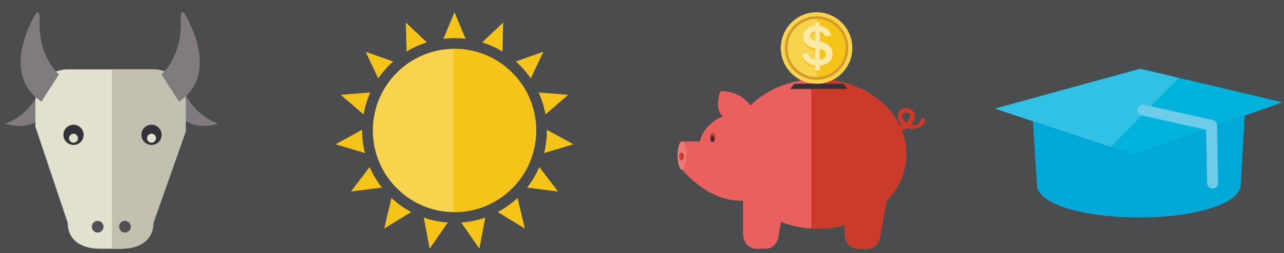
THE IMPACT PROGRAMME
ANNUAL REPORT 2016



UKaid
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THE IMPACT PROGRAMME

CONTENTS

ACRONYMS

AUM	Assets Under Management
BDS	Business Development Services
BoP	Base of the Pyramid
DFID	Department for International Development
ESG	Environmental, social and corporate governance
GBP	Great Britain Pounds (£)
GIIN	Global Impact Investing Network
KPI	Key Performance Indicator
PPI®	Progress out of Poverty Index® *Poverty Probability Index as of November 2017*
SDGs	Sustainable Development Goals
SMEs	Small and medium-sized enterprises
USD	U.S. dollar ($)

Currencies

The Impact Fund and Impact Accelerator most commonly deploy and report investment capital in USD, while the Technical Assistance Facility and market building elements of the Impact Programme deploy and report grants in GBP. In this report USD amounts are translated to GBP amounts to enable comparison between spend across investments, technical assistance and market-building projects. Average exchange rates for the year in which transactions have been made are:

Year	Exchange rate
2013	1 USD = 0.639550 GBP
2014	1 USD = 0.607353 GBP
2015	1 USD = 0.654441 GBP
2016	1 USD = 0.740559 GBP

EXECUTIVE SUMMARY

THE IMPACT PROGRAMME WAS LAUNCHED BY THE UK DEPARTMENT FOR INTERNATIONAL DEVELOPMENT (DFID) IN 2012. IT SEEKS TO FOSTER THE DEVELOPMENT OF THE IMPACT INVESTMENT MARKET IN SUB-SAHARAN AFRICA AND SOUTH ASIA TO ENABLE NEW INVESTMENT CAPITAL TO STRENGTHEN AND STIMULATE ENTERPRISES THAT PROVIDE LOW-INCOME PEOPLE WITH GREATER ACCESS TO GOODS AND SERVICES AND INCOME GENERATING OPPORTUNITIES.

The Impact Programme is comprised of two pillars: two investment vehicles accompanied by a Technical Assistance Facility to support portfolio companies; and a field-building component that provides grant funding to organisations contributing to building the market.

Further capital commitment to both of the programme's investment vehicles was approved in 2016. Without this additional resource, the programme's investment vehicles teams would have been limited in their ability to expand and successfully execute on their pipeline. This uplift means that the programme can continue in its critical role in building the market for impact investment and will help to fill the large finance gap highlighted at the UN Financing for Development conference in 2015.

The Impact Fund

The Impact Fund, launched in 2012 with a pilot fund of £75 million and scaled up by DFID to £305 million in 2016, had committed £48.8 million to five funds at the end of 2016, closing its fifth fund just before the end of the calendar year. Third party capital committed to these funds is £89.4 million, of which £41 million is private capital.

At the end of 2016, 26 portfolio companies had reached 3.7 million[1] low-income people as clients, customers, distributors, employees and suppliers, providing greater access to affordable goods and services and greater income-generating opportunities to these people. Since 2012, these companies have accounted for £63.6 million in capital being deployed to local economies, through wages, taxes and payments to local suppliers.

Agriculture, energy and ICT were the largest sectors in the portfolio in terms of total value of commitments, number of investee companies and people reached. Kenya remained the country with most investee companies across the Impact Fund (38% of companies are based there), followed by Ghana (27% of companies). Moving into 2017, the on boarding of new funds will diversify both sector and geographic spread.

DFID approved a recapitalisation of the Impact Fund during 2016 to increase the fund size by £230 million based on the strength of the pipeline and a clear demand for the type of impact-focussed patient capital it provides. Moving into 2017, the total size of the Impact Fund will be £305 million.

[1] This figure is inclusive of households and hence represents the maximum possible outreach through investments

Impact Fund key results 2016

5
Number of investments

£48.8 million
Capital committed to funds

£89.4 million (£41 million of which is private capital)
Third party capital committed to Impact Fund investees

26
Companies reached through the Impact Fund

£285,338[2]
Technical assistance funding disbursed

3.58 million
No. of low-income people (direct beneficiaries plus households) accessing affordable and quality goods and services

120,000
No. of low-income people (direct beneficiaries plus households) accessing income-generating opportunities

$85.9 million (£63.6 million)
Contributions into local economy (taxes, wages plus payments to local suppliers) since investment

[2] Data correct as at end of Q3 2016.

Impact Accelerator

The Impact Accelerator, the Impact Programme's direct investment facility, was launched in 2015 and made three new commitments in 2016, increasing its direct investment commitment to £24 million across four deals. All were greenfield or early stage businesses (hence limited information on broader impact effects), including local SMEs and joint ventures with blue-chip multinational companies. All four deals are currently in Sub-Saharan Africa and span the energy, manufacturing and agriculture sectors. The Impact Accelerator also used 2016 to test whether a clustering approach to capital deployment enabled efficient, responsive and effective portfolio management to drive impact at scale. The team has started with agriculture-focussed investments in Malawi.

DFID approved a recapitalisation of the Impact Accelerator during 2016 to increase the facility size by £293 million based on the strength of the pipeline and a clear demand for the type of impact-focussed patient capital it provides. Moving into 2017, the total size of the Impact Accelerator will be £333 million.

Impact Accelerator key results 2016

4
Companies reached through the Impact Accelerator

3[3]
Technical assistance projects approved for Impact Accelerator portfolio companies

$32.5 million (£24 million)
Capital committed through the Impact Accelerator

The Technical Assistance Facility for portfolio companies of both the Impact Fund and Impact Accelerator provided £531,500 for 46 interventions across 15 companies during 2016[4]. The majority of funding has been used for post-investment support in environmental, social and corporate governance, financial management, business operations and strategy, performance and data management.

Both the Impact Fund and Impact Accelerator portfolios are at an early stage of investments and it will be several years before conclusions about actual financial and impact performance can be drawn. It is envisioned that follow-on investments will be needed to take the companies to long-term profitability and impact creation.

Market building

The Impact Programme's market building approach was revised during 2016 to reflect the diversification and development of the impact investing market since its launch in 2012. The underlying market constraints were assessed to not have changed significantly: low volumes of actors remain across the value chain and in diverse geographies resulting in high transaction costs (despite the growth in the sector); there is still a lack of norms and standards in the industry, from defining, measuring and managing 'impact' to what a 'typical' term sheet might look like; limited capacity and infrastructure continues to prevail in DFID's target regions of Sub-Saharan Africa and South Asia.

However, the nature of specific practical challenges had evolved and the range of organisations tackling these constraints and contributing to market development has diversified. As a result, the Impact Programme's market building work was expanded to five thematic areas: opening sources of finance through new mechanisms for investment; support improved practice in impact measurement and management; build fund manager capacity; bridge information gaps and increasing market linkages; and support deal flow of impactful enterprises.

[3] Excludes one annulled project

[4] As at end of Q3 2016. Data includes projects annulled in the Impact Fund portfolio and excludes one annulled project through the Impact Accelerator.

At the end of 2016, the Impact Programme has seven market building partnerships, delivering 11 interventions which aim to improve the efficiency and effectiveness of the impact investing industry. We worked with:

- **EighteenEast** to test market appetite for an impact investment trust to sit on the London Stock Exchange.
- **The Impact Management Project** to build a convention across the industry to help codify how different stakeholders articulate their impact expectations and results.
- **Acumen Lean Data** to enable testing for proof of concept and scaling for a customer and business-centric approach to data collection and analysis.
- **Innovations for Poverty Action** to embed the PPI (Progress Out of Poverty Index[5]) as part of their wider work and update scorecards for DFID focus countries.
- **Capria Ventures LLC** to pilot and scale the Capria Accelerators for early-stage fund managers in emerging markets.
- **The Global Impact Investing Network (GIIN),** supporting five main pillars: the Annual Impact Investor Survey; regional outreach in South Asia and East Africa; a member group to share knowledge on investing in the provision of basic services for low-income people in emerging markets; development of the ImpactBase platform; and building on the GIIN's work developing IRIS metrics to provide greater guidance on how to measure and management impact.
- **FSG** to work closely with ANDE, OCA, SIB and the Impact Programme to scope and design an approach for catalysing greater deal flow in East Africa. The public version of the report 'Catalysing deal flow in East Africa: Recommendations for the development of the services market' was published by in June 2016 and DFID is progressing implementation as this report is published.

Going into 2017, several other partnerships and interventions are in the final stages of review.

> " At the end of 2016, the Impact Programme has seven market building partnerships, delivering 11 interventions.

Market building key results 2016

7 Market-building partnerships

11 Interventions supported

2 Tools and approaches for improved impact measurement and management supported (Acumen Lean Data and IPA PPA)

1 New mechanism for investment supported (18 East)

5 Funds receiving capacity building support (Capria)

3 Research papers published (the GIIN Annual Impact Investor Survey; the GIIN Network Insights document on Impact Measurement in the Clean Energy Sector; and the FSG / Impact Programme report on catalysing deal flow in East Africa)

[5] Poverty Probability Index, as of November 2017

The Impact Programme has worked with the GIIN for four years and the GIIN were therefore able to report progress under each of our partnership areas:

- At the end of 2016, ImpactBase had 411 funds registered, 35% of which focused on Sub-Saharan Africa and South Asia (exclusively or as part of a wider geography), and 2,877 investors, 42% of which were interested in Africa or South Asia.
- The BoP Basic Services Track held four in-person convenings, attracting between 35 and 95 attendees each, and three webinars, averaging over 30 participants each. Topics included the provision of non-financial support by investors, innovative financial structures, financing of climate technology and gender strategies. The track also produced a 'Network Insights' briefing report on impact measurement in clean energy and significantly advanced work on a second briefing report focused on the health sector.
- A regional liaison for East Africa was recruited during 2016. The East Africa and South Asia liaison both continued to support networking within their regions and acted as a conduit to globally-developed tools and resources.
- Results of the GIIN Annual Impact Investor survey, conducted during 2016, were published in a report in May 2017. The reports continues to evidence strong growth in the industry.

INSIGHTS

- **Investing for impact is time and resource-intensive.** Making deals in this market places greater demands on resources before and after investments are made. The Impact Fund often backs first time fund managers who are executing challenging strategies, seeking out businesses that can deliver both high social impact and financial returns. The Impact Accelerator is backing entrepreneurial strategies bringing together different stakeholders. The due diligence process is time consuming, the transaction process has a greater degree of complexity, and greater support is required to funds and investee businesses during deal structuring, execution and ongoing management. Investors need to be realistic about capacity challenges. The Impact Programme continues to build capacity, directly through the engagement of the Impact Fund and Impact Accelerator and through its market building activities.
- **There is an increasing understanding of risk-return-impact dimensions amongst investors but it is still difficult – and critically important – to find aligned co-investors, particularly private investors, willing to accept higher risks to achieve particular impact.** DFIs are increasingly structuring facilities with the ability to accept higher risk and, in some sectors (e.g. off-grid energy) there is increased interest and activity from a wider range of investor types. Despite this, there remains limited focus by investors on riskier countries and sectors, and return expectations and definitions of impact vary widely. Mobilising private capital in the impact investing space remains a challenge and in some cases blended finance structures may be useful to attract additional capital.
- **Driving impact success requires efforts across the investment cycle.** The Impact Programme investment teams consider impact across the following dimension: Access, Quality, Human Capital, Wider Economic Benefit and Demonstration Effect, utilising financial and non-financial metrics, and quantitative and qualitative information in their reviews. Embedding impact into all stages of the investment process from selection through to deal structuring and monitoring is critical. For instance, one way the team tested driving impact further in one opportunity was through innovative investment deal structure that offered more favourable financial terms to the investee on the basis of achieving impact milestones.
- **Technical assistance has the potential to play an important role in supporting the Impact Accelerator and Impact Fund portfolios.** Technical assistance has been important in helping investee companies develop their capacity, capability, and improve performance. The Impact Programme's Technical Assistance Facility has now been running for over a year and, as such, has published some initial findings on using technical assistance to build impactful businesses, which can be viewed at www.theimpactprogramme.org.uk/resources/.

THE IMPACT PROGRAMME AND THIS REPORT

THE UK'S DEPARTMENT OF INTERNATIONAL DEVELOPMENT LAUNCHED THE IMPACT PROGRAMME IN 2012 TO CATALYSE THE IMPACT INVESTMENT MARKET IN SUB-SAHARAN AFRICA AND SOUTH ASIA. DFID BELIEVES THAT DEMONSTRATING THE POTENTIAL OF IMPACT INVESTING IN THESE MARKETS AND REDUCING BARRIERS FOR OTHERS TO INVEST REPRESENTS AN OPPORTUNITY TO STIMULATE SUSTAINABLE DEVELOPMENT WHICH CAN SCALE THROUGH LEVERAGING OTHER SOURCES OF CAPITAL. THE IMPACT PROGRAMME IS IMPLEMENTED THROUGH TWO INVESTMENT VEHICLES AND A RANGE OF INITIATIVES AIMING TO BUILD THE MARKET.

> " This report summarises progress made in 2016 towards the Impact Programme's goals and provides context to this through an overview of the state of the impact investment market in 2016.

The Impact Fund and the Impact Accelerator, both managed by CDC, the UK's development finance institution, deploy capital that accepts greater risk and longer time horizons than is typically the case for CDC investments, in return for significant developmental outcomes. During 2016, DFID approved the recapitalisation of the Impact Fund, the Impact Accelerator and the Technical Assistance Facility that supports their portfolio investments. The Impact Fund was increased to a fund of £305 million (an increase from its £75 million pilot). The Impact Accelerator was increased to a facility of £333 million (an increase from its £40 million pilot). Technical assistance funds were increased to maintain funding of up to 10% of the size of investment capital.

The Impact Programme's work to build the market to enable greater and more impactful investment by others focused on support to the GIIN in the period 2012 – 2015. In 2016, the approach to building the impact investing market in Sub-Saharan Africa and South Asia was revised. The GIIN investor-focussed activities continued to be supported, but the Impact Programme also committed to work across the impact investing value chain more broadly and with a more diverse set of market building actors.

This report summarises progress made in 2016 towards the Impact Programme's goals and provides context to this through an overview of the state of the impact investment market in 2016. The report also seeks to capture key insights and learning from the Impact Programme over 2016 which we hope will be of interest to other investors and market builders.

The report draws on the Impact Programme's own experience, that of our market building partners, and data and findings from the GIIN 2017 Annual Survey[6] where this provides relevant context to our findings and experience.

[6] https://thegiin.org/knowledge/publication/annualsurvey2017

STATE OF THE MARKET

Growth and development of the market

While the exact size of the global impact investing market remains a point of debate, it is clear that the market continued to grow throughout 2016. The GIIN's Annual Impact Investor Survey 2017 (reporting investor activity for 2016) reported $114 billion Assets under management (AUM) by 208 survey respondents in 2016, compared to $77.4 billion AUM reported by 156 respondents for the previous year. The GIIN's end-of-year 'Impact Investing Trends' publication (December 2016) evidenced a compounded annual growth of AUM for investors of 18% over the period 2013 to 2015. In 2016, 205 respondents invested $22.1 billion in nearly 8,000 impact investing transactions.

In 2017, the volume of capital invested is expected to increase by 17% and the number of deals by 20%. Among the 114 respondents that completed the survey both last year and this year, the reported amount of capital invested and number of deals increased by 15% and 3%, respectively, from 2015 to 2016.

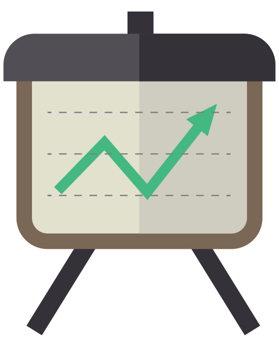
A number of new high profile investors entered the market during 2016 from both 'mainstream' financing institutions and foundations:

- Prudential Financial Inc. announced a $350 million commitment to invest in life insurers in Africa in partnership with LeapFrog Investments
- TPG Growth launched its $1-2 billion social impact investing Rise Fund, in partnership with Elevar Equity, to deliver services to underserved communities
- The Chan Zuckerberg Initiative announced its first lead investment into a start-up called Andela that trains engineers and places them in tech companies in Kenya and Nigeria as part of a $24 million Series B funding round
- Microsoft co-founder Bill Gates is heading the $1 billion Breakthrough Energy Ventures Fund that aims to reduce greenhouse gas emissions that cause climate change.

Respondents to the 2017 GIIN survey also reported progress in key areas including: availability of innovative deal/fund structures; more relevant research and data; improvements in the availability of trained professionals; and more high-quality investment opportunities. The GIIN reported in the 2017 survey that 82% of the organisations in the sample AUM were headquartered in the developed market, just under half of the sample were based in the U.S. and Canada and about a third based in western, northern and southern (WNS) Europe. Seventeen percent of the sample is based in emerging markets, primarily in Saharan Africa, Latin America and the Caribbean (LAC) and South Asia, characteristics that are largely consistent with last year's sample.

Across the sample, respondents allocated the greatest share of AUM to the U.S. and Canada (40%), followed by WNS Europe (14%), Sub-Saharan Africa (10%), and LAC (9%). Excluding a handful of outliers with concentrated portfolios, roughly half of sample AUM was invested in developed markets and half was invested in emerging markets.

Almost 75% of fund managers reported raising capital from family offices, High Net Worth Individuals (HNWIs), and more than 60% reported raising capital from foundations. More than a third also reported raising capital from banks, pension funds or insurance companies, and DFIs. The largest sources of capital by percentage of funds raised were pension funds/insurance companies at 24% excluding outliers and family offices/HWNIs at 18%.



The Impact Programme's own investment vehicles continued to find it challenging to identify private impact investors willing to co-invest in long-term opportunities with outsized risk profiles in return for particular development outcomes. In line with this 66% of respondents target risk-adjusted, market rates of financial return, with the remainder split between those seeking below-market-rate returns that are closer to market-rate at 18% and returns that are closer to capital preservation at 16%.

Sectors and enterprise stage

The GIIN Survey reported a diversity of investment activity in food and agriculture, healthcare, housing, energy, education, micro finance, and other financial services. The largest sectors by asset allocation are housing, micro finance, energy, and other financial services.

The majority of investment is in growth-stage ventures. 126 respondents surveyed by GIIN are actively engaged in this space. This is followed by venture stage investment, with 102 respondents engaged. The majority of investment, in terms of AUM, is through private equity, where roughly 41% of assets were allocated. Twenty-seven percent were allocated through private equity and 14% were allocated through real assets. Private equity continues to be the most commonly used instrument, with over 75% of respondents using this type. Over half of respondents use private debt.

Financial and impact returns

> "The largest sectors by asset allocation are housing, micro finance, energy, and other financial services.

Interestingly, the 2017 GIIN annual survey reported that multinational initiatives have built demand for impact investments, with around 60% of investors reporting that they actively track the financial performance of their investments with respect to the SDGs or plan to do so soon. Aligned with this, the Impact Programme has seen considerable market activity around aligning impact investment with the SDGs.

Roughly one year since the launch of the SDGs, 26% of respondents reported that they actively track the performance of some or all of their investments with regard to the SDGs. Another third of respondents plan to do so soon.

The 2017 GIIN Annual survey further reported that respondents indicated high levels of satisfaction with their investment performance, with 98% reporting that their investments have either met or exceeded their expectations for impact and 91% for financial performance. Return expectations are higher for equity than for debt and higher for investments in emerging markets than for those in developed markets.

Return expectations between those targeting market-rate returns and those targeting below-market-rate returns varies for investments in developed markets. Interestingly, return expectations between those principally targeting market-rate returns and those targeting below-market-rate returns vary greatly for investments in developed markets, but expectations are quite close for investments in emerging markets.

Barriers to market growth

Impact measurement and management: The Impact Programme has seen through the Impact Management Project that there is momentum in developing a shared convention for impact management, and in gaining consensus around the related terminology. This is expected to help demonstrate the business value of impact management and enable increased uptake of impact management in the sector.

The GIIN reported that 50% of respondents target both social and environmental impact objectives, while another 41% primarily target social impact objectives and 9% primarily target environmental impact objectives.

Most respondents reported measuring their social and/or environmental performance through proprietary metrics or frameworks (75%), qualitative information (65%), or IRIS-aligned metrics (57%).

Impact investors are seeking different types of evidence of the impact of their investments, with 73% looking to evidence that their investments fit within their impact strategy or theory of change, 67% track outputs associated with their investments, and 57% track outcomes associated with their investments. Many respondents also look for evidence of longer-term impact associated with or resulting from their investments (42% and 22%, respectively).

The lack of appropriate capital across the risk/return spectrum: The GIIN reported that this continues to trouble investors. 17% of respondents noted that this was a 'very significant challenge,' with a further 35% indicating that it was a 'significant challenge.' This has been consistently reported over the last 3 years. In terms of asset class focus, 24% of private debt investors reported that lack of 'appropriate capital across the risk/return spectrum' was a 'very significant' challenge, compared to 14% of private equity investors.

Risk: Of the GIIN survey respondents, 75% reported that they had not experienced more and/or worse risk events than they had expected over the past year. Notably, those who reported having experienced more or worse risk events than they had expected were primarily investing in emerging markets; 47% of emerging market focused investors answered 'yes' to this question, compared to just 7% of developed market focused investors. 49% of respondents reported 'business model execution and management risk,' as being 'very severe' or 'somewhat severe' risk to their impact investing portfolios. This is consistent with previous years' findings.

Fund manager capacity: The Impact Programme, through the Impact Fund and Impact Accelerator, found that the capacity of fund managers and enterprises in emerging markets means significant engagement by investors is needed both pre-and post-investment, making each deal time consuming and with high transaction costs.

However, interestingly the GIIN 2017 Annual Survey reported that the one area where respondents saw the most significant progress was the availability of professionals with relevant skillsets.

"The GIIN 2017 Annual Survey reported that the one area where respondents saw the most significant progress was the availability of professionals with relevant skillsets.

Exit options: The GIIN 2017 survey reported that exit options remain problematic in the eyes of many investors. 17% of emerging market focused respondents noted that lack of 'suitable exit options' was a 'very significant' challenge, compared to just 9% of developed market focused investors.

Alongside this the GIIN also reported the other area where respondents saw the most significant progress was related to innovative deal or fund structures. This may be leading to improvement in ability to exit deals.

Sustainable Development Goals

In September 2016, the GIIN initiated a thought leadership campaign around the role that impact investing[7] can play in addressing issues highlighted by the SDGs. As part of this, The GIIN produced a report - Achieving the Sustainable Development Goals: The role of impact investing. This is a series of profiles that demonstrate how impact investors have begun to utilise the SDG framework to address a variety of global issues such as access to clean water, improving health and well-being, climate change mitigation, and more.

A key point of note from the GIIN's work was that the SDGs offer a simple and attractive entry point for investors not yet engaged in impact investing to begin to build an impact investing portfolio, hopefully driving more private capital toward achieving the SDGs.

SUSTAINABLE DEVELOPMENT GOALS

[7] https://thegiin.org/assets/GIIN_Impact%20InvestingSDGs_Finalprofiles_webfile.pdf

THE IMPACT FUND

Progress and performance highlights

The Impact Fund committed £48.8 million to five funds by the end of 2016. These funds had made 26 investments and reached approximately 3.7 million[8] low-income people as clients, distributors, employees and suppliers, both directly and indirectly through investee company activities. Agriculture, energy and ICT are the largest sectors in the portfolio in terms of total value of commitments and number of people reached.

Table 1: Summary of Key Performance Indicators (KPIs) by year

KPIs	2014	2015	2016
Number of funds	2	4	5
Total size of funds	£78.3m	£130.8m	£148.6
Capital committed by the Impact Fund	£18m	£36.8m	£48.8m
Capital committed by third parties (o/w private)[9]	£49.6m (£17.8m)	£83.5m (£35.2m)	£89.4m (£41m)
Number of companies	12	18	26
Number of low-income beneficiaries reached since investment (est. direct + households)	700,000	1.9m	3.7m
- Of which, those accessing affordable goods and services	655,000	1.8m	3.58m
- Of which, those accessing income generating opportunities	45,000	100,000	120,000
Company capital into local economy (wages + payments to suppliers + taxes) since investment	$15.05m[10] (£9.1m)	$42.6m[11] (£27.9m)	$85.9m[12] (£63.6m)

Note: *Figures in yellow represent the numbers that have been converted based on the average conversion rate*

[8] This figure is inclusive of households and hence represents the maximum possible outreach through investments

[9] Third party capital refers to capital committed alongside or subsequent to CDC's investment.

[10] Converted to GBP using average exchange rate for 2014 USD to GBP 0.607353

[11] Converted to GBP using average exchange rate for 2015 USD to GBP 0.654441

[12] Converted to GBP using average exchange rate for 2016 USD to GBP 0.740559

The Impact Fund portfolio

Country analysis

The Impact Fund's portfolio is relatively concentrated in key markets in East and West Africa, however, 2016 saw a positive trend towards a broader geographic spread.

Kenya remains the country with the most investee companies – with 38% of companies situated there. However, moving into 2017 and with the on-boarding of new funds, the geographic spread will diversify. In 2016, the Impact Fund invested in InFrontier, a private equity fund in Afghanistan. This fund is the first of its kind in the country and invests in businesses that have the potential to become market leaders in the country across multiple sectors. Analysis by sector and country of the portfolio is highlighted below.

Figure 1: Impact Fund geographic focus as of 31 December 2016 (main countries of operation in Sub-Saharan Africa)

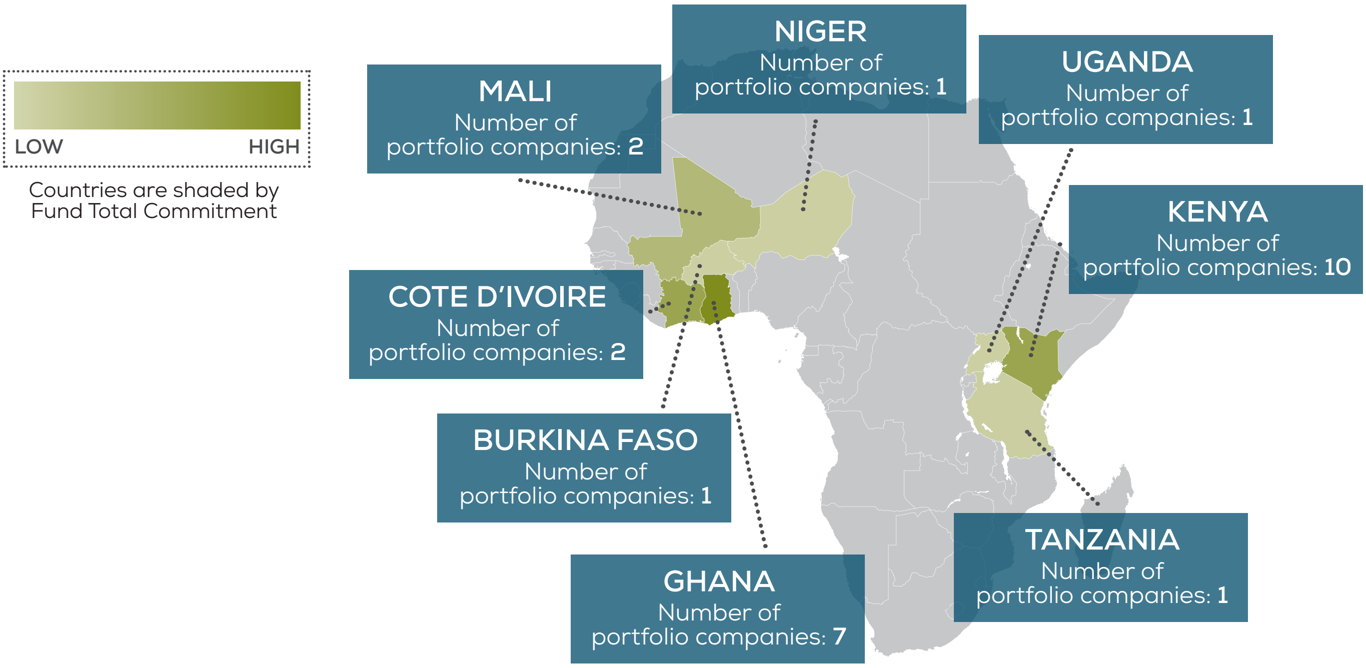


Figure 2: Impact Fund geographic focus as of 31 December 2016 (main countries of focus in South Asia)

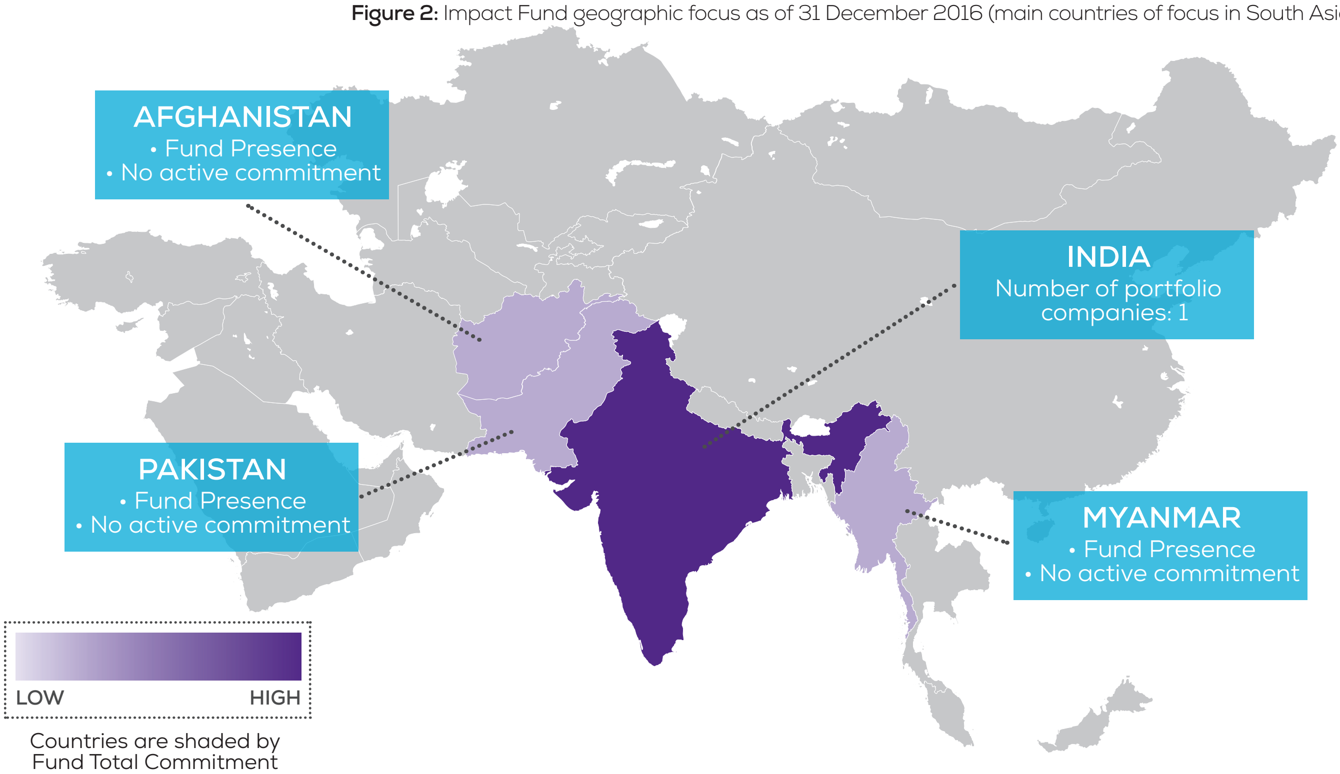
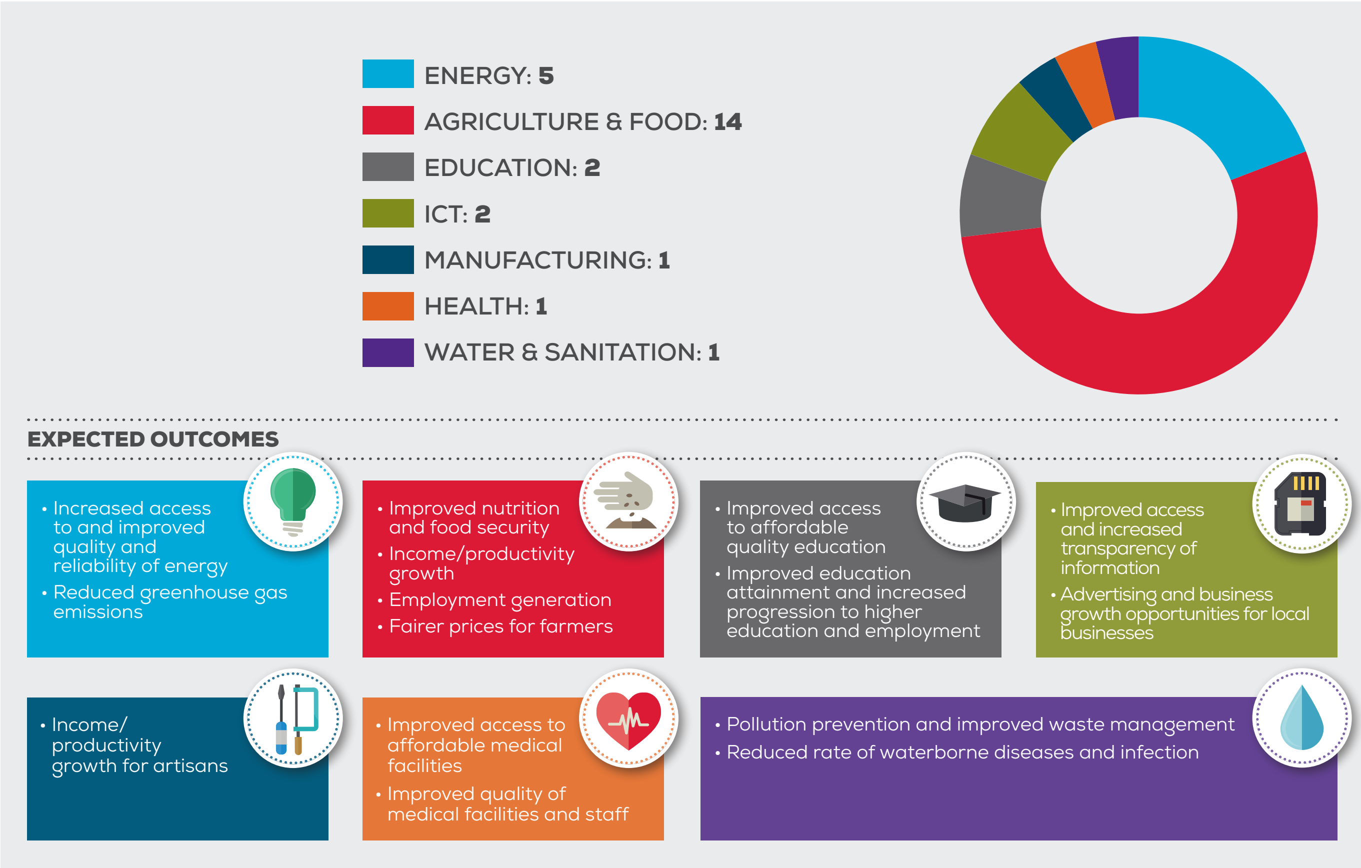


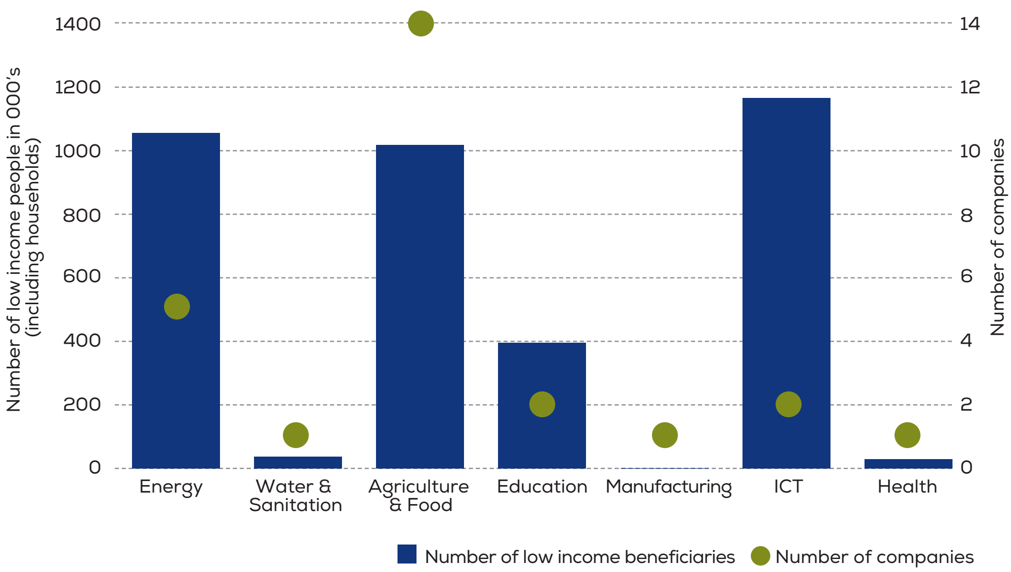
Figure 3: Impact Fund number of company investments by sector 2016



In 2016, Novastar's investment in Penda Health saw the fund expanding into the health care sector. Penda Health is building a chain of outpatient medical centres that offer consultations, medicines, lab tests, diagnostics, dental services and other specialised medical care under one roof. Penda's medical centres are in low-income, highly populated areas and aims to make these services available to 6 million underserved low-income consumers in the East Africa region.

The sector spread of the Impact Fund is expected to continue to have an emphasis on agriculture into 2017, but new funds that are likely to come on board over the course of the year are expected to increase the Impact Fund's sector reach in education, financial inclusion and healthcare.

Figure 4: Sector analysis on number of low income people reached through the investments (data as of 31 December 2016)

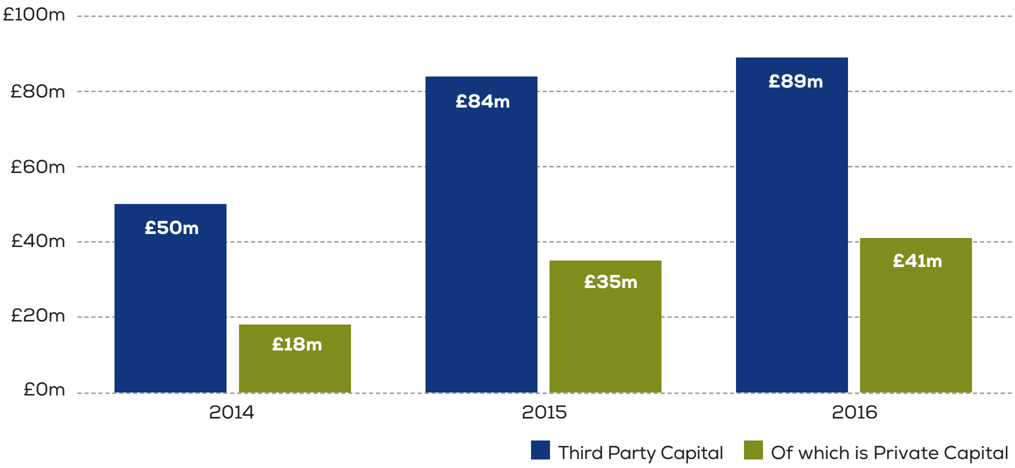


Mobilising third party capital

The Impact Fund aims to catalyse additional capital into the funds it backs. CDC undertakes robust due diligence of investee proposals, including commercial viability and development impact, and in certain cases offers subordination to private investors where necessary to catalyse their participation. In the longer term, the Impact Fund aims to catalyse further capital through proving the financial viability of inclusive business models and frontier markets, demonstrating the positive impact that these types of investments deliver.

Over the past three years, the Impact Fund investees have attracted over £89 million of third party capital of which £41 million is private capital. Third party capital committed tracks the amount invested alongside, or subsequent to, CDC investment. This capital is coming from an increasingly diverse source of investors ranging from corporates, foundations, institutional investors and family offices, highlighting the growing interest in impact investing.

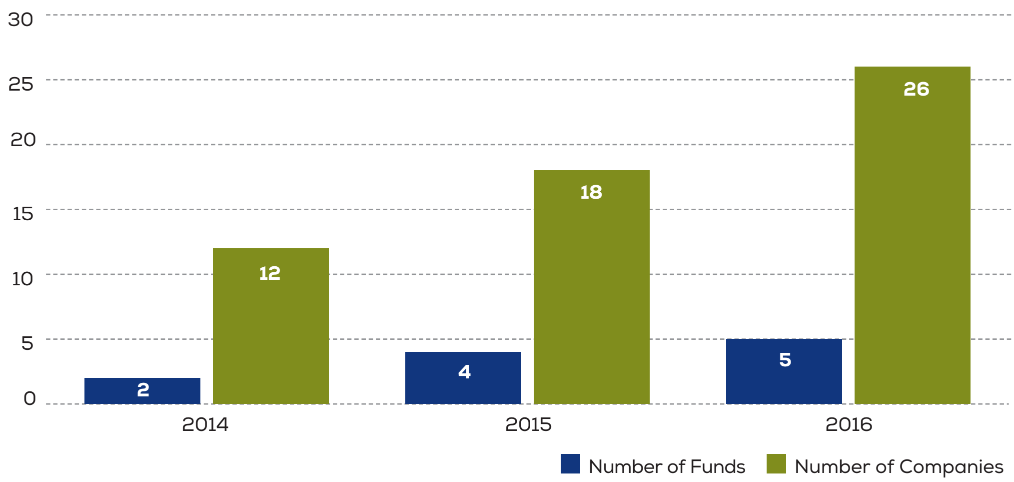
Figure 5: Third party capital into investees of Impact Fund 2015-2016

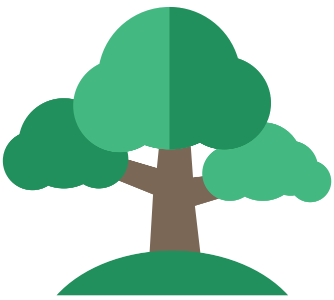


Impact Fund growth

Since 2014, the Impact Fund's portfolio has grown from two funds with 12 companies to five funds with 26 companies, highlighting the diverse pipeline of opportunities in the market. As of 31 December 2014, the Impact Fund had committed £18 million to funds with a total size of £78.3 million, whilst at the end of 2016 the Impact Fund had committed £48.8 million to funds with a total size of £148.6 million.

Figure 6: Impact Fund growth 2014-2016





> In the three years between 2014 and 2016 the estimated number of low income people reached has increased from 0.7m to 3.7m.

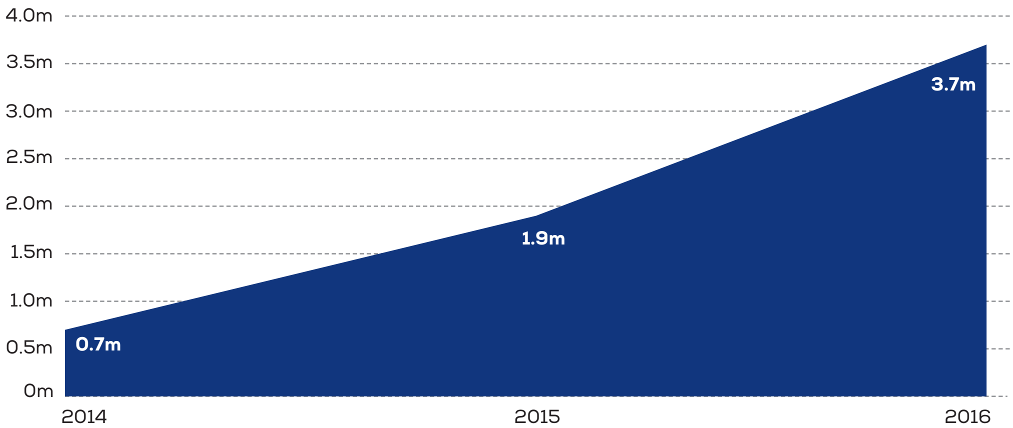
Number of low income people reached

As the Impact Fund's portfolio has grown, so too has the number of low income people reached. In the three years between 2014 and 2016 the estimated number of low income people reached has increased from 0.7m to 3.7m. This figure refers to the number of employees, distributors, clients and suppliers of portfolio companies and includes both direct number of people reached, and indirect beneficiaries at the household level. Household multipliers are applied on a case-by-case basis when it is assessed that there are household benefits e.g. where a product is consumed by a household such as clean energy and water.

The number of people reached gives a picture of the scale (breadth of impact), while the social value generated (or depth of impact) varies across investments. This ranges from households benefitting from access to electricity for the first time to those served by a reliable and regular internet connection.

As the portfolio continues to expand, the Impact Programme continues to track both the breadth and depth of impact created by the Impact Fund's investments. This is done both through periodic monitoring and through investee specific reviews, defined as deep dives, which help shed greater light on the impact generated.

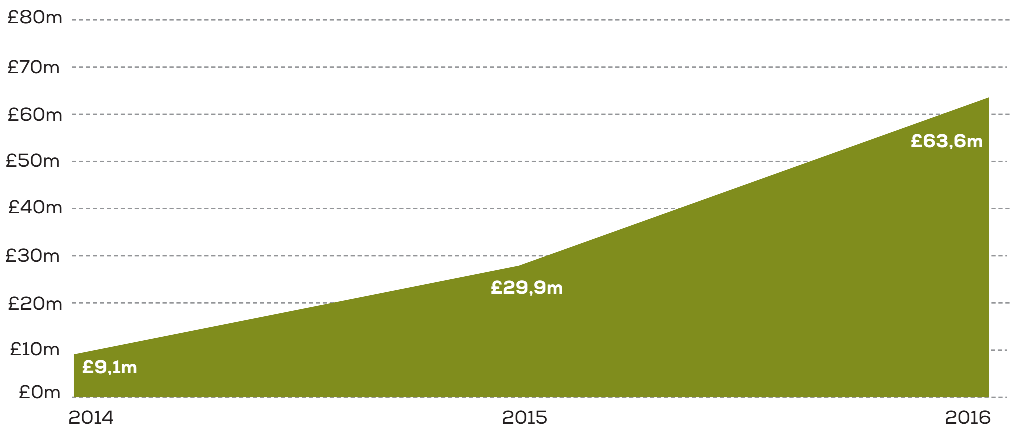
Figure 7: Number of low income people reached 2014-2016



Contributions to the local economy 2014-2016

This figure measures the amount of taxes, personnel expenses, and payments paid to suppliers and gauges the broader economic impact that the investments generate in local economy. This amount has grown from £9.1m in 2014 to £63.6m at the end of 2016. Although the exact benefits cannot be easily measured, the figure gives an interesting insight into the additional contributions to economic development created by the business activities resulting both directly and indirectly from the Impact Fund's investments.

Figure 8: Contributions to the local economy 2014-2016



New fund investment[13]

INFRONTIER

At the end of 2016, the Impact Fund made an investment of $15 million in InFrontier. The fund aims to develop and build capacity in key sectors of the economy, strengthen governance, integrate Afghan companies with global markets and improve social and environmental standards.

Focus country: Afghanistan

Impact objective: Infrontier is the only private equity fund active in Afghanistan, investing in businesses that have the potential to become market leaders in the country across multiple sectors in including financial services, IT telecoms, agri-processing, and healthcare.

Investment strategy: The fund will seek to create a concentrated portfolio with an average investment size of US$3-5 million using a range of investment instruments.

Impact Fund commitment: $15 million

Target fund size: $35 million

Existing fund investments[14]

INSITOR

Focus region: South Asia

Impact objective: Reaching low income and underserved families by providing them with essential goods and services.

Investment strategy: Equity or equity-like investments in start-ups and early stage businesses operating in Myanmar, Pakistan, India, and Cambodia. Insitor invests capital and provides hands-on support to investees in sectors including energy, education, healthcare, water and sanitation, housing and agriculture.

Impact Fund commitment: $10 million

Target final fund size: $40 million

Insitor has invested in a vocational training company in India and a microfinance institution in Myanmar.

Investee company profile – EduBridge

EduBridge provides low-cost education and vocational training to transform the lives of unemployed youth in rural and semi-urban areas of India. Founded by Girish Singhania in October 2009, EduBridge currently runs over 60 skill development centres and has trained more than 50,000 young people. The investment by Insitor will be used to expand operations to Gujarat, Odisha, Jharkhand and Bihar, and to strengthen their existing operations.

INJARO

Focus region: West Africa

Impact objective: Alleviating poverty and improving food security for rural smallholder farmers and low income producers and consumers.

Investment strategy: Sustainable investments in SMEs operating along the agricultural value chain in Ghana and Côte d'Ivoire, Mali, Burkina Faso, Niger and Sierra Leone.

Impact Fund commitment: $15 million

Fund size: $49 million

Injaro added three companies to its portfolio in 2016 covering sectors such as improved inputs, poultry and animal feed. The portfolio has reached approximately 920,000 low-income people as employees, customers and suppliers since the Impact Fund's investment[14].

[13] http://www.theimpactprogramme.org.uk/investments-dfid-impact-fund/

[14] Portfolio data accurate as of the end of Q3 2016

ENERGY ACCESS VENTURES

Focus regions: Sub-Saharan Africa

Impact objective: The social objective of the fund is to reach low income people, in rural and peri- urban areas, providing improved, reliable access to energy.

Investment strategy: The fund makes equity investments in innovative companies that address the challenge of electricity access in Sub-Saharan Africa.

Impact Fund commitment: €16.5 million (approx. $17.5m)

Target final fund size: €60 million

By the end of 2016 EAV had invested in three companies focused on residential solar home systems.

Investee company profile – PEG

PEG is an off-grid solar pay-as-you-go company operating in Ghana, providing credit for useful and productive assets to off-grid customers, such as solar home systems. By doing this, it seeks to enable customers to gain ownership of assets that they wouldn't otherwise be able to afford. After completing the payment plan, customers own the solar home system, with multiple lights, mobile charging facility, a lantern and a radio. Importantly, PEG enables families to switch away from use of kerosene with its associated health and safety hazards. PEG currently has over 10,000 customers, serviced from 29 service centres in seven regions of Ghana. The EAV investment will help PEG expand its operations in the region.

NOVASTAR

Focus region: East Africa

Impact objective: Investing in innovative businesses that achieve positive impact on the base of the pyramid population.

Investment strategy: Venture capital strategy of investing in innovative early stage businesses across multiple sectors including education, agriculture, energy and sanitation.

Impact Fund commitment: $15 million

Fund size: $80 million

Novastar's portfolio expanded to 12 investments by the end of 2016. New investments include companies in the healthcare and telecommunications sectors. The portfolio had reached some 980,000 low-income people as employees, customers and suppliers since the Impact Fund's investment[15].

Technical assistance

Novastar and Injaro remain the only two funds with active technical assistance facilities at the end of 2016. However, technical assistance contract agreement negotiations are well advanced with EAV and Insitor, both of which are expected to launch their technical assistance programmes at the beginning of 2017. Total technical assistance expenditure on these portfolios to end Q3 2016 is £109,299 against approved technical assistance funding of £285,338. Most of the technical assistance provided was used to improve finance, business operations and strategy and management information systems

Table 2: Total technical assistance funding by type of project as at end of Q3 2016

Type of project	% of funding
Financial management	50%
Business operations and strategy	18%
Data management	16%
Environment and social management	11%
Governance	5%

[15] Portfolio data accurate as of the end of Q3 2016

IMPACT ACCELERATOR

THE IMPACT ACCELERATOR, WHICH HAS BEEN PILOTED SINCE APRIL 2015, HAS MADE FOUR SIGNIFICANT INVESTMENTS TO DATE, WITH A TOTAL COMMITMENT OF £24 MILLION ($32.5 MILLION) ACROSS RWANDA, DRC AND MALAWI.

Three of the Impact Accelerator investments were made in 2016 in CDC's most challenging geographies (DRC and Malawi). The Impact Accelerator had an active pipeline and several opportunities were screened during 2016. It has also created linkages between micro, SMEs and larger anchor businesses, unlocked the potential for entrepreneurial strategies from within blue chip companies (two of its joint ventures are with global MNCs) and mobilised additional capital from impact investors and commercial entities.

> "Three of the Impact Accelerator investments were made in 2016 in CDC's most challenging geographies

One of the approaches the Impact Accelerator tested for capital deployment was through a cluster approach, beginning with Malawi, focussed on agriculture - given its critical importance to the country's economy. The thesis was that it would allow the Impact Accelerator to scale impact through multiple deals across a sector where the absorptive capacity for large individual deal sizes was limited. In order to realise the impact returns, a strong, on-the-ground partner familiar with the context would be identified to assist with portfolio management. Having on-the-ground expertise, together with a small group of Malawi-specific Non-Executive Directors, will support further development of the pipeline, allow responsive capacity building and portfolio management, identify impact maximising opportunities in investments, relieve bottlenecks to enterprise enterprise growth and secure exits to other investors (or to the on-the-ground partner).

Technical assistance capital is expected to be deployed, amongst other things, to build the capacity of these individual businesses to attract further investment capital, enhance development impact through effective structuring of out-growing schemes and ancillary support, and enhance environmental and social standards.

In addition to capital invested, the Impact Accelerator actively drove value through its portfolio:

1. Market development in sectors with minimal investment activity, e.g. through development of a water and sanitation investment strategy.
2. Alignment of grant capital to test new strategies too early for investment capital.
3. Building investee sustainability through engagement across the due diligence process and on-going portfolio management (e.g. deployment of technical assistance or connection with CDC's network of companies and expertise). This supports the company to build commercial rigour, enabling them to migrate to investment capital.
4. Optimising development impact through the business plan where commercial thesis allows. Broadening the scope of traditional commercial due diligence to include impact considerations has been a helpful guide as to where such interventions becomes relevant and attractive. Suggestions can include new products or services, geographies, partners or business processes for the company to explore.
5. Testing innovative investment structures where the Impact Accelerator has piloted deal structures to incentivise investee companies to achieve impact objectives alongside financial objectives. These include profit-sharing schemes for impact-driving activities where the internal rate of return is capped for a set time period or until a specific impact target is reached; and a lowered floor on put options if specific, time-bound, measurable and independently verifiable impact is achieved.
6. Post-investment, the deal team undertakes an active impact management approach through its embedded impact function (following the Impact Accelerator's pilot, the approach is being rolled out more broadly within CDC). The team supports management teams to draft action plans for enhancing direct investment and access technical assistance for priority projects. Both of these align closely to the commercial thesis and the financial rigour expected.

Table 3: The Impact Accelerator portfolio

Company	Vintage	Location	Impact Thesis	Impact Accelerator Commitment	Co-Investment
Africa Improved Foods (AIF)	2015	Rwanda (aims to expand to Ethiopia)	Locally produced low-cost, nutrient-rich infant food in Africa for Africa, to help combat malnutrition and create market pull for local produce to improve smallholder livelihoods	$10M (£6.5M) Equity	$18M (equity) $21.5M (debt)
Virunga Energy	2016	DR Congo	Expand and improve access to clean, renewable electricity to communities living in North Kivu, Eastern DRC (electrification rate at time of investment: 3%)	$9M (£6.6M) Debt	$57.2M (grants)
14 Trees	2016	Malawi (aims to expand to 5 countries)	Produce a low-carbon, environmentally-sustainable brick alternative to traditional burnt clay brick, to help countries to reduce construction-driven deforestation	$5.5M (£4.1M) Equity	CHF 5.1M (Equity)
Jacoma	2016	Malawi	Inclusive agribusiness of high value products– supporting local smallholder farmers	$8M (£5.9M) Equity	–

AFRICA IMPROVED FOODS

A commitment of £7.35 million ($10 million) was made to Africa Improved Foods (AIF), beginning with £3.3 million ($4.5 million) for operations in Rwanda. AIF is a greenfield public private partnership, acting as a destination for high-quality African produced raw materials from local farmers. It produces fortified nutritional product to European standards in Africa for Africa to tackle malnutrition in infants and lactating mothers. It also provides quality jobs and skills development through employment in the facility. Co-investors include multinational Royal DSM, IFC and FMO.

VIRUNGA ENERGY

A £6.6 million ($9 million) debt investment in Virunga Energy, Eastern DRC, to develop hydropower capacity to revitalise the local economy, drive regional stability post-conflict and alleviate pressure on the park's resources by enabling other sources of employment and access to power. The Impact Accelerator provided the first non-grant financing to generate and distribute energy under the province's new liberalised energy law and prove their capacity to absorb commercial capital. To date the CDC team has also supported capacity development of a local bank to structure securities for private investments and enhance commercial rigour. Co-investors include grants from The Howard G Buffet Foundation, Belgium Government and EU Commission.

14TREES

A £4.1 million ($5.5 million) equity investment into 14Trees, based in Malawi, to scale-up a new innovative low-carbon soil-stabilised brick in five countries in Sub-Saharan Africa. The investment will strengthen local construction industry as well as reduce the carbon footprint of building and provide cheaper building materials for homes and institutions. The Impact Accelerator has helped 14Trees to mobilise additional grant funding for proof of concept of innovative market-reaching strategies and acted as liaison with donors and development partners. The management team for the HoldCo is in place and brick production started in November 2016. The co-investor is LafargeHolcim Group.

JACOMA

A £5.9 million ($8 million) investment in Jacoma, an inclusive agribusiness in Malawi. The investment will benefit local stakeholders through offtake from the out-grower scheme and the provision of irrigation infrastructure for neighbouring smallholder farmers. Through the Impact Accelerator's investment, Jacoma will include an additional 1,084 smallholders in its supply chain (projected vs 2016 baseline) and provide irrigation to a total of 674 neighbouring smallholders on a non-commercial basis at its Thulwe farm. Co-investors include AgDevCo.

Technical assistance

During the reporting period, technical assistance activities in the Impact Accelerator portfolio were focused on Virunga Energy. A total of £246,162 was approved for technical assistance projects mostly for business operations and strategy and the enhancement of environmental and social performance. Business operations and strategy activities were largely completed during 2016 but environmental and social activities will continue well into 2017.

Table 4: Total technical assistance funding by type of project as at end of Q3 2016

Type of project	% of funding
Business operations and strategy	59%
Environment and social management	41%

Novastar investee company: Sanergy, Kenya

DEVELOPMENT OF A SOCIAL PERFORMANCE AND RESULTS FRAMEWORK

THE IMPACT PROGRAMME'S INVESTMENT STRATEGY AND ASSOCIATED SOCIAL PERFORMANCE AND RESULTS FRAMEWORK EVOLVED DURING 2016.

"An important development in 2016 was the launch of the 'Deep Dive' programme of work.

DFID and CDC agreed to broaden the investment strategy for IF and IA from a sole focus on only targeting investments that directly benefit people at the Base of the Pyramid (BoP) to a broader focus that would include investments that drive wider economic development impact. This strategy enables the Impact Programme to invest in fragile and frontier markets that other investors and funds consider too risky.

Associated with this change was an agreement to measure both direct and systemic impacts. Direct impacts are defined to mean both the **job creation and wider economic impacts** created by all businesses and the specific positive outcomes associated with an **increase in access to quality, affordable goods and services** to underserved markets.

IF and IA collect data on a core set of IRIS-aligned indicators for all companies presented in this report. In addition, individual businesses and funds measure and report on metrics relevant to their individual impact theses.

Investments may have systemic impacts if they: are replicable and drive impact at scale; encourage others to enter the market; mobilise additional capital into funds and underlying investees (particularly from private investors); and accelerate enterprises to commercial sustainability and impact.

IF and IA currently report on the value of third party capital invested alongside or subsequently as a headline performance indicator and will continue to consider other ways to evaluate more systemic impacts.

It is worth noting that the level of impact management and measurement capacity across funds and businesses varies widely. However, this is a strong area of focus within the industry and one where the Impact Programme is investing heavily in capacity-building support.

An important development in 2016 was the launch of the 'Deep Dive' programme of work. This is designed on the premise that at its core, learning about impact is grounded in listening to open and unbiased feedback from customers. A set of 'Deep Dive' principles were formulated to shape this work. These include:

- *Participatory.* Make a data 'offer' (what data would be decision-useful for businesses) rather than a data 'ask' (the metrics the Impact Programme requires)
- *Value added.* Help business access data that provides real insights into their customers, suppliers or business model.
- *Low cost.* Use tools that are proportionate to the likely scale of impact; and are 'right sized' to the company culture and operations.
- *Confidential.* No commercially sensitive data is made public.
- *Independent.* Data collection and analysis outside of the direct fund management team ensures impartiality.

Results and commentary on the Deep Dives will be presented in next year's Annual Report.

BUILDING THE MARKET

THE IMPACT PROGRAMME'S MARKET BUILDING ACTIVITIES[16] SEEK TO REDUCE THE CONSTRAINTS IN THE IMPACT INVESTING VALUE CHAIN AND MAKE THE PRACTICE OF IMPACT INVESTING AS EFFECTIVE, AS EFFICIENT AND AS ATTRACTIVE AS POSSIBLE TO INVESTORS, INTERMEDIARIES AND ENTERPRISES . THE IMPACT PROGRAMME DIRECTLY ADDRESSES PRACTICAL ISSUES ASSOCIATED WITH MARKET CONSTRAINTS AND SUPPORTS PRACTICAL SOLUTIONS TO ADDRESS THESE CONSTRAINTS.

The Impact Programme's market-building interventions are being implemented by organisations that are well placed to catalyse change across or within the impact investment value chain. Grants are provided to support initiatives and interventions that respond to the Impact Programme's priorities and meet its selection criteria.

The Impact Programme has identified three fundamental constraints to impact investment in Sub-Saharan Africa and South Asia, through operating in the impact investment market since 2012, as well as gathering input from other market-building organisations and industry reports. These constraints are:

1. Low volumes of actors across the value chain which means high transaction costs. This can limit investor and fund manager ability to share information on investments, funds and deals. There is little natural transmission of normal practice and lessons learned.
2. A lack of norms and standards in impact measurement and management means that investors and fund managers struggle to assess the total performance of the investment.
3. Challenging contexts in DFID target markets, including limited infrastructure and connectivity, means that it is especially challenging for enterprises to reach a state of development where they are investor ready.

During 2016, the Impact Programme has mapped how these three fundamental constraints manifest as practical issues for investors, intermediaries and impactful enterprises and initiatives in DFID's target regions. This resulted in the Impact Programme developing an approach where we believe we can add most value to building the market for impact investment in Sub-Saharan Africa and South Asia. The Impact Programme's market-building strategy aims to address practical issues associated with market constraints and support practical solutions under five strategic areas.

1 **Opening up sources of finance through new mechanisms for investment**

2 **Supporting improved practice in impact measurement and management**

3 **Building Fund Manager capacity**

4 **Bridging information gaps and increase market linkages**

5 **Supporting deal flow of impactful enterprises**

Solutions supported by the Impact Programme aim to refine existing ways of doing things, making it easier and, typically, cheaper for actors in the impact investment market to find and implement interventions and ways of working that work for them. Where needed, the Impact Programme can also fund new and innovative approaches.

A number of initiatives were identified for support in 2016 including the GIIN, Acumen, Eighteen East, Bridges Ventures, Capria and IPA.

[16] http://www.theimpactprogramme.org.uk/market-building/

1. Open up sources of finance through new mechanisms for investment

The Impact Programme has worked with one partner this year to develop new models for intermediation between a wider range of investors and enterprises and support the innovation of new structures that facilitate greater capital flows.

Taking impact investment public

EIGHTEEN EAST

Partner: Eighteen East Capital Ltd

The Impact Programme has supported Eighteen East Capital to design and test the market appetite for the launch of an impact-focussed closed-end investment company (CEIC) on the London Stock Exchange (LSE). If successful, this would make impact investing in emerging and frontier markets accessible to all categories of investor, including ordinary private individuals, by providing a regulated product offering daily liquidity and a low minimum investment size. Funds raised would be on-invested in specialist impact funds in Sub-Saharan Africa, South Asia and Latin America.

Intended impact

The market testing results indicated a reasonable chance for a successful launch through an initial public offering (IPO) and Eighteen East Capital has sourced additional funding to complete the structuring of this product. The successful IPO of the first vehicle of this type would potentially trigger the launch of competing and complementary vehicles - also known as investment trusts. This would help to develop an impact investing CEIC sector on the LSE and other major stock exchanges, thereby facilitating much larger sums of private capital to invest for impact.

In testing the market appetite Eighteen East Capital conducted meetings with 20 private banks and wealth managers across the UK and Europe during 2016. The results of these meetings were broadly positive and strongly indicative of the desire for such an impact investing product on the part of UK and European private investors. Eighteen East Capital published a report of their findings in June 2017 and, as this goes to print, are working towards a future launch of the vehicle.

2. Support improved practice in impact measurement and management

The Impact Programme works with partners on establishing industry-level, standardised frameworks and norms for impact measurement and management to help build a more efficient and transparent impact investment industry globally. The Impact Programme supports the development of practical, innovative and low-cost measurement tools and services that provide business insights for managing impact and build connections between impact measurement and management stakeholders.

Building a global convention

IMPACT MANAGEMENT PROJECT

Partner: The Impact Management Project, facilitated by Bridges Impact+

The Impact Programme is supporting a collaborative effort – across disciplines and geographies – to agree on shared fundamentals for how we talk about, measure and manage impact. The results, including case studies and practical guidance, are available at www.impactmanagementproject.com. The building of consensus by the Impact Management Project has been a co-creative process which has included activities such as: 14 advisors meeting monthly, convenings of over 700 practitioners across different disciplines, 17 contributing authors offering expertise, facilitation and content, and hundreds of partners providing input.

Intended impact

The project is relevant to anyone looking to measure and manage their effects on people and planet, positive and negative. Adoption of the shared fundamentals should increase the efficiency and effectiveness of matching the demand and supply of capital, thereby increasing investment capital flows to impact. It should also allow the measurement and management of impact performance to become leaner and more insightful.

Building industry practice

Partner: GIIN

The Impact Programme is supporting the GIIN to focus on improving impact measurement and management practices among investors. The GIIN is coordinating closely with the Impact Management Project, which is working with all stakeholders in the impact investment value chain.

The GIIN's work have looked to bring clarity to the "how" of impact measurement and management and encouraging collective action through balanced thought leadership. They have engaged with stakeholders to ensure their work is informed and connected to market needs and have developed partnerships to show linkages between IRIS and sector specific frameworks.

Intended impact

The intent is that impact measurement and management will improve the industry's effectiveness and accountability for achieving intended impact results. The GIIN have kicked off their Navigating Impact work to advance investor sophistication and help impact investors in using metrics that match intent and inform investment decision-making.

Lean Data Services

Partner: Acumen

Acumen's Lean Data uses low-cost technology and methods to gather high-quality data on customer feedback, behaviour and impact quickly and efficiently. The Impact Programme is supporting the development of Acumen's Lean Data Services ('Lean Data') proposition to enable enterprises in DFID target regions – including investee companies in the Impact Programme – to access better data on their social performance, customer feedback and behaviour.

Intended impact

This support is intended to ensure better data for the Impact Fund's portfolio companies, leading to improved insight on their social performance. In addition, it aims to test the appetite of funds and portfolio companies to pay for this service. It also enables new Lean Data innovations to be tested, and open sourced where possible, leading to wider adoption by service providers, enterprises and impact investors in emerging markets.

Acumen completed a total number of 45 Lean Data projects in 2016, surveying more than 20,000 customers in the process. Acumen's Research and Development team have carried out research to improve the accessibility and affordability of lean data. In 2017, Acumen will continue the expansion of Lean Data across the Acumen and Omidyar portfolios, as well as deliver their first Lean Data project with Injaro through the Impact's Programme Deep Dive initiative.

Progress out of Poverty Index (PPI)[17]

Partner: Innovations for Poverty Action

The PPI® is a 10-question survey that provides a statistically reliable estimate of whether a household is living below a given poverty line. The Impact Programme is supporting the further development and roll out of the PPI to help base-of-the-pyramid focused enterprises, funds and service providers in DFID target regions to access low-cost poverty measurement tools.

Intended impact

This activity aims to enable the wider adoption of PPI amongst donors, Non-governmental organisations, donors, businesses and investors and the establishment of a sustainable platform for future PPI growth.

Over the course of the year, PPIs were updated and released for Sri Lanka and Guatemala. An update to the Mexico PPI has been drafted and will be field tested next year. IPA have developed a 3 year road map for PPI, including the development of their scorecard, user engagement and support and developing PPI's alliance at IPA.

[17] Poverty Probability Index, as of November 2017

3. Building fund manager capacity

The Impact Programme works with partners to build fund management capacity. It supports the development of sustainable and scalable models that identify early-stage fund managers and provide capacity building for them at scale. It also supports the development of new models that reduce costs for fund managers.

Scaling Capria's support of local impact fund managers

Partner: Capria Ventures LLC

The Impact Programme is supporting Capria Ventures LLC in advancing the next generation of local impact fund managers in Sub-Saharan Africa and South Asia. Capria represents a totally new and unique approach to sourcing, mentoring and supporting locally-based fund managers that address the "missing middle" finance opportunity – small and growing businesses (SGBs) too big for microfinance and too small for conventional banking or private equity. The Capria system involves a combination for senior-level partnering, a tightly coupled peer network and tailored capital that helps local funds with optimize their: team and foundational skills, finance controls, operations, governance, advisors, branding, marketing, fundraising, investor relations, pipeline development, investment process, portfolio management, impact and ESG reporting, and more.

Intended impact

The Capria initiative aims to be operational and self-sustaining. Its proprietary process empowers local fund managers with a close partnership that enables them to become world-class and enduring investment firms. In turn, these funds will make deeply informed investments in SGBs that are fundable, viable and growing in emerging markets. The results create attractive risk-adjusted returns along with scaled impact. Over the next 10 years, Capria expects to partner with and support over 50 enduring fund managers in emerging markets, activating over $3.5 billion in follow-on investment capital and improving the lives of over 35 million low-income people.

4. Bridge information gaps and increase market linkages

In order to bridge information gaps and increase market linkages the Impact Programme looks to work with partners that offer access to robust and credible information, including analyses of fund economics in DFID target markets, to investors, fund managers and enterprises. It also supports the development of mechanisms which identify (quickly and easily) investors, enterprises and appropriate quality service providers.

ImpactBase, Basic Services Programming Track, Regional Liaisons, and Annual Impact Survey

Partner: GIIN

The Impact Programme supports the GIIN in the development of four core elements of their programming: ImpactBase; research; the Basic Services Programming Track; and regional liaisons. These elements aim to bridge information gaps and increase connectivity in the impact investment market.

DFID has helped to meet the costs of:

- **ImpactBase:** developing and optimising ImpactBase (an online database of impact investment funds and vehicles) to become a more widely used platform that decreases fragmentation between investors and fund managers.
- **Research:** developing a research agenda that seeks to increase transparency and information and reduce information asymmetries, with the ultimate aim of improving the practice of impact investing in line with tackling key issues.
- **Basic Services Programming Track:** a member-only forum that enables impact investors interested in financing access to basic services among the poor in emerging markets to connect with and learn from each other, share lessons learned and identify opportunities for collaboration and co-investment.
- **Regional Liaisons:** undertaking awareness and relationship-building campaigns led by a Global Liaison with support from the New York headquarters.

Intended impact

Basic Services strengthens the practice of Impact Investing in Basic Services in Sub-Saharan Africa and South Asia. During 2016, fourteen new GIIN members were added to the BoP Basic Services Track in 2016, bringing the total number to 106. This represents 43% of the entire GIIN membership.

ImpactBase works to decrease fragmentation and inefficiencies in the Impact Investing Market and between fund managers and Investors including those interested in Sub-Saharan Africa and South Asia. In 2016, the ImpactBase had a subscription of 2,877 investors, of which 1,221 had interest in Africa or Asia.

Regional Liaisons build awareness of Impact Investing among fund managers, investors and other stakeholders in Sub-Saharan Africa and South Asia and to increase access to impact investing resources; and promote the development for these markets in impact investing. In 2016, the regional representatives completed an outreach tour in Nairobi and Bangladesh, attended local and global events and engaged with local stakeholders.

GIIN Annual Impact Investor Survey allows more collaboration and sharing of investor insights and perceptions on a number of key market variables and explore how investments continue to be made across different geographies, a range of sectors, and multiple asset classes, signalling continued market growth and an increasing interest in impact investing opportunities. The results from the 2016 survey can be found here[18].

5. Support deal flow of impactful enterprises.

The Impact Programme supports mechanisms that increase incentives and lower the transaction costs for enterprises and fund managers to find and engage with each other. No interventions have been supported under this theme in 2016 but the Impact Programme have been scoping work with potential partners, particularly looking to address the lack of market information for deal making in the impact investing sector and to share information on successful impactful enterprises and understanding how business models could be replicated in different markets and sectors.

[18] https://thegiin.org/knowledge/publication/annualsurvey2016

INSIGHTS AND LEARNINGS

OVER THE COURSE OF THE YEAR, A NUMBER OF INSIGHTS HAVE EMERGED FROM THE ACTIVITY OF BOTH THE IMPACT FUND AND THE IMPACT ACCELERATOR.

Opportunities exist with focus on certain sectors and geographies

It is possible to find financially viable opportunities managed by capable teams that seek to deliver social impact at scale. For instance, the Impact Fund received 65 proposals in 2016, 50% of which focused on investing in Africa with the remainder consisting equally of funds investing globally and in South Asia. Over 50% of the proposals consisted of cross-sector funds. Of the sector-specific funds, agriculture and energy comprised 15% and 10% respectively of total. Additional pipeline is expected as a result of the Impact Fund's expanded impact objective.

Deal structuring, execution and portfolio management remains challenging, time consuming and resource-intensive

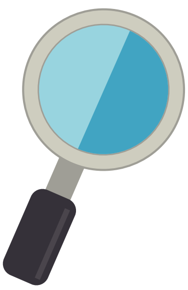
Investments often require extensive engagement and feedback from the investment team and other investors through various stages of fundraising. Investment execution in this market is particularly complex and time consuming, with CDC helping to shape proposals, including strengthening investee teams, refining strategies, ensuring incentive alignment and viable fund/business economics. Post investment, CDC plays an active role, enhancing governance, supporting fund managers and investee companies with further fundraising, supporting operational capacity building and mobilising other investors.

The co-investor landscape is varied and evolving

Growth in interest in impact investing from different types of investors has resulted in a very diverse and fragmented landscape, where return expectations and definitions of impact vary considerably. There is an increasing understanding of risk-return-impact dimensions amongst investors but it is still difficult to find aligned co-investors, particularly private investors, willing to accept higher risks to achieve particular impact. Overall, investments in riskier countries and sectors remain limited, and mobilising private capital beyond family offices and corporates active in the impact space remains a challenge and in some cases blended finance structures may be useful in aligning investors and catalysing nascent markets.

Impact and reporting

Impact should be intrinsic to the business model and go beyond that typically achieved through corporate social responsibility activities. This is a trait shared across all the investments made so far. Both investment vehicles focus on investments that either address underserved consumers, sectors or segments of the value chain, support scalable innovative business models or those in harder geographies. Overall this flexibility allows us to drive development impact at scale, across broader income groups (sometimes needed to balance commercial considerations), and experiment with innovative business models in geographies that are new to the portfolio. Overall, investee capacity to generate impact reports is improving, however finding a balance between investor reporting requirements and company and fund manager priorities is critical.



Flexible financing and using impact performance-based funding features are helpful enablers

The Impact Fund and Impact Accelerator offer a range of investing instruments. The Impact Accelerator has found that deployment of funds as equity can often unlock additional debt and grants from co-investors and is testing the inclusion of impact performance-based features in 'traditional' financing structures to incentivise shareholders and align them with the impact mandate. Examples of investee-driven impact features in investments include profit-sharing schemes based on specific impact-driving activities with IRR capped for a specific time horizon or until a specific impact target is reached.

Key insights for technical assistance funders and managers include:

Technical Assistance should be aligned with but kept at arms-length from the deal team.

Technical Assistance needs to be fully aligned with investment strategies and business plans in the most commercially-orientated way possible. In practice, this means bringing Technical Assistance facilities as close as possible to the deal teams (so that decisions can be made in consultation with investment teams) whilst having an independent governance structure for Technical Assistance to ensure that there are no conflicts of interest in final decision-making.

Additionality of Technical Assistance must be ensured through careful screening.

Requests for Technical Assistance need to be carefully screened to ensure they support catalytic 'one off' - rather than recurrent - activities. This can mitigate the risk that Technical Assistance is used to subsidise costs which could lead to market distortions. Companies need to be clear at the outset about the steps they will eventually take to move to a self-financing and self-sustaining model for the Technical Assistance activity area. Longer-term assistance should be structured so that companies increase their contribution over time to encourage this ultimate transition. In practice, this means that increasing company contributions towards the proposed Technical Assistance is an important proxy for the relative importance of the activity area versus other priorities that company may have.

Investors providing Technical Assistance must actively engage with the Technical Assistance ecosystem.

Impact investors need to be aware of the Technical Assistance 'eco-system', which encompasses a range of actors from commercial service providers to development aid projects. Coordinating with other donors/ investors providing Technical Assistance co-investment is critical. This helps to ensure that input is complementary and there are no unintended negative consequences such as overlapping or duplicative assistance which distract from core operations, or the high transaction costs for companies managing multiple inputs.

Forward look

Alongside growing the Impact Fund and Impact Accelerator investment portfolios, the future work of the Impact Programme will focus on:

- Greater analysis of the financial and social performance of investments.
- A series of deep dives to help businesses access data that provides insights into their customers, suppliers and business models.
- Analysis of the way SDGs are shaping impact investing, particularly from an impact measurement perspective.
- A market 'stock take' with market builders, fund managers, academics and investors to explore market developments and current challenges in the impact investing market.
- Sharing information and insights emerging from the activities of the Impact Programme in a way that encourages discussion and feedback.

The Department for International Development (DFID) leads the UK's work to end extreme poverty. We're ending the need for aid by creating jobs, unlocking the potential of girls and women and helping to save lives when humanitarian emergencies hit.

We are responsible for:

- Honouring the UK's international commitments and taking action to achieve the Millennium Development Goals.
- Making British aid more effective by improving transparency, openness and value for money.
- Targeting British international development policy on economic growth and wealth creation.
- Improving the coherence and performance of British international development policy in fragile and conflict-affected countries.
- Improving the lives of girls and women through better education and a greater choice on family planning.
- Preventing violence against girls and women in the developing world.
- Helping to prevent climate change and encouraging adaptation and low-carbon growth in developing countries.

CDC Group is the UK's Development Finance Institution (DFI) wholly owned by the UK Government's Department for International Development (DFID). Founded in 1948, it is the world's oldest DFI with a history of making successful investments in businesses which have become industry leaders thereby having enormous impact on the private sector in their country and region as well as improving the lives of many individuals. CDC's mission is to support the building of businesses throughout Africa and South Asia, to create jobs and make a lasting difference to people's lives in some of the world's poorest places.

CONTACT:
Rhyddid Carter, Communications Manager
E: rcarter@cdcgroup.com | **T:** +44 (0)20 763 4741

PwC UK helps organisations and individuals create the value they're looking for. We're a member of the PwC network of firms in 157 countries with more than 184,000 people who are committed to delivering quality in assurance, tax and advisory services. The Impact Programme is managed by a Programme Coordination Unit (PCU) which has been commercially tendered to PwC, working in collaboration with CDC and the GIIN.

CONTACT: **Helen Baker,** Team Lead
E: helen.baker@pwc.com | **T:** +44 (0) 20 7213 3095

Contact The Impact Programme: Programme Coordination Unit:
theimpactprogramme@uk.pwc.com

www.theimpactprogramme.org.uk