also places focus on what is being achieved for the money spent. This support of intermediaries will ultimately multiply the opportunities in the field and lead to additional ways of delivering more and better outcomes for our Australian communities including through new solutions to complex issues.

102 Australian Government Department of Foreign Affairs and Trade. (2023). *Australian Development Investments - Factsheet*. Available at: https://www.dfat.gov.au/sites/default/files/australian-development-investments-factsheet.pdf

Figure 14. Impact Capital Australia theory of change & multiplier effect



Source: Impact Investing Australia (2020)

4. Finance

As an investor, ICA will focus ~80% of its activity on finance for existing and new intermediaries. In its capacity as a wholesaler or fund of funds, ICA will invest in funds seeking to enter the SII market or those looking to grow in key social impact sectors. ICA will also retain ~20% of its capital for investment directly into transactions that promise socially impactful, innovative and scalable solutions. It will "crowd-In" rather than "crowd-out" capital with direct investments which would not typically attract first mover capital from other sources. Impact driven organisations and initiatives need access to capital on appropriate terms. While on the investor side there is an increasing pool of capital seeking impact. The most efficient way to match demand and supply is through effective and appropriately skilled intermediaries delivering a variety of investment products for different types of issues and organisational requirements. ICA is designed to provide a long-term committed platform that can have a catalytic effect to stimulate intermediaries and, through them, demand and deal pipeline.

5. Summary

Without the availability of capital from an institution such as ICA, innovative ideas developed by intermediaries will struggle to find investors willing to go first on acceptable terms or who can appropriately price impact risk and return. Impact Investing Australia, which has advocated for the establishment of an impact investment wholesaler for nearly a decade, will continue to pursue engagements with policy makers and pension funds to advocate for the launch of an Australian impact investment wholesaler.

Impact Investment Wholesale Fund (Germany)

The German impact investment wholesale fund initiative has emerged as a significant endeavour driven by a collaborative effort between private impact investor Tony Schwartz, the BMW Foundation, and the Social Entrepreneurship Network Germany. This initiative stems from a realisation on the part of government representatives that Germany was the sole G7 country lacking a solution for dormant bank accounts, prompting urgent attention to bridge this gap. The coalition treaty of the new federal government (2021) underscored the importance of addressing this issue,[103] catalysing the involvement of pertinent ministries.

The legislative progress to allow the use of dormant funds for social investment has been led by the Federal Ministry for Economic Affairs and the Federal Ministry for Justice. Collaboratively, they aim to draft legislation that lays the groundwork for accessing capital from dormant bank accounts. Parallel to this, the Federal Ministry for Research and Education (BMBF) has been tasked with conducting a feasibility study to chart a course for utilizing the acquired capital, which is expected to offer a foundational blueprint that not only informs the legislative process but also aids in garnering support from parliamentary members.

Integral to the initiative are key players such as the Social Entrepreneurship Network Germany, the BMW Foundation, and other entities that have championed the cause of early-stage funding and social innovation. Their advocacy has propelled the dormant bank accounts issue onto the government's radar, leading to inclusion in the coalition treaty.

The proposed funding mechanisms for the initiative envision a multifaceted approach, combining direct financing for social enterprises and wholesale interventions. This approach seeks to address early-stage funding gaps and promote social innovation across the country. As Germany navigates this intricate landscape, it draws inspiration from international models such as Big Society Capital and the European Investment Fund, while simultaneously tailoring its approach to suit the unique contours of the German impact investment ecosystem.

103 The Federal Government. (2021). *The Coalition Agreement - Dare more progress: Alliance for Freedom, Justice and Sustainability*. Available at: https://italia.fes.de/fileadmin/user_upload/German_Coalition_Treaty_2021-2025.pdf

Ci-Gaba Fund of Funds (Ghana)

1. Introduction

In 2023, Impact Investing Ghana (IIGh) - GSG Ghanaian National Partner - began the operational set-up of the Ci-Gaba Fund of Funds (FoF), an innovative finance vehicle intended to mobilise USD 75 million in local and international funding. Among its unique features, 75% of the funding is local and focused on investing in SMEs. The use of local currency is designed to encourage local market development and capital mobilisation from Ghana's pension industry.

Ci-Gaba's investments will be directed towards West Africa, primarily focusing on Ghana and neighbouring Francophone nations. This initiative takes the form of an open-ended vehicle, devoid of a predetermined lifespan, affording individuals the flexibility to enter and exit at specified intervals.

The fund will be managed by Savannah Impact Advisors (SIA), headed by Ms. Hamdiya Ismaila, a founding member of Impact Investing Ghana and the former General Manager of Venture Capital Trust Fund (VCTF), a Government-backed Fund of Funds. Supported by GSG Impact and the Collaborative for Frontier Finance, SIA and IIGh are one of three NP recipients of technical assistance support from US DFC to establish 3 new catalytic capital fund of fund vehicles supporting local SMEs. At this time the specific design components and features of the fund are in the late stages of development with more details expected to be shared once the fund is operational. The fund is expected to reach its first close by the end of 2024.

2. Context

Small & Medium Enterprises with positive track record and high growth prospects continue to struggle to access patient capital due to:

·Lengthy due diligence process required by capital providers; especially when they require capital quickly to seize growth opportunities or do not have the right systems in place.

·Perception of high risk and uncertainty compared to larger, more established companies.

Local Fund Managers struggle to raise local funding to invest in SMEs due to:

·Investors tend to prefer fund managers with a proven history of successful investments.

·Setting up a Fund is Complex involving navigating a complex web of regulatory and compliance requirements and Expensive

·Local currency funds are unstable and unattractive to international investors concerned with currency fluctuation yet are a better match for SMEs.

Local Institutional Investors such as Pension Funds represent a long-term capital pool (Ghana: *USD6 billion in assets | Nigeria: USD 22 billion in assets*) but:

·Have limited internal capacity due to lack of necessary expertise and resources to assess fund managers

·Struggle to allocate resources to understand VC & PE due to the crowding out by traditional assets, especially government bonds/treasury bills, that they perceive as "safer".

·Cannot find institutional-grade vehicles in which to invest in that meet their risk/return requirements.

3. Theory of Change

A vehicle to unlock local patient capital for local venture funds by enabling institutional investors sucha as local pension funds and insurance companies to make local currency investments in local VC funds through Ci-Gaba.

A mechanism to de-risk alternative assets investments through the provision of catalytic capital layer to attract local institutional investors to partcipate in Ci-Gaba to signifiacntly increase supply of risk capital for SMEs.

A mechanism for emerging and experirenced PE/VC fund managers to rasie local funding to attract international investors in local VC funds, support the growth of local venture funds, especially those that can deploy small ticket investments to meet the unmet demand.

A conduit for the provision of long-term patient capital for catalytic sectorsñ agriculture/agribusiness, light manufacturing, financial inclusion, healthcare, education, technology and communication to drive significant development impact - jobs, inclusive growth, gender equality, youth employment & climate action.

4. Summary

Ci GABA is a Fund of Funds vehicle enabling:

·**Institutional investors** such as local pension funds to make local currency investments into local VC Funds.

·**De-risking** to attract local institutional investors such as pensions to make alternative asset investments into productive sectors of the economy through its 30% layer of catalytic capital.

·Emerging and experienced PE/VC fund managers to **raise local funding and attract international investors** in local VC funds.

·The provision of patient and **smaller ticket size investment capital needed into SMEs**

·A conduit for the provision of long term patient capital in high impact and high growth sectors to drive the **attainment of the SDGs.**

Indonesian Impact Investment Wholesale Fund (Indonesia)

1. Introduction

Commencing with the 2023 GSG Leadership Meeting held in Istanbul, the GSG Asian working group[104] started engaging in designing the impact investment wholesaler fund for emerging Asia. This venture marks the inaugural regional wholesale fund aimed at emerging markets within the APAC area. Given the resources available, the Indonesian National Partner - Indonesian Impact Alliance (IIA) - has started a study to map out the landscape of demand and supply of impact investment funding in the country, with a view to create a pilot wholesaler for Indonesia before expanding the coverage to other Asian markets.

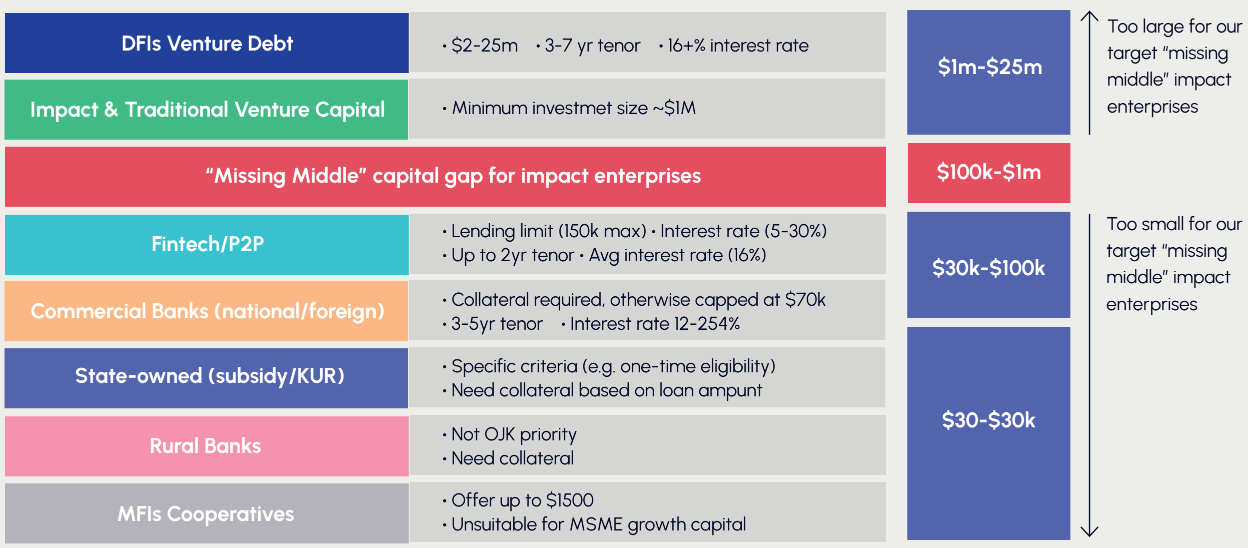
2. Context

Asian countries have observed the emergence of diverse impact enterprises, all driven by the core objective of generating social and environmental change. Within the region, various groups of impact incubators, accelerators, angel investors, and impact funders have arisen. In Indonesia, we have observed that there are now 52 investment fund managers with a broad impact mandate, compared to 11 a decade ago. However, despite witnessing over a decade of growth among impact entrepreneurs and investors, the scale of impact achieved through this movement remains relatively fledgling.

Two specific gaps are identified in financing earlier-stage impact ventures:

1. **Investment scale**: There is a lot of need for financing in the range of USD 100k to USD 1 million. This size is too big for the available microfinance/microcredit institutions in the market, which mostly utilise peer-group lending, yet too small for the available global/regional impact funds. The graph below shows the current analysis of impact-oriented financing players in Indonesia.

Figure 15. The capital gap for "missing middle" impact enterprises



Source: GSG Indonesia National Partner

104 GSG Impact's National Partners in Malaysia, Thailand, and Indonesia are leading the formulation of the Fund.

2. **Investment structure**: In some markets, there may be available capital at this scale either as debt (bank SME facilities or venture debt) or equity (seed-stage impact VC funds). However, these available financing structures/instruments are often not a good fit for the aforementioned impact enterprises due to a) collateral requirement for debt, or b) the enterprises are not the quick-scale/tech-based type that suits the VC equity investment model.

The need arises for smaller intermediaries capable of concentrating on these smaller deals and experimenting with inventive financing structures such as venture debt, impact outcome bonds, and revenue-based financing. These alternative structures could be better suited to meet the requirements of early-stage impact enterprises. Furthermore, an opportunity lies in blending diverse sources of capital, spanning philanthropic grants and concessional funding, to establish mechanisms that mitigate risk, thereby attracting commercial funding into the realm of impact.

Based on a co-creation workshop with over 70 stakeholders in Jakarta in January 2024, there is a lot of enthusiasm and interest in a potential wholesaler with blended finance structures.

- In emerging sectors such as climate and market segments with persistent capital gaps and perceived higher financial risk, such as segments of the SME market, there is a continuing need from asset owners for some level of capital protection. Blended finance structures can be a solution and the challenge is identifying the sources of patient, flexible capital to undergird such structures and crowd-in a potential emerging ecosystem of private impact investors.
- Challenges with impact measurement. Enterprises lack expertise and resources to measure impact, making it hard for investors to assess their effectiveness.
- There is a strong need to build capabilities of both the impact enterprises and fund managers, and there needs to be structures in place to nurture a consistent pipeline of talent. There are already locally tailored solutions and stakeholders available, and the IIA can be a strategic platform for this initiative.

3. Theory of Change

The wholesaler aims for the following expected outcomes:

- The growth of local blended capital mechanisms/funds in Southeast Asia with the potential to sustain and scale in their own markets.
- A growing diversity and number of impact enterprises, not previously reached by impact VCs, accessing financing to grow their business and delivering impact.
- Effective transfer of global and regional knowledge to local impact investing intermediaries, building local capacity to create various forms of impact investing.
- A growing participation of philanthropic organisations, corporations and governments investing in blended capital mechanisms for impact at both regional Asian and local levels.

Wholesale Impact Investment Fund (Nigeria)

1. Introduction

In Nigeria, the Impact Investment Foundation (IIF), GSG National Partner has been working closely with its Ministry of Finance Budget and National Planning and 13 other ministries and agencies, to establish a wholesale fund. In May 2023, Nigeria's government endorsed the creation of the National Partner-backed Wholesale Impact Investment Fund (WIIF) and committed to providing 50% of its first close. With supplement financing from local pension funds, the National Partner expects to make a first close of $100 million in 2025. The WIIF has a total target fund size of USD 1 billion. In July 2024, IIF appointed Kuramo Capital Management as Fund Manager of the Nigeria Wholesale Impact Investment Fund (WIIF). Over the next 9-12 months, the Nigeria National Partner will work with Kuramo and a design team featuring GSG Impact and the Collaborative for Frontier Finance to advance the design and establishment of the fund. The Nigerian NP is one of three NP recipients of technical assistance support from US DFC to establish 3 new catalytic capital fund of funds supporting local SMEs.

Financing is envisioned to support "productivity and economic growth through impact investing, including but not limited to upscaling renewable energy capacities, utilisation of natural resources for import substitution and enhanced foreign exchange earnings, building a circular economy, improving the bioeconomy, as well as, strengthening preparedness and responsiveness to disaster management across the geo-political regions." Furthermore, the government hopes to target the needs outlined in the country's National Poverty Reduction and Growth Strategy for 2021-2025.

2. Context

The WIIF was conceived and championed by Impact Investors' Foundation (IIF, the Nigerian National Partner), Ford Foundation, and The Nigeria Competitiveness Project (a GIZ-funded programme). Together with partners, the IIF worked closely with the Federal Government to create a roadmap for its establishment.

In 2022, IIF conducted research to identify regulatory issues and financing gaps preventing access to finance among local MSMEs in the healthcare, education, and agriculture sectors. Later that year, with support from GIZ, the Germany development agency, the Nigerian National Partner completed preliminary design of the wholesale fund and conducted a validation workshop with participation from the GSG and Big Society Capital. The National Partner achieved a high level of participation in the event from the government, private sector, investors, and DFIs.

As a result, the Federal Ministry of Finance Budget and National Planning started championing the fund and created the Finance Committee to facilitate the process of establishing a $1 billion wholesale fund that will catalyse sustainable and affordable investments in social enterprises. The Committee was primarily charged with the task of securing the Government's commitment and contribution to the seed capital of $100 million.

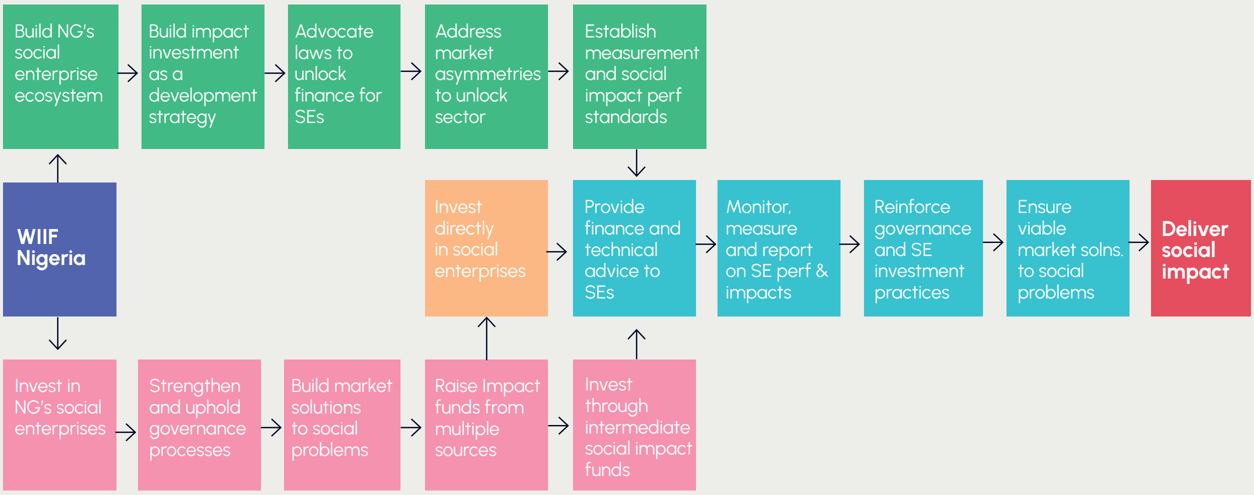
In May 2023, at a high-level roundtable meeting on the establishment of the Nigerian wholesale fund, attended by top government officials, industry experts, development partners, and other relevant stakeholders, the Federal Government disclosed its commitment to providing 50% seed capital for the Fund's take-off.

For more on the underlying context and recent impact investing trends, see the IIF website.

3. Theory of Change

The WIIF aims to build a robust social investment ecosystem and deploy impact capital to social enterprises and high growth SMEs addressing Nigeria's environmental and social challenges. The below image demonstrates its theory of change to deliver social impact in Nigeria.

Figure 16. Nigeria WIIF Theory of Change



Source: Validation Workshop - Framework for establishing a WIIF in Nigeria (2022)

4. Governance

The WIIF is planned to capital from various sources with significant government support. The Nigerian Federal Government has given its official endorsement and support for the establishment of the WIIF. The Fund has also seen interest from DFIs and pension funds in providing de-risking capital. The below image shows other potential sources of capital for the WIIF.

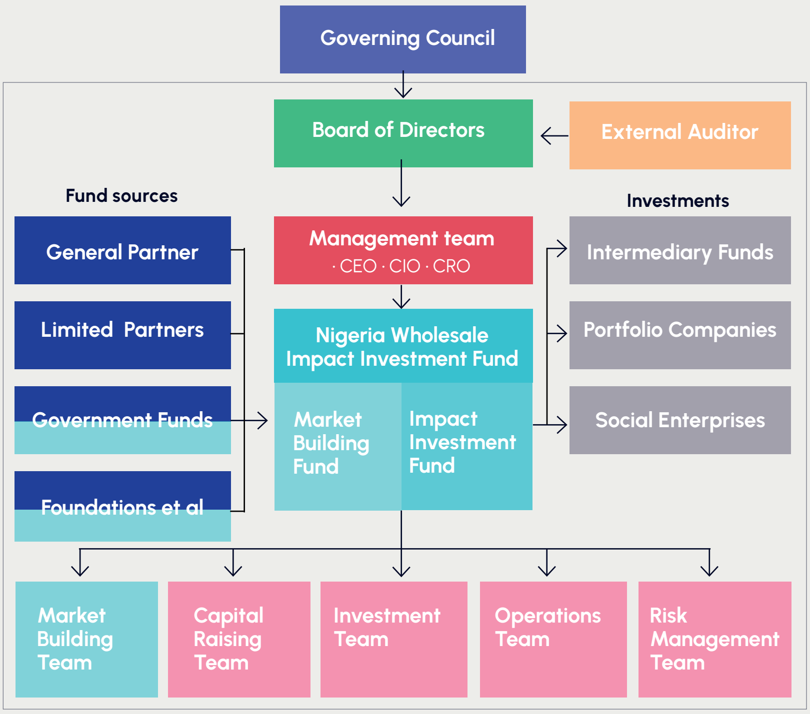
Figure 17. Nigeria WIIF envisioned source of capital

Sources	Size	Potential contribution	Strategy
Government	₦ 0.9 trillion	₦ 90 billion (10-20% of the UDTF)	Buy-in from the presidency Robust governance structures Articulated business model Clarity on expected impact
Public Fin. Institutions	-	Yet to dimension	Clear metrics of expected impact Strong governance and accountability structures Experienced fund managers
Pension Funds	₦ 1.31 trillion	₦ 3.9 billion (10% of the allowable 3% investment in aletrnative assets)	Buy-in from the presidency Clearly articulated WIIF business case Strong governance and accountability structure Credible and experienced fund managers
Foreign DFIs	₦ 5.1 trillion	₦ 5 billion (0.1% of annual international development assistance)	Government contribution WIIF business plan Strong governance and accountability structure Credible and experienced promoters
Nigeria Diaspora	₦ 7.21 trillion	₦ 7 billion (0.1% of remittances)	WIIF business plan Strong governance and accountability structure Credible and experienced promoters
Multinational firms/ commercial banks (Top 5)	₦ 11.3 billion (CSR)	₦ 1.13 billion: 10% of total size	Government seed funds Clearly articulated WIIF business case Strong governance and accountability structure Credible and experienced fund managers
Estimated Fund size		~₦ 100 billion	

Source: Validation Workshop - Framework for establishing a WIIF in Nigeria (2022)

The envisioned governance and accountability structure is depicted in the image below (working drafts).

Figure 18. Nigeria WIIF envisioned governance and accountability structure



Governing Council
· 13-member Council led by CBN Gov or designate
· Board oversight; approve WIIF ToC, mission, objectives, renumeration, appointment, policies
· Commission and publish WIIF audits

Board of Directors
· Selects mgmt. firm and approves remuneration
· Appoints independent auditor
· Oversees WIIF through Board Committees
· Publish WIIF's regular reports

Management firm
· Engaged through a competitive selection process
· Acts as General Partner with own assets at risk
· Responsible for end-to-end management

Private equity fund structure
· 2 and 20 fee structure
· Govt and grant-funding of market building activities

Source: Validation Workshop - Framework for establishing a WIIF in Nigeria (2022)

5. Finance

Various financing strategies are being investigated as part of its phase II design process. It is envisioned the vehicle will deploy capital using a range of investment tools, products and approaches, including equity, debt, and quasi debt, and technical assistance.

IIF's feasibility study suggested various deployment strategies and activities. During its current phase of design activities it will focus further on what types of businesses the fund will finance under its immediate strategy from there will determine the financing strategies that will be pursued.

6. Lessons Learned

IIF is still in the midst of designing the WIIF. Learnings to date include the important role of accessing financial and/or in-kind support from governments, foundations, and international development agencies to learn from global examples, collect information regarding Nigeria's local needs, develop a preliminary structure and engage stakeholders, including policymakers and local pension funds.

7. Summary

GSG Impact's Nigerian National Partner acknowledges that achieving the effective establishment of Nigeria's wholesale fund requires substantial government buy-in. The active participation of the technical committee established by the Federal Government has been instrumental in charting a well-defined path for the Fund's creation, ensuring the government's dedication and contribution to the seed capital. The WIIF will continue with its setup process, positioned to serve as a catalyst within Nigeria's impact investing ecosystem.

South Africa Impact Investment Wholesale Vehicle (South Africa)

1. Introduction

In South Africa, the National Partner started working on a scoping study to establish an impact wholesaler focused on providing access to finance to Small and Growing Businesses (SGBs), defined as SMEs with significant potential for growth seeking between USD 50k-550k in capital to finance their expansion. The project allowed the National Partner to draw some insights on the best suited funding options and legal governance structure for a ZAR 750m-1bn wholesaler aiming to fund five different intermediaries. Currently halted due to lack of funding, the next step would be to conduct a feasibility study to test different various parameters and design the fund.

2. Context

South Africa has the largest impact investing market in the Southern Africa region. A 2016 study assessed the amount of impact capital disbursed as amounting to USD 4.9 billion of non-DFI capital and more than USD 24.2 billion of DFI capital. However, this only represents a tiny fraction of the country's large financial market, estimated at USD 1,1 trillion of assets under management.[105] Over the past few years, there has also been a growing trend towards mainstreaming investing with an ESG lens. For instance, a 2020 survey found that 47% of local pension funds intended to monitor, evaluate, and make strategic decisions about the ongoing ESG sustainability of their assets.[106] There has also been an increased interest in impact investing from the government, which included impact investing in their draft country investment strategy, recognising their potential to address poverty, inequality and unemployment.

Although SGBs contribute to about 30% of South Africa's GDP and create 50% of jobs, they often struggle to access formal financing. Their funding needs are generally too small for institutional investors' ticket sizes, and they are considered too risky due to lack of collateral. Most SGBs are serviced by specialised intermediaries that have a good understanding of their needs, but often themselves struggle to raise funding. Meeting SGBs' financing needs thus requires to simultaneously aggregate capital, de-risk investments, and the leverage of existing intermediaries' data, systems and knowledge.

But while many wholesale funds exist in South Africa, few specifically target SGBs with measurable outcomes. In addition, blended finance structures are very rare. Most do not have market-building mandates and solely serve the interests of the investors. This means that solutions are not replicable, and do not lead to systemic change.

3. Theory of Change

The IIWV aims to improve the quality of life for unemployed, poor and underserved people in South Africa. By aggregating capital through an innovative blended finance vehicle, it would allow intermediaries to more efficiently invest in SGBs, providing them with the funding and technical assistance necessary to their growth, and facilitating local economic development. The wholesaler would provide intermediaries with anchor funding and technical support to help them raise funding from other investors and become financially sustainable. Finally, the IIWV is designed to create replicable solutions to establish proofs of concepts, share knowledge through case studies, and lead to behaviour change by encouraging investors to invest into impact, growing the supply of impact capital.

4. Governance

The study found that the wholesaler could best meet its objectives by providing a mix of debt and equity, and adopting a blended structure that combines senior-ranking funding from institutional investors, with common equity concessional funding from lower return-seeking investors, and subordinated returnable funding paid without return. The analysis of possible legal structures showed that an en commandite (or limited partnership) was likely to be

105 GIIN. (2016). The Landscape for Impact Investing in Southern Africa. Available at: https://thegiin.org/assets/documents/pub/Southern%20Africa/GIIN_SouthernAfrica.pdf

106 Impact Investing South Africa. (2021). *Impact Investing Wholesale Vehicle - Learning Brief: Good Practice for Integrating Impact Considerations into Investment Processes*. Available at: https://www.theimpactprogramme.org.uk/wp-content/uploads/2021/12/IIWV_Learning-Brief-Pension-Funds_October-2021.pdf

best suited, due to its ease of use, flexibility, and to market familiarity.

Pension Funds were identified as the most likely source of institutional financing, thanks to their appetite for diversification alternatives. Insurance companies and banks showed little intent to overcome constraints, and the regulatory framework does not currently enable the mobilisation of unclaimed assets. Concessional capital could be raised from international DFIs, and returnable capital from international donors, (e.g., South African corporate trusts, international foundations and high-net-worth individuals), and the National Treasury's Jobs Fund.

Social Impact Fund (Spain)

1. Introduction

COFIDES is a state-owned enterprise, with public and private shareholders, founded in 1988 that specialises in the management of State funds that provide medium and long-term financing for private investments linked to different public policy purposes.

COFIDES directly manages or advises a portfolio of more than €5,500 million in funds. The mission of COFIDES is to contribute to the internationalisation of companies and the Spanish economy and sustainable development through financial services.

In October 2023, the European Council approved the Addendum to the Spanish Recovery Plan to mobilise all the European NextGeneration EU funds by 2026 and a new €400 million Impact Investment Fund, called the Social Impact Fund ("SIF" or "FIS", in Spanish).

The Social Impact Fund will be managed by COFIDES and will contribute to the growth of the social and environmental impact investment ecosystem in Spain. It is the first public fund of its kind in Spain. Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

2. Context

The Social Impact Fund is part of the Spanish government's larger strategy, the Recovery Transformation and Resilience Plan (PRTR). The Plan details a comprehensive agenda of investments and reforms and is based on four transversal axes: ecological transition, digital transformation, territorial and social cohesion, and gender equality.

3. Theory of Change

The objective of the Social Impact Fund is to contribute to the reduction of inequality in Spain and the consolidation of the Spanish welfare state.

The Fund will strengthen the impact investment ecosystem in Spain promoting the leverage of resources of the private sector to ensure that part of the financing needs of the impact economy sector are financed by private resources.

The Social Impact Fund will design instruments adapted to the reality of the social economy to mobilise private investors to impact investing.

4. Governance

- **Source of Capital**

Funds will be allocated from the government's Recovery, Transformation and Resilience Plan to COFIDES through the General Secretariat of Social Inclusion, under the Ministry of Social Security, Migration and Social Inclusion.

- **Committees**

COFIDES		Independent Experts Panel	Inter-Ministerial Committee
Analysis and structuring	Internal Committee	Initial approval	Final approval

- **Eligibility and beneficiaries**

COFIDES will establish public eligibility criteria and may invest through financial intermediaries or directly to the final beneficiaries.

- **Length**

The Social Impact Fund is an open-ended fund.

- **Geographical area**

The fund investments will be in Spain.

- **Monitoring, audit, and control requirements**

COFIDES will have a monitoring system to report on the investment mobilised and will implement procedures that will ensure the prevention, detection and correction of fraud, corruption, and conflicts of interests. It will verify the eligibility of every operation in accordance with the eligibility criteria.

COFIDES will carry out risk-based ex-posts audits. These audits shall verify that the control systems are effective, including the detection of fraud, corruption, and conflict of interests; and compliance with the DNSH principle, the State Aid rules, the climate and digital target requirements.

5. Finance

The Social Impact Fund has the following financial product lines:

- Subscription of shares in social impact investment vehicles. This line shall purchase shares of investment vehicles, managed by private financial managers. The purchase shall be limited to 25% of the total shares of each fund, except in duly justified cases, in which that percentage might increase, although it shall not exceed 49%.
- Co-investment or co-financing, through equity or other debt instruments. This line shall co-invest or co-finance projects with other public or private funds, including those on which the Social Impact Fund has purchased shares.
- Direct loans and participative loans in companies that shall carry out projects with a measurable social or environmental impact.
- Technical Assistance Facility, aimed at improving the capacities of the beneficiaries to manage and measure the impact of their investment projects.

Transaction conditions shall fulfil the State Aid rules.

6. Impact

- **Eligible themes and sectors**

The Social Impact Fund will cover underserved social and environmental challenges such as:

Challenges	Examples
Social inclusion	People with disabilities, homeless, immigrants, low-income people
Health	Mental health, ageing society, rare diseases
Education and childcare	Vulnerable children, lack of access to education, bullying, child abuse
Social housing	Reduction of housing cost for vulnerable population
Territorial cohesion	Territorial connectivity, sustainable and integrated rural development, territorial innovation
Gender	Close gender gaps in the labour market and increasing the number of women in social entrepreneurship
Financial inclusion	Microfinance for people at risk of exclusion, supporting social entrepreneurship in early stages
Environment, energy, and agriculture	Reduction of greenhouse gas emissions, reduction in food waste, sustainable agriculture

- **Measuring and managing impact**

The Social Impact Fund will manage, measure, and report the impact generated by direct and indirect financing.

Projects financed by the Social Impact Fund shall submit:

- Theory of Change/Logical Framework.
- Impact objectives.
- Independent impact management and measurement system.
- Socio-environmental risk management system.

The impact indicators used will be those that are internationally recognized (Impact Management Project, IRIS+, etc) and will be aligned with the Sustainable Development Goals.

7. Market Building ecosystem

The Spanish Impact Ecosystem has grown in the last years up to € 2,951 million. Ethic Banking represents € 1,743 Million. Impact Funds, the third sector, crowdfunding platforms, family offices, public funds, corporate venture capital and insurance companies or pension funds represent € 1,208 Million.

Approximately 60% of the Social Impact Fund resources will be invested through impact funds. The Fund may also invest 15% of its resources in startups to support Spanish entrepreneurship.

8. Key Challenges

- Strengthen the social entrepreneurship ecosystem focused on new initiatives, including startups.
- Support, through various instruments, the business sector with transformative social impact projects,

not necessarily recent or innovative, but with a basic function in the maintenance of the welfare State.

- Cover insufficiently addressed social/ environmental challenges (social inclusion, financial inclusion, gender, or social and territorial cohesion) and generate additional impact through the design of new financial instruments adapted to the unique reality of the social economy.
- Attract private and philanthropic investors to impact investing.

9. Summary

The Social Impact Fund was approved in October 2023 by the European Council. The Fund will be managed by Compañía Española de Financiación del Desarrollo (COFIDES) as the implementing partner. Spanish regulation establishing the Fund and the first transactions are expected in the first semester of 2024.

The Fund shall operate by providing, among others, loans, equity, and quasi-equity investments directly, or through intermediaries. The Social Impact Fund will improve access to finance in the Spanish social impact sector, incentivising private investment in projects that contribute to social and environmental solutions and develop capital markets in these areas.

The Social Impact Fund will cover underserved social and environmental challenges such as social inclusion, financial inclusion, gender, or social and territorial cohesion. The Fund will design new instruments adapted to the reality of the social economy to attract private investors to impact investing.

Small Business Growth Initiative (Zambia)

1. Introduction

Currently in design in Zambia, the Small Business Growth Initiative (SBGI) aims to enhance access to affordable finance for Micro, Small, and Medium Enterprises (MSMEs) by providing capital relief and loss protection through a Bank of Zambia (BOZ) guarantee mechanism. Capitalised with an estimated ZMW 5 billion (~USD 180M) from the Bank of Zambia, the initiative will be set up to attract additional third party capital over time and provide affordable financing to Zambian MSMEs through a variety of financial intermediaries (FIs) and non-bank FIs, such as leasing and factoring companies. The SBGI is expected to be operational by the beginning of 2025.

2. Context

In 2020, the Bank of Zambia ("BOZ") launched the Targeted Medium-Term Refinancing Facility ("TMTRF") – a USD 590 million fund (scalable to USD 1.7 billion) offering financial service providers ("FSPs") a credit line to support businesses and households impacted by Covid-19. The TMTRF, though successful in mitigating broader COVID-19 aligned financial system stability concerns, failed to change the behaviour of financial service providers (FSPs) towards MSME lending. Realising the need for an intervention that would encourage banks to increase their lending to MSMEs, the Central Bank Governor announced the establishment of a Credit Risk Guarantee Scheme (CRGS) in December 2021 signalling a formal opportunity for NABII Zambia to advise the BOZ technical team on a mechanism that would bring about the desired - and indeed needed - systems change.

To progress the announced CRGS, BOZ and the National Advisory Board for Impact Investment Zambia ("NABII"), the local secretariat and National Partner for GSG Impact (formerly The Global Steering Group for Impact Investment) signed an MoU in June 2022 to enable the design of an innovative Small Business Growth Initiative (SBGI) that includes a CRGS. NABII, in turn, partnered with a strategic consortium of local and international partners which it assembled as the "Design Works" team, including GSG Impact, the Collaborative for Frontier Finance, and MentorMe, to help in the design and implementation of the SBGI. The key objective for the parties was to work together to ensure that affordable credit is made accessible to MSMEs. This was to be assured through various interventions, including promoting the active participation of FSPs to engage in financially innovative mechanisms - including the integration of technology and partnerships with fintechs, factoring and leasing companies, among others - capable of capitalising local MSMEs.

Since signing of the MoU, BOZ has pledged to continue advancing financial inclusion as a key focus area of its 2020-2023 Strategic Plan, with a particular goal of broadening access to financial services. Under the plan, BOZ set up an in-house Technical Team whose task is to support the implementation of the SBGI as an independent Apex vehicle. As a pioneering public-private partnership, the Apex would work to build capacity for local FSPs to co-design and invest in financially innovative products, participate in blended financial instruments benefitting local MSMEs, and serve as a model for countries in emerging economies to replicate as a means of addressing systemic gaps in MSME financing.

A grant from the Catalytic Capital Consortium ("C3"), a strategic collaboration between the MacArthur, Rockefeller, and Omidyar Foundations enabled NABII and the Design Works team to lead a 9-month Phase I design project to shape the the SBGI (more information on the Phase I design process follows below in Item 8). A year later,in July 2024, GSG Impact, the Collaborative for Frontier Finance, and NABII secured Phase II design funding from a leading Development Finance Institution (DFI), with the twin objectives of completing design refinements of the SBGI (commencing with detailed technical meetings with BOZ in July 2024) and ultimately implementing the SBGI in a structure which would allow for follow-on funding by the DFI and other catalytic funders.

3. Theory of Change

The SBGI is being developed to align to the four key impact objectives laid out by the BOZ:

1. macro-level impact - The SGBI has the intended impact of advancing financial inclusion in Zambia by supporting affordable finance at scale for MSMEs.
2. Security - The SGBI should not be exposed to unnecessary losses
3. Sustainability - The SGBI should be designed to be financially sustainable and promote greater access to finance through preferable terms for climate-aligned MSMEs.
4. Scale - the SGBI should be available to a wide range of MSMEs across most, if not all, geographies across Zambia.

The following theory of change describes the pathway to achieving the vehicle's desired outcomes:

Figure 19. Zambian SBGI Theory of Change

Inputs	Outputs	Outcomes	Impact
· Regulatory capital relief · Technical assistance for enablers, intermediaries, and MSMEs · Use of regulatory sandbox to allow for the controlled testing of innovative approaches to deployment · Alignment of BOZ Act and other tools on capital adequacy and provisioning · Alignment of Financing to well-structured Business Value Chains	· Capital available to flow to SMEs	· SMEs sufficiently capitalized with affordable financing · Banks and other intermediaries (e.g., private equity, venture capital, leasing and factoring companies, etc.) better able to serve the needs of SMES. · Strengthened role of intermediaries to provide catalytic support to SMEs through professionalized business units, improved know-how, business development services	· Job Creation · Innovation · Economic growth · Economic resilience of vulnerable communities enabling robust response to climate and economic shocks and other unforeseen circumstances · Distributed economic opportunity and wealth at the last mile

Source: NABII, GSG Impact National Partner

Inputs
With regulatory capital relief provided by BOZ, banks will have greater flexibility, allowing them to extend more credit to SMEs. Technical Assistance support will be provided by the Apex vehicle to intermediaries and SMEs to enhance their capacities and effectiveness. BOZ will apply its existing policy frameworks, including rules around capital adequacy and "Regulatory Sandbox" provisions, which enable it to pilot, learn, and adjust the program as needed, to enable the set up of the vehicle. Finally, the deployment strategy will apply a value chain approach, whereby financing will be strategically aligned with well-structured value chains ensuring SMEs can effectively integrate and grow within predefined market systems.

Outputs
Outputs include increased capital flows to SMEs.

Outcomes
As a result of increased capital flows to SMEs at affordable rates, SMEs will be able to grow scale. Financial intermediaries too will be better equipped, through TA and other enhanced capacities, expertise, and business development services, to meet the needs of Zambia's SMEs.

Impact
The impact envisioned includes job creation, innovation within the banking and financial sectors, economic growth

and resilience, including the ability to weather economic, financial, and climate related shocks or unforeseen shocks. Through a country-wide rollout, the program seeks to achieve more distributed economic opportunity and wealth at the last mile.

4. Governance

The SBGI is being designed to be set up as a Special Purpose Vehicle and managed as an Apex fund with clear roles and responsibilities and an independent Board of Directors. The Apex will disburse funds in tranches to eligible financial institutions over a period of 5-10 years. It will deliver interventions through multiple risk reduction strategies and is designed to attract additional third-party funding over time.

5. Finance

Investments under the initiative will target a range of asset classes including debt, equity, mezzanine, and hybrid instruments, ensuring diversified support to MSMEs. Examples of potential intermediaries include the commercial banks, leasing and factoring companies, and others.

While the Apex mostly be capitalised by BOZ at the outset, Investors such as development finance institutions (DFIs) and philanthropic organisations will have the opportunity to contribute through subsequent capital infusions into the Apex vehicle.

6. Impact

The Small Business Growth Initiative (SBGI) seeks to generate a transformative impact on the Zambian economy by improving access to affordable finance MSMEs. The initiative will focus on high-priority themes and sectors, including growth capital for small and growing businesses, first-time borrowers, women entrepreneurs, and green businesses. The fund manager will measure and manage impact through a rigorous reporting system, requiring Participating Financial Intermediaries (PFIs) to submit regular performance updates on their Qualifying Loan Portfolios (QLPs). These updates will include detailed information on transaction performance and the use of credit guarantee proceeds,

The Apex will also establish a Learning Lab to aggregate data and offer Innovation Grants to PFIs to enhance their reporting capabilities. By incentivizing lending to new asset classes and borrowers, the SBGI aims to foster a sustainable, secure, and scalable financial ecosystem that supports MSMEs' growth without unduly distorting the market.

7. Market Building

The SBGI seeks to play a catalytic role in financing Zambian SMEs who face significant barriers in accessing affordable finance. In line with the core objectives of the programme, the SGBI seeks to promote system change among various actors within the Zambian market. Among a range of market development goals, the programme is designed to trigger the flow of more affordable finance to SMEs, the growth and expansion of existing intermediaries and the emergence of new entrants, increased credit reporting and transparency, improved management on the part of SMEs and credit assessment methodologies on the part of financial intermediaries, improved transparency, and step change in the use of technology across various financing and commercial value chains.

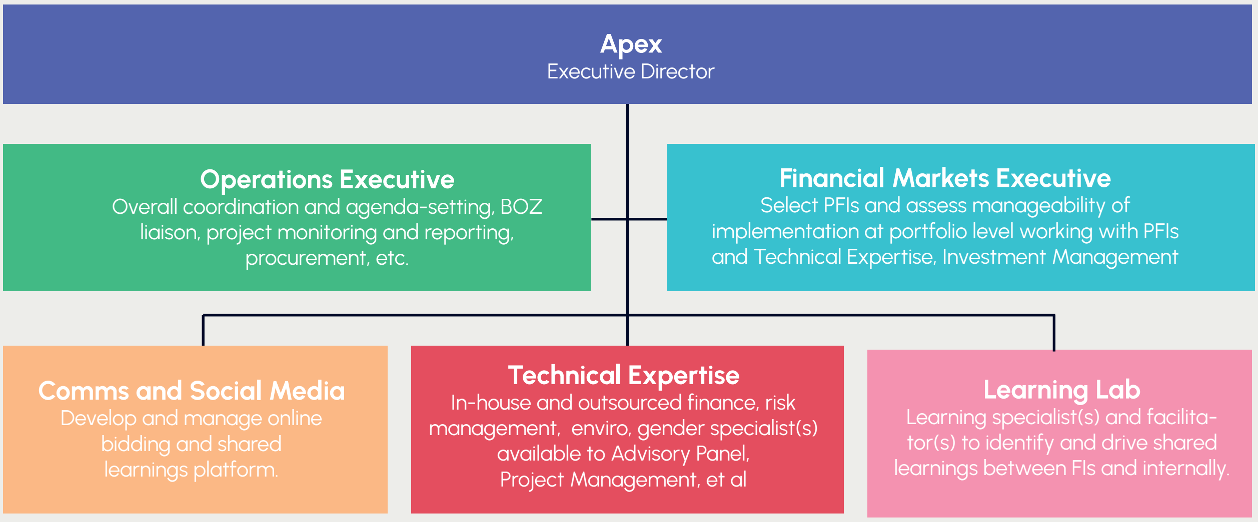
8. Key Challenges

While still in the design phase, the success of the programme rests on effectively surmounting the following hurdles:

- Ensuring a swift and successful legal process to enable the establishment of the Apex vehicle - While establishing an SPV is fully within the regulatory remit of BOZ, establishing the vehicle will still require legislative approvals. Once the proposal to establish the SBGI is formally approved by BOZ it will begin the path toward final legal approval.

- Identifying the right organisation or team to manage the Apex - Once approved, the next steps will involve bringing on board a management team with the right skillset. **Figure 19** below sketches out the skills and capabilities the team should possess. The Design Works team intends to issue a Terms of Reference (ToR) and put out a call for Expressions of Interest to source submissions from the market. To meet the various skills and capabilities required, it is feasible that a management team could consist of a blending of two organisations, each with different but complementary skill sets. Whatever team is ultimately chosen to manage, it is important the team includes someone from Zambia to ensure local leadership.

Figure 20 Sample Apex Team Structure



Source: GSG Zambia National Partner

- Creating the right incentives and learning environment to encourage commercial banks to take part in the programme and leverage the programme as a way to change their lending practices over the long term - Past guarantee programmes introduced in Zambia have often suffered from poor uptake by commercial banks. The SBGI is being designed to ensure that banks see the value of engaging in the scheme and dedicating internal resources to its effective implementation.
- Capturing the right data to assess, learn and improve the programme beyond the initial pilot stage - Capturing learnings from the programme will enable the various facets of the programme, including the financing terms, the programme's deployment strategy, the type of technical assistance provided, etc. to be continuously improved and refined. The next stages of the design process will focus on the key performance indicators that will be tracked and the ways in which data will be gathered and assessed.

9. Lessons Learned and Advice to Peers

Key success factors in the SBGI case include access to three distinct phases of design funding, the assembly of a dedicated and qualified design team, and the leadership of a reputable local entity, in this case, the Bank of Zambia.

Design Funding - With support from GSG Impact and its strategic partner, the Collaborative for Frontier Finance, NABII successfully raised an initial round of funding from the John D. and Catherine T. MacArthur Foundation, which brought together the work of the World Economic Forum COVID Response Alliance for Social Entrepreneurs, and the Sustainable Development Investment Partnership (SDIP). The support enabled NABII to work with a consortium of partners to support the early implementation of the program.

In 2022, NABII successfully raised project funding from the Catalytic Capital Consortium ("C3"), a strategic collaboration between the MacArthur, Rockefeller, and

Omidyar Foundations for a 9-month project to design the SBGI. As part of the C3 mission to advance practice and foster solutions, the project explored the use of catalytic capital to help address barriers that impede transactions. Funding from C3 enabled NABII to kick off SBGI Phase I design works in February 2023. Key phases of the Phase I process included (1) defining the problem; (2) surfacing opportunities; (3) and developing a roadmap.

In July 2024, GSG Impact, the Collaborative for Frontier Finance and three NPs successfully raised Phase II design funding from US DFC, the US development finance agency. Phase II design works are currently underway and will focus on securing the regulatory approvals needed, finalising the investment memorandum and financial model, searching and appointing the fund manager and defining key areas of implementation.

The Design Works Team - Throughout the design process, NABII has benefitted by convening a multifaceted team of international and local partners. NABII's own Chair provides leadership, strategic direction, and critical linkages with local stakeholders, especially the key local champion of the project, the Central Bank. Other partners each play important, complimentary, and collaborative roles. GSG Impact takes part as project manager and learning partner, the Collaborative for Frontier Finance brings small business finance, innovative vehicle design, and financial advisory expertise, while. Mentor Me brings deep knowledge of the demand-side landscape and an eye on emerging trends and evolving market dynamics. The Partners work closely together as a team to advance key workstreams, produce deliverables, raise additional design funding, and communicate progress to the project's key stakeholder.

Local Leadership - The design of the SGBI has progressed through various design stages thanks to strong co-leadership by BOZ. Since signing an MOU with NABII, BOZ established an in-house design team that has worked together with the NABII-led Design Works team to advance various aspects of the vehicle concept and term sheet components. By sharing its set of key objectives at the outset, BOZ was also able to consider more innovative design considerations, reassured that the vehicle would.

10. Summary

Programs such as the SBGI play a vital role in fostering the growth of MSME finance. They not only have the potential to stimulate banks and nonbank financial institutions to participate in the MSME market, thereby enhancing their lending technologies and risk management systems, but also generate positive externalities. However, the effectiveness of guaranteeing credit to MSMEs is contingent on careful design and implementation; poorly executed schemes may offer limited value and prove costly. The next design phases will present new challenges, but with strong leadership and collaboration between the NABII-led Design Works team and BOZ, the team is progressing thoughtfully to achieve lasting system change.

Glossary

Blended Finance	Blended finance is the strategic use of public or philanthropic development capital for the mobilisation of additional external private commercial finance for SDG-related investments (SystemIQ, 2019). Available at: https://www.systemiq.earth/wp-content/uploads/2019/07/BFT_BetterFinance_ExecSummary_FINAL_18012018.pdf.
Catalytic Capital	Catalytic capital represents investments that are more patient, risk-tolerant, concessionary, and flexible than conventional capital. (MacArthur Foundation, 2019). Available at: https://www.macfound.org/press/article/catalytic-capital-consortium-faqs#Q1 For a broader definition and discussion around the forms, roles, and uses of catalytic capital see Tideline. (2019). *Catalytic Capital: Unlocking More Investment and Impact*. Available at: https://tideline.com/wp-content/uploads/2020/11/Tideline_Catalytic-Capital_Unlocking-More-Investment-and-Impact_March-2019.pdf.
Fund of Funds	A fund of funds is a pooled investment vehicle that invests in intermediaries (or multiple underlying funds) providing diversification and risk management for investors.
Impact Business	Impact businesses seek to generate a measurable positive impact for people and/or the planet. Among these businesses, impact creation is part of their core mission and may be embedded in the company's core operations and/or products and services. While impact businesses may articulate their impact in different ways, (see for example, 'The ABC's of Enterprise Impact,' Impact Frontiers. Available at: https://impactfrontiers.org/norms/abc-of-enterprise-impact/), most manage their impact according to a set of shared norms known as the '5 Dimensions of Impact.' See: https://impactfrontiers.org/norms/five-dimensions-of-impact/.
Impact Economy	An impact economy is one whereby business, investment, policy, and consumption decisions deliver tangible improvements in outcomes for people and the planet (GSG, 2018). Available at: https://gsgii.org/reports/transition-of-impact-economies-a-global-overview/.
Impact Transparency	Impact transparency involves the disclosure of data by a company or financial entity that clearly shows both positive and negative business impacts, challenging industry and investors to move beyond the desire not to do harm and embrace the ambition to do good. For more on impact transparency, see: The Impact Taskforce, available at https://www.impact-taskforce.com/workstreams/impact-transparency/ and 'Impact Transparency and Integrity,' GSG Impact. Available at: https://www.gsgimpact.org/impact/focus-areas/impact-transparency-and-integrity/
Mission-Led Business	Mission-led businesses are for-profit businesses which make a powerful commitment to social impact outside the traditional social sector legal forms. Social enterprises and impact-driven businesses constitute a type of mission-led businesses (Cabinet Office, 2016). Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/574694/Advisory_Panel_Report_-_Mission-led_Business.pdf.

Pay for Success Instruments

Pay for success instruments are innovative outcomes-based financing and funding tools that directly and measurably improve lives by driving resources toward results (Social Finance). Available at: https://socialfinance.org/what-is-pay-for-success/#:~:text=Pay%20for%20Success%20is%20a,Data%2DDriven%20Decision%20Making

For a list of outcome based projects see, Government Outcomes Lab (https://golab.bsg.ox.ac.uk/about/) and The Brookings Institution (https://www.brookings.edu/articles/social-and-development-impact-bonds-by-the-numbers/).

Small and Medium Sized Enterprise (SME)

Small and Medium Sized Enterprises (SMEs) are businesses with between 10-49 employees and assets of between $100,000 - $3 million USD, and 50 -300 employees and assets of $3 - $15 million, respectively, according to the IFC. See: https://www.ifc.org/en/what-we-do/sector-expertise/financial-institutions/definitions-of-targeted-sectors.

SMEs represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies. (World Bank). Available at: https://www.worldbank.org/en/topic/smefinance.

Social Economy Organisation

Social economy organisations traditionally refer to the set of associations, cooperatives, mutual organisations, and foundations whose activity is driven by values of solidarity, the primacy of people over capital, and democratic and participative governance. (OECD). Available at: https://www.oecd.org/employment/leed/social-economy.htm#:~:text=Social%20economy%20organisations%20traditionally%20refer,and%20democratic%20and%20participative%20governance.

The social economy accounted for around 7% of global GDP in 2017 and increased employment across economies (World Economic Forum, 2017). Available at: https://www.weforum.org/publications/unlocking-the-social-economy-towards-an-inclusive-and-resilient-society-davos2022/.

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Appendices

Annex 1. Financing Instruments, Asset Classes, and Asset Class Sub-sets that Impact Investment Wholesale Funds can utilise

Financing Instruments

Repayable investment	Repayable finance includes debt or equity investment whereby principle and interest are paid back to the issuer
Grants	Grant monies are non-repayable funds, typically made up of donations.
Results-Based Financing and Outcomes Contracting[1]	Results-based financing (RBF) is a type of funding mechanism that links payments to the achievement of pre-defined results or outcomes. In other words, rather than paying for outputs, the government or other entities (e.g., donor agencies, etc.) pays for outcomes. This form of financing diversifies a not-for-profit business' funding sources, enabling staff to develop technical expertise in performance benchmarking and measuring outcomes, as well as improving organisational governance and accountability. Social outcomes contracting is a useful example of a results-based financing product that funds programs that aim to address social issues, such as homelessness, reoffending, or unemployment, while also generating a financial return for investors. Employing social outcomes contracts also helps to transfer and offset risk, enabling government actors to test out and assess the impact of new intervention models.[2] There are currently approximately 247 Social Impact Bonds globally, representing a market valued at around $421 million.[3] Examples of outcomes contracts include *The Newpin Reunification Programme* (Australia), *The General Assembly Career Impact Bond* (US), *and Quality Education India Development Impact Bond* (India). See the Government Outcomes Lab (Go-Lab) for more examples.

1 Also known as social impact bonds or pay for success instruments.

2 Australian Government The Treasury. (2014). *Financial System Inquiry Report*. Available at https://treasury.gov.au/publication/c2014-fsi-final-report

3 Brookings. (2024). Social and development impact bonds by the numbers - June 2024 snapshot. Available at: https://www.brookings.edu/articles/social-and-development-impact-bonds-by-the-numbers/

Asset Classes

Debt	Impact investment wholesalers provide debt financing to intermediaries who in turn on-lend to enterprises.
Equity	Businesses require growth financing and business support to enable them to improve their services and scale to meet increasing demand.
Real Estate / Property	Through property, or place-based, investments, impact wholesale funds can support social and affordable housing, housing for vulnerable populations, and regional development.[4]
Quasi Equity	A hybrid of equity and debt investment. Equity investment may not be possible if an organisation is not structured to issue shares. A quasi-equity investment allows an investor to benefit from the future revenues of an organisation through a royalty payment which is a fixed percentage of revenue. This is similar to a conventional equity investment but does not require an organisation to issue shares.[5]

Asset Class Sub-Sets

Impact Venture Capital	Impact venture capital seeks to bring new capital to ventures looking to solve meaningful, often transformative challenges. Examples of impact VC funds include: Ananda Impact Ventures (Germany), Bridges Israel (Israel), Mustard Seed MAZE (Portugal), Sopoong Ventures (Korea), Patamar Capital (Southeast Asia), Impact Engine (US), Ankur Capital (India), and many more
Community-Based Lending	Community-based lending promotes access to capital and local economic growth in urban and rural low-income communities. There are six basic types of Community Development Finance Institutions (CDFIs): community development banks, community development loan funds, community development credit unions, microenterprise funds, community development corporation-based lenders and investors, and community development venture funds.[6] Examples of community-based lending instruments include The *Community Investment Enterprise Facility* (UK), Access to Capital for Entrepreneurs, Inc. (US), and the Community Economic Development Investment Fund *(CEDIF) program and Community Business Development Corporations (CBCDs)* (Canada).

4 Examples of property or place-based investments include: *Greater Manchester Property Venture Fund (UK), Resonance Community Developer Fund (UK), South Yorkshire Pension Fund (UK), and The London Fund (UK)*

5 Available at https://bigsocietycapital.com/glossary/#:~:text=Quasi%2Dequity%20investment%3A%20a%20hybrid,not%20structured%20to%20issue%20shares.

6 CDFI Coalition. "What are CDFIs?" Available at: https://cdfi.org/what-are-cdfis/#:~:text=There%20are%20six%20basic%20types,and%20community%20development%20venture%20funds.

Annex 2. Policy arguments

To build the political momentum and stakeholder support needed to set up impact investment wholesalers, NPs and other market builders typically frame their policy arguments around the key benefits these vehicles can deliver:

- Generating economic growth and jobs
- Addressing the key domestic social and environmental challenges
- Leveraging scarce public resources to draw in additional private sector capital

As country cases demonstrate, National Partners have used different tactics and approaches to turn these opportunities into action. In the cases of the UK, Portugal and Germany, NPs and other market builders harnessed national government priorities to secure political momentum among government leaders. In the cases of Canada and Australia, the NP helped to bring about the establishment of an official taskforce that involved government officials and generated evidence from successful wholesale fund cases in other countries and research findings. In Ghana, Zambia, and Nigeria, NPs worked to secure technical assistance support from international agencies and development finance institutions. In all successful cases where a vehicle was established, NPs undertook and were committed to consistent advocacy and lobbying efforts vis-a-vis government under multiple administrations or mandate holders.

Vehicle	Policy argument
Better Society Capital (UK)	In 2000, the UK government's Social Investment Task Force explored ways investment could be used to achieve social as well as financial returns, laying the groundwork for the social impact investment market and BSC's creation. Chaired by Sir Ronald Cohen five years later, the Commission on Unclaimed Assets (2005) made the argument for using capital from dormant bank accounts for social good. This led to the Dormant Bank and Building Society Accounts Act 2008, enabling dormant assets to capitalise what would come to be known as a "social investment wholesaler."[7] When a Conservative-Liberal Democrat coalition took power in 2010, BSC aligned with the government's "Big Society" policy agenda focused on empowering civil society organisations. In 2011, the UK Cabinet Office asked Sir Ronald Cohen and Nick O'Donohe to establish a social investment bank, which came to be known as Big Society Capital (Today's Better Society Capital).[8]
Portugal Social Innovation (Portugal)	In 2011, Portugal embarked on a three-year financial assistance programme, the Economic Adjustment Programme, supported by the European Union, the European Central Bank, and the IMF. Austerity measures meant the public sector budget was under strain and not able to address the mounting social needs faced by significant populations and regions of the country. Within this context, the government of Portugal saw an opportunity to promote social innovation to create new solutions for social problems and to develop suitable financing instruments to finance innovative projects and enterprises.

7 Available at https://sirronaldcohen.org/commissions-task-forces#:~:text=The%20Social%20Investment%20Task%20Force,social%20fabric%20in%20its%20poorest

8 Available at: https://bettersocietycapital.com/about-us/our-history/

JANPIA (Japan)	In the mid-2010s, Japan was facing major structural issues, including the world's fastest ageing population, rising childhood poverty, and shrinking public welfare budgets. With commercial banks entering the social investment market through participation in a newly launched social impact bond encouraging early detection of colon cancer, and Japan's pension fund warming to ESG investing, the Japanese National Partner and other local market leaders demonstrated the importance of laying early groundwork that would enable greater private capital flows to address pressing social challenges. This argument paved the way for the establishment of JANPIA, the Japanese impact investment wholesaler, using Japanese dormant accounts.
SVS (South Korea)	The social economy sector in Korea has been actively lobbying for supportive social finance policies since the late 1990s. By the mid-2010s, the concept of an impact investment wholesaler was already well-known in Korea's social economy sector, owing to familiarity with the pioneering Better Society Capital model in the UK, thanks to efforts championed by the Korean National Partner, including in-person visits from BSC and GSG Impact representatives active in the organisation's establishment. The wholesaler concept garnered support as an innovative platform to expand Korea's social economy and channel funding to the sector, while BSC's early activities provided a proven blueprint to follow, The social economy sector successfully integrated social finance into former President Moon Jae-In's political agenda during his 2017 and 2022 electoral campaigns. This provided political support by high level political stakeholders.
Social Finance Fund (Canada)	A paper in 2014 titled "Mobilising Private Capital for Public Good: Priorities for Canada," published by the Canada NP, called for the establishment of a pooled social finance fund, along with regulatory changes and pay-for-success mechanisms.[9] This advocacy aligned with the federal government's own emerging priorities articulated in the 2015 Mandate Letter, which tasked ministers with developing a national social innovation and social finance strategy. Heeding pressure from the NP, the government established the Social Innovation and Social Finance Strategy Co-Creation Steering Group in 2017. Composed of 16 people from the impact investment sector and one person from the government, the Steering Group consulted across the country, asking people what they thought a social innovation and social finance strategy should do. The Steering Group also gathered input from Portugal Social Innovation and Better Society Capital who provided data and information from its own activities. In the Canadian case, having a government representative as part of the initial Steering Group proved effective, as it prompted government representatives to perceive the Steering Group's continuous advocacy efforts as a set of recommendations coming from within the government itself.

9 Available at: https://www.marsdd.com/wp-content/uploads/2014/09/MaRS-National_Advisory_Board_Report_EN.pdf

Wholesale Impact Investment Fund (Nigeria)	The active participation of the technical committee established by the Federal Government has been instrumental in charting a well-defined path for the Fund's creation, ensuring the government's dedication and contribution to the seed capital. Furthermore, WIIF received financial and technical support from international development organisations like the EU, GIZ, Ford Foundation and GSG Impact enabling thorough studies, needs assessments and stakeholder engagement to build the fund's design. As a result, the Federal Ministry of Finance Budget and National Planning started championing the fund and created a Finance Committee to facilitate the process of establishing a $1 billion wholesale fund that will catalyse sustainable and affordable investments in social enterprises. The Committee was primarily charged with the task of securing the Government's commitment and contribution to the seed capital of $100 million.
Germany	The campaign to establish an impact investment wholesaler in Germany stems from the realisation on the part of government representatives that Germany was the sole G7 country lacking a solution for dormant bank accounts, prompting urgent attention to bridge this gap. The coalition treaty of the new federal government (2021) underscored the importance of addressing this issue, catalysing the involvement of relevant ministries. The legislative progress to allow the use of dormant funds for social investment has been carefully orchestrated by the Federal Ministry for Economic Affairs and the Federal Ministry for Justice. Collaboratively, they aim to draft legislation that lays the groundwork for accessing capital from dormant bank accounts. Parallel to this, the Federal Ministry for Research and Education (BMBF) was tasked with conducting a feasibility study to chart a course for utilising the acquired capital. Its final paper offers an important foundational blueprint that not only has the possibility to inform the legislative process but will also aid in garnering support from parliamentary members.[10]
Social Impact Fund (Spain)	The Social Impact Fund is part of the Spanish government's larger strategy, the Recovery Transformation and Resilience Plan (PRTR). The Plan includes a comprehensive agenda of investments and reforms and is based on four transversal axes: ecological transition, digital transformation, territorial and social cohesion, and gender equality.

10 Available at: https://sozialeinnovationen.net/wp-content/uploads/Vision-Paper-SI-Advisory-Board_ENG.pdf

Impact Capital Australia (Australia)	Backed by the Prime Minister's office and an appointed panel of experts, the Social Finance Task Force adopted a centralised, whole-of-government lens to its recommendations. Comprehensive convenings undertaken by the Task Force gathered perspectives from a wide array of stakeholders like integrators, foundations and large institutions, informing the initiatives. In May 2023, as recommended by the Task Force, the Australian government announced a series of groundbreaking social finance initiatives including, the launch of a $100 million AUS outcomes fund, an $11.6 million AUS Social Enterprise Development Initiative, and a $210 million expansion over four years to expand the Emerging Markets Impact Investment Fund. The Australian National Partner is continuing to pursue engagements with policymakers and pension funds to advocate for the launch of an Australian impact investment wholesaler.
South Africa	Although Small and Growing Businesses (SGBs) contribute to about 30% of South Africa's GDP and create 50% of jobs, they often struggle to access formal financing. Their funding needs are generally too small for institutional investors' ticket sizes, and they are considered too risky due to a lack of collateral. At the same time, there has also been an increased interest in impact investing from the government, which included impact investing in their draft country investment strategy, recognising their potential to address poverty, inequality and unemployment. The South African National Partner harnessed these changing market gaps and dynamics to advocate for the establishment of an impact wholesaler focused on the SGBs. With support from FCDO, the NP was able to conduct a scoping study which further informed the model.
Ci-Gaba Fund of Funds (Ghana)	The Ghanaian National Partner identified pensions as a potential source of capital for impact investing to finance SMEs in the country through its own research. The National Partner established the Action Group which led the initial design of the fund of funds with support and feedback from GSG Impact, the Collaborative for Frontier Finance (CFF), and WEF. As a result, IIGh helped to set up Ci-Gaba, a pension-backed local currency FoF.
Regional Venture Capital Financial Support Program for Impact Investment (Türkiye)	In Turkiye, market builders spoke about the opportunity to foster regional development and respond to the challenges brought on by the 2023 earthquakes. In 2023, a Regional Venture Capital Financial Support Program was announced to support the implementation of sustainable regional venture capital based on public-private partnerships. The initiative explicitly aimed at providing financing support to initiatives with the potential to generate rapid growth and add value, as well as to create positive and measurable social and environmental impacts in the TR51 Region (Ankara) and in provinces declared under a state of emergency due to earthquakes in 2023.

Indonesia

Despite significant growth in impact entrepreneurship and investment in Indonesia over the past decade, there remain gaps in financing for early-stage impact ventures. These ventures typically require funding in the range of USD 100k to USD 1 million, which is too large for microfinance institutions yet too small for traditional impact funds. Developed by representatives of the private and civil society sectors, the proposed wholesale fund aims to fill this financing gap by providing smaller intermediaries capable of focusing on these smaller deals.

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