What impact means to us

An overview of how we manage impact

British International Investment

Contents

IMPACT =

What does true impact look like? It's something everyone who invests to achieve impact wants to know.

As we mark our 75th anniversary, we're setting out to explore that big question.

IMPACT = aims to demystify how to invest to achieve impact in developing economies.

It's been founded as a platform to share impact expertise – through an open dialogue with leaders in the industry and a collaborative exchange of ideas, lessons and examples. This booklet - which is intended to help and guide other investors - has been published in that spirit.

Achieving true impact is hard, and there are always lessons to be learnt.
But together, we have the answers to invest to do good.

Introduction

At British International Investment, impact is at the heart of what we do.

We help solve the biggest global development challenges by investing patient, flexible capital to support private sector growth and innovation.

We aim to maximise our impact through everything we do.

The process starts when we're deciding whether to make an investment, it continues as we monitor its progress and manage risks to impact, and finishes when we exit the investment responsibly. And through each investment, we are continually learning from what we do.

This overall approach ensures that we meet the Impact Principles, the international standard for impact management, of which we are a founding signatory. Our impact approach is also aligned with other globally recognised standards.

This booklet explains our approach to impact management and the tools we've developed to support our work. We're proud to have been recognised as an industry leader in impact management by BlueMark, which has independently verified the alignment of our impact management practices. By setting out our own approach we hope this booklet will help and guide other impact investors as well as mainstream investors beginning their journey in impact investment.

Liz Lloyd
Chief Impact Officer

Rob Davies
Director, Development Impact

BLUEMARK
PRACTICE LEADER
2023
BRITISH INTERNATIONAL INVESTMENT

To find out more about BlueMark and their independent assessment, visit bii.co.uk/impactprinciples

Our approach to impact aligns with the Impact Principles, set out below, which integrate impact throughout the investment cycle. This booklet follows the same structure, starting at strategic intent and following the steps through to impact at exit.

Strategic intent

1

Define strategic impact objective(s) consistent with the investment strategy.

2

Manage strategic impact on a portfolio basis.

Origination and structuring

3

Establish the manager's contribution to the achievement of impact.

4

Assess the expected impact of each investment, based on a systematic approach.

5

Assess, address, monitor and manage potential negative impacts of each investment

Portfolio management

6

Monitor the progress of each investment in achieving impact and expectations and respond appropriately.

Impact at exit

7

Conduct exits considering the effect on sustained impact.

8

Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

Independent verification

9

Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment.

Figure 1: *The Operating Principles for Impact Management © 2019 International Finance Corporation/The World Bank; Copyright and disclaimer information found here: impactprinciples.org/copyright-disclaimer*

Strategic intent

Our strategic impact objectives

In our 2022 – 2026 Strategy, we set out three strategic impact objectives: to invest to achieve productive, sustainable and inclusive development. These objectives respond to the opportunities and challenges we see in the countries we serve, summarised below.

Productive development

- Half of the world's population lives in Africa and South Asia, is young and growing
- Labour productivity and capital intensity are low
- Digitalisation and automation can create new and better jobs
- Productivity can improve in the informal sectors, especially in agriculture
- Cities can be engines of growth, not sources of congestion
- Countries can be better integrated into the global trading economy
- Capital markets must widen access to affordable financial products

Sustainable development

- Poorer regions of the world are worst affected by climate change
- Many countries enjoy favourable conditions for renewable energy
- Innovations in sustainable agriculture, forestry and land restoration could positively transform economies
- New green technologies can raise productivity and create demand
- Bold climate action needed to transition to net-zero could also bring green growth

Inclusive development

- Marginalised groups represent significant untapped potential e.g. female labour force participation rates in Africa are at 25 per cent (compared to 80 per cent for men)
- Whole countries can also be marginalised – through fragility and conflict
- New business models can help, whether by employing marginalised groups or providing basic services in new and affordable ways

What these objectives mean for our investment

Productive development

Raising the productivity of an economy so that it can support a decent standard of living for all.

That includes investing to

- catalyse markets by changing the behaviour of other market actors
- enable positive spill-overs to other firms
- address the biggest development needs
- achieve impact most efficiently

Sustainable development

Helping transform the economy to reduce emissions, protect the environment and adapt to the changing climate.

That includes investing to

- mitigate climate change, especially through large-scale green infrastructure
- increase climate resilience and adaptation
- support the circular economy

Inclusive development

Sharing the benefits of higher productivity and greater sustainability with poor and marginalised sections of society.

That includes investing

- to promote gender equality and diversity
- in low-income and fragile countries
- to have a positive impact on low-income populations

» EXAMPLE INVESTMENT

Liquid Telecom, pan-Africa

Liquid Telecom is the largest independent fibre and cloud provider in Africa. Our investment has helped accelerate Liquid's expansion of its fibre network along its Cape-to-Cairo route and further into Central and Western Africa, improving the availability, quality and affordability of internet and digital services.

» EXAMPLE INVESTMENT

Zephyr Power, Pakistan

Zephyr is a renewable energy company operating a 50 MW wind-power plant in the Sindh province of Pakistan. Our investment in green infrastructure is reducing reliance on more polluting and non-renewable sources.

» EXAMPLE INVESTMENT

Sun King, pan-Africa

Sun King provides solar home systems on a pay-as-you-go basis to 11.2 million people across Kenya, Tanzania, Uganda and Nigeria. Of these, 80 per cent are rural and peri-urban customers and almost 80 per cent are from low-income households.

Managing impact on a portfolio basis

Our Impact Score is a tool we've developed to help us manage strategic impact on a portfolio basis in line with our productive, sustainable and inclusive impact objectives. It is designed to reward and incentivise investments that are most likely to contribute to these three objectives.

The Impact Score provides a quantitative measure to assess each investment. It can be aggregated and used to monitor strategic impact alignment at a portfolio level. An aggregate Impact Score is reported publicly on an annual basis in our Annual Review and used to partially determine staff remuneration.

As a performance indicator, the Impact Score focuses on being objective and simple, to allow comparison across a wide range of impacts and enable external assurance of our performance.

It complements our more detailed assessments of the expected impact of individual investments, which include more nuanced information such as an investment's expected 'depth', 'risk', and 'contribution'. Turn to page 12 to read more about our detailed assessments.

Impact score = Productive score + Sustainable score + Inclusive score

	Productive score	Sustainable score	Inclusive score
What does this mean?	Raising the productivity of an economy so that it can support a decent standard of living for all.	Helping transform the economy to reduce emissions, protect the environment and adapt to the changing climate.	Sharing the benefits of higher productivity and greater sustainability with poor and marginalised sections of society.
How will we measure it?	1 Degree of need 2 Intensity of impact generated 3 Economic enablers 4 Catalysing markets	1 Climate mitigation 2 Climate adaptation and resilience	1 Reach to low-income populations 2 Fragile and lower income countries 3 Gender and diversity

To understand the Impact Score's design in more detail, including how the score for each investment we make is calculated, visit bii.co.uk/impactscore

To watch a short animation which explains our Impact Score click here

Origination and structuring

Our Impact Framework

At the heart of our approach sits our Impact Framework. It provides a consistent way to articulate impact across sectors and products, and provides a lens to assess expected impact, and monitor it over time. It considers six ways our investments deliver impact:

- **What** outcome is the investment contributing towards, linked to the UN's Sustainable Development Goals
- **How** does the investment lead to impact
- **Who** experiences the outcomes of the investment
- **How much** i.e. how many stakeholders experienced the outcome, what degree of change they experienced, and how long they experienced the outcome for
- **Contribution**, or our role in achieving outcomes that would not have occurred otherwise
- Impact **Risk**, or the likelihood that impact will be different to expected.

This approach aligns with the Impact Frontier's Five Dimensions of Impact – which have achieved industry consensus. We have added a sixth dimension, 'How', to capture the ways our investments generate impact – either directly, or indirectly (through economic enablers or by catalysing markets). Our Impact Framework is underpinned by sector-specific impact frameworks that lay out the pathways for impact for the sectors we invest in.

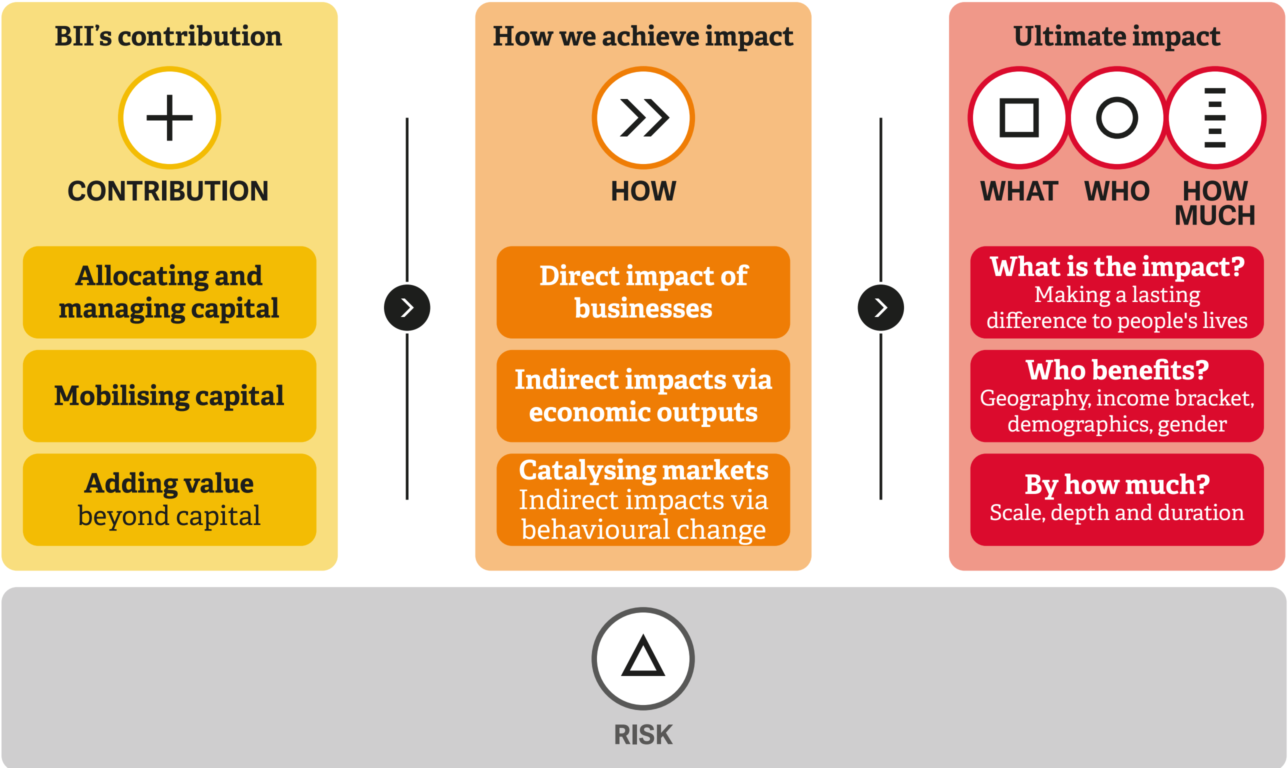


Figure 2: *Our Impact Framework*

Understanding contribution and additionality

The requirement for development finance to provide something beyond what the market offers and not crowd out private investors is usually referred to as "additionality". Development finance must be additional for capital injections to qualify as Official Development Assistance, under OECD rules.

Additionality means supplying inputs – financial and non-financial – that private investors would not. But whilst input additionality is necessary for impact, it is not sufficient. We use the term "contribution" to refer to the difference that our additional inputs make to development outcomes.

Contribution is not something that can be directly measured, because it requires a comparison of what happens if we invest against what would happen if we do not. Only one of those can ever be observed.

Our approach to assessing our expected contribution is to ask ourselves the right questions and assemble the available evidence and analysis, so that we can arrive at a decision based on the balance of probabilities.

For decision-making purposes we assign our expected contribution to one of four ratings. This rating reflects how we see the *scale* of contribution we expect to make to the impact of the investment, and our *confidence* that we are doing something private investors would not. The figure on the following page and the practical example on page 22 explain this in greater detail.

Our approach to investor contribution highlights how contribution works alongside development impact. Our impact as an investor is the product of the impact of the investment and our contribution to it. Find out more at bii.co.uk/contribution

Our contribution to an investment is comprised of three elements: financial additionality, value additionality and mobilisation.

CONTRIBUTION

Financial additionality i.e. allocating and managing capital	• Defines the extent to which our capital is financially additional to the investee. Identifies whether we provide capital that others would not and how this supports our impact. • Includes both the quantity of capital and quality (terms) provided.
Value additionality i.e. adding value beyond capital	• Defines the extent to which we bring expertise and/or partnerships that can deliver material increases to impact that would otherwise not be achieved by others. • Changes to impact can relate to outcomes, greater scale, greater depth/duration, more underserved stakeholders. Define degree of confidence that these changes would not have occurred without us. • Raising investment standards through our expertise or partnerships beyond what would otherwise be achieved.
Mobilising capital	• Defines the extent to which we think we are mobilising additional capital, how we have done it and how it has led to changes in investors' decisions, as well as defining the confidence we have that this would not have happened without us. • Are we increasing the quantity of investment in our target geographies, which would not otherwise be there?

Figure 3: *Our approach to investor contribution*

Impact Dashboards

For each potential investment, we assess each dimension of the Impact Framework and summarise this analysis in an 'Impact Dashboard'. This analysis is underpinned by primary data collection, as well as secondary research and proven impact pathways which we have investigated in the context of our sector frameworks.

We carefully consider the Impact Dashboard when deciding whether to invest. Approvals for new investments must include a fully completed Impact Dashboard. This provides a credible and evidenced case on whether our impact is commensurate with the capital and other resources deployed.

The figures on the following pages provides guidance on how we complete an Impact Dashboard.

How to complete an Impact Dashboard

SUMMARY

The summary is more easily completed once the Impact Dashboard is populated. It should: **(a)** describe the What and the How – the core impact and route to impact; **(b)** outline the key risks and subsequent key focus points for due diligence/mitigants post-due diligence; **(c)** provide a summary of the contribution assessment; and **(d)** provide an indicative or final Impact Score with a Productive, Sustainable and Inclusive score breakdown.

WHAT

TYPE OF IMPACT

Describe the type of impact the investment is contributing to, and the relevant Sustainable Development Goal. Select a maximum of three core impacts we expect the investment to deliver

HOW

CHANNEL

Explain the channel through which each impact is delivered. This can be:

- Direct: When the expansion and growth of our investee directly drives outcomes for people/planet
- Economic enabler: When our investment leads to tangible economic outputs (e.g., power generation, access to finance, foreign exchange, taxes, lower logistics costs etc.) that result in intermediate outcomes that drive our impact
- Catalysing markets: When our investment leads to market-level changes (e.g., demonstration effects, knowledge and spillovers)

WHO

STAKEHOLDER

Describe the type of stakeholder experiencing the outcome, for example, employees, customers, suppliers. The stakeholder can also be 'the planet' for investments addressing climate change or environmental sustainability

GEOGRAPHY

Identify the location where the stakeholder experiences the impact

CHARACTERISTICS

Explain the socio-demographic or other relevant characteristics of the stakeholder e.g. gender, income level or whether the stakeholder is gaining access to a product or service for the first time

Figure 4: *An overview of our Impact Dashboard*

How to complete an Impact Dashboard *(continued)*

HOW MUCH	**SCALE**	Estimate the number of stakeholders experiencing the outcome (not relevant where the planet is the stakeholder)	
	DEPTH / DURATION	Assess the difference the impact has made to the stakeholders i.e. the extent to which they were underserved before the investment, and the time period the impact lasts for	
RISK	**RISK 1**	Use the Impact Frontier's nine categories of impact risk to identify, assess and mitigate risks to the impact we expect to achieve	Rating: High / Medium / Low
	RISK 2	Describe a second (or third) risk and potential mitigations	Rating: High / Medium / Low
CONTRIBUTION	**FINANCIAL**	Summarise the financial additionality BII can bring to the transaction	Rating: High / Medium / Low / None
	VALUE ADD	Detail whether any value additionality initiatives will take place and / or the status of any discussions with the sponsor around engaging in the value-add initiatives	
	MOBILISATION	Provide a summary of whether BII will have a mobilisation effect on commercial investors	

Practical example: Using an Impact Dashboard

AgricultureCo is a technology company based in Kampala, Uganda that helps small-scale farmers maximise their profits while strengthening their resilience. AgricultureCo bundles everything a farmer needs: financing, farm inputs, advice, insurance and market access, when possible. Satellite data and machine learning enable better credit decisions, and automated operations keep costs low and processes scalable.

WHAT	**TYPE OF IMPACT**	Increased economic opportunities and levels of economic productivity (SDG 8.2, 8.5) driven by yield and profit increases. 8 DECENT WORK AND ECONOMIC GROWTH Strengthened resilience and adaptive capacity to climate-related hazards and natural disasters (SDG 13.1) 13 CLIMATE ACTION
HOW	**CHANNEL**	*__Direct:__* Increases farmer yield and profitability by offering a bundling of services which address core bottlenecks for the African farmer. BII's investment will help expand the company's offering vertically (connecting farmers to markets) and horizontally (into new crops), further increasing the economic impact for farmers
WHO	**STAKEHOLDER**	Customers (farmers)
	GEOGRAPHY	Uganda (currently across 8 counties); potential addition of two new African countries by 2025
	CHARACTERISTICS	• 45% of AgricultureCo's farmers live below $3.20/day (2011 purchasing power parity (PPP)) and 70% live below $5.50/day (2011 PPP) • 45% of farmers served are female • Average total farm acreage is 1.5 acres (median 1.0 acres)

Figure 5: *Using our Impact Dashboard*

Practical example: Using an Impact Dashboard *(continued)*

HOW MUCH	**SCALE**	Grow farmer reach from 50,000 (currently) to 2,000,000 within five years	
	DEPTH / DURATION	• Increased quality of life (80% of farmers), increased productivity (70% of farmers), and improved income stability (65% of farmers) • First-time access to services like AgricultureCo (40% of farmers) • Three times the output for AgricultureCo farmers compared to Uganda average • Increased resilience through bundled offering of climate-smart advice, inputs and insurance	
RISK	**RISK 1**	*Execution:* Future expansion into new crops and into marketplace access *Mitigation:* Company's experience and expertise; monitoring commercial performance	Medium
	RISK 2	*Unexpected:* Unfair marketing or other misuse of personal data *Mitigation:* Strong ethics policy, trusted agents embedded within farmer communities and centralised credit decision-making process	Low
CONTRIBUTION	**FINANCIAL**	Capital is not offered in sufficient quantity. AgricultureCo would not have scaled their operations without BII's participation	Medium
	VALUE ADD	BII will add value to the transaction by improving the processes and practices of AgricultureCo	
	MOBILISATION	Confident that BII has contributed to the mobilisation and involvement of other investors	

Turn to the following page for a more detailed contribution analysis.

Practical example: Contribution analysis

Summary: High confidence that BII's capital is needed for AgricultureCo to fund its expansion plan. BII is providing material value additionality by improving AgricultureCo's customer protection practices and environmental and social management system BII has successfully mobilised co-investment from a private agriculture tech-focussed investment fund to complete the company's Series B round.		**Rating:** Medium
Nature	**Confidence**	**Scale**
Financial additionality: ☐ Capital is not offered at all ✗ Capital is not offered in sufficient quantity ☐ Capital is not offered on the same terms	We have a high degree of confidence that equity capital is not available in sufficient quantity from commercial sources. BII's capital is additional to the market and is at low risk of displacing commercial investment because: • AgricultureCo had struggled to attract sufficient equity to fully fund its business plan - only been able to raise ~80% of its target from private investors after four months. • The company has not reached advanced discussions with any other interested parties. • Market studies have found that capital is currently not available in sufficient supply to meet the financing needs of agricultural MSMEs. • Financial institutions In Uganda do not provide tailored credit products to the agriculture sector in Uganda, likely due to the sector's elevated risk profile.	Expected impact would be proportionately lower as AgricultureCo would be unable to fund its growth plans without BII's investment.
Value additionality: ☐ Knowledge and advice ✗ Improvement of processes, practices or standards ☐ Women's economic empowerment ☐ Human capital/skills ☐ Support for developmental strategies	BII has agreed an Environmental and Social Action Plan (ESAP) with AgricultureCo, which includes support from BII's Impact teams to further enhance the company's customer protection practices and environmental and social management system (ESMS) in accordance with international best practice and IFC Performance Standards.	Strengthening the company's customer protection and E&S practices will further mitigate unexpected impact risks
✗ **Mobilisation:**	BII has successfully mobilised co-investment from an agriculture tech-focussed private equity fund that would likely not have invested without BII sharing its technical and commercial due diligence findings (reducing due diligence costs), and supporting the company's internal customer protection practices and ESMS (reducing risk in line with appetite).	Series B capital from commercial sources would likely be ~10% lower without BII's mobilisation efforts

Figure 6: *Practical example deep-dive: Contribution analysis*

Portfolio management

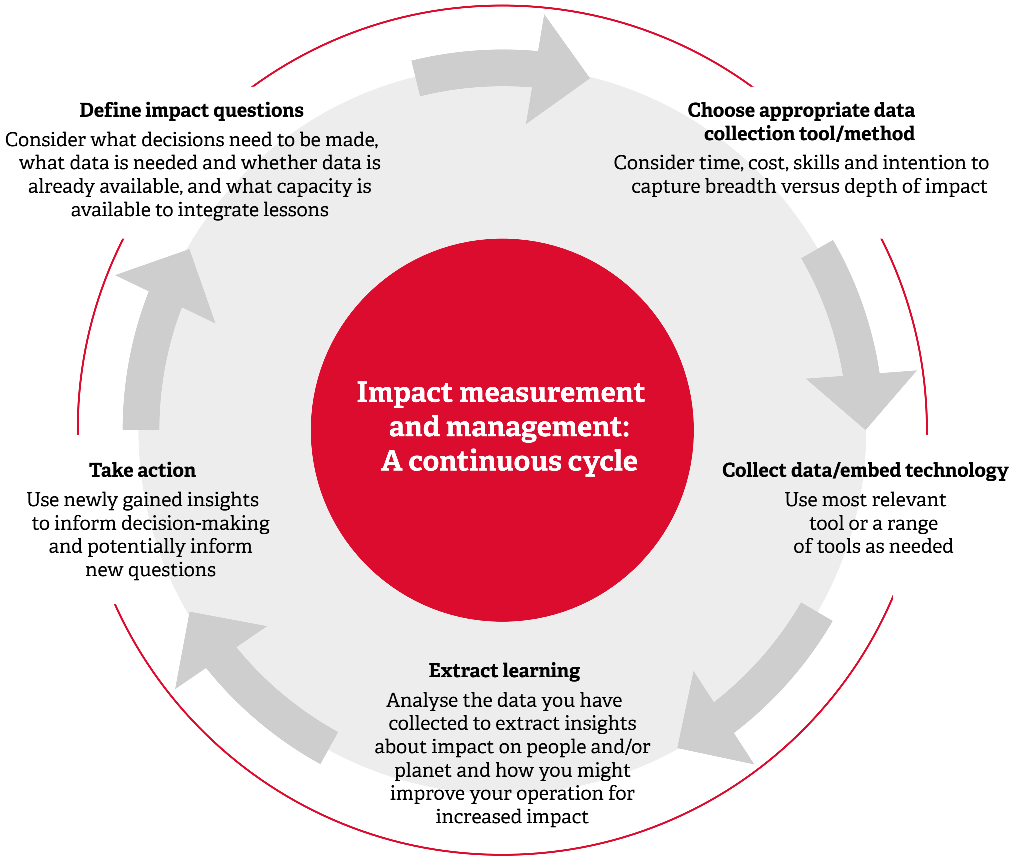
Managing for impact

We take the monitoring and management of impact very seriously. We monitor our investments to understand whether we are meeting our initial impact aims, to course correct if we are off track and to identify opportunities for deepening impact. We regularly review each investment's performance against its Monitoring Dashboard (see page 26) and update its Impact Score based on our monitoring.

Managing impact may include site-visits, meetings with management, assessments of management reporting, data received from annual monitoring reports and reports from third-party consultants. Our Impact measurement handbook is a practical guide to data collection that provides an overview of tools and methods for effective and appropriately tailored data collection.

On a quarterly basis, our impact and investment teams review the investments and discuss the impact performance alongside the financial performance of each investment. Where impact is not performing as expected, we consider whether there is an opportunity to exert influence to improve outcomes. We also discuss opportunities to further deepen our impact, or add non-financial value to the investment.

We manage and measure impact on a continuous basis



Practical example: Monitoring Dashboard for AgricultureCo

We create Monitoring Dashboards for each of our investments. This gives an overview of key metrics to track for each dimension of impact.

Impact dimension		Indicator	Description	Data source	Frequency	Targets (by when)
WHAT	TYPE OF IMPACT	Increased economic opportunities and levels of economic productivity (SDG 8.2, 8.5) driven by yield and profit increases. Strengthened resilience and adaptive capacity to climate-related hazards and natural disasters (SDG 13.1).				
HOW	CHANNEL	Yield per acre	Farmer yield and profitability compared to national average	Third party data collection (via company)	Annually based on AgricultureCo's customer data refresh	Baseline: 30 bags per acre (compared to average yields of 10 bags per acre) Target: 35 bags per acre
WHO	STAKEHOLDER	Poverty profile of customers (Poverty Probability Index (PPI))	Degree of reach to low-income farmers	Third party data collection (via company)	Every 3 years based on AgricultureCo's customer data refresh	Baseline: 70% of customers reached <$5.50/day (2011 PPP) Target: 80%
	GEOGRAPHY	County mix	Number of counties in Uganda served by AgricultureCo	Company data	Annually, immediately post-investment	Baseline: 8 counties Target: 12 counties
HOW MUCH	SCALE	Farmers served (number)	Total number of farmers served	Company data	Quarterly, immediately post-investment	Baseline: 60,000+ farmers Target: 2 million farmers reached by 2026
		Climate insured farmers (%)	Total percentage of farmers covered by climate insurance	Company data	Quarterly, immediately post-investment	Baseline: 14% Target: 40%
	DEPTH/DURATION	Satisfaction	Overall Net Promoter Score (NPS) of customers, i.e. customer satisfaction and loyalty	Third party data collection (via company)	Annually based on AgricultureCo's customer data refresh	Baseline: NPS of 60 Target: NPS of 70

Impact dimension		Description and mitigation	Indicators for risk materialising	Frequency
RISK	RISK 1	Execution: linked to future expansion, both into new crops and into marketplace access.	Commercial performance indicators	Quarterly

Figure 7: *Practical example: Monitoring Dashboard*

Optimising impact

We know that building resilient businesses with strong environmental, social and governance (ESG) practices is core to long-term growth and economic development. We invest responsibly, ensuring that our investees comply with our Policy on Responsible Investing, and supporting them to enhance their ESG practices.

We place significant value on the role we play as an enabler of better outcomes through the investments we make. We observe a strong correlation between a good approach to ESG risks, commercial success and sustainable development impact outcomes for businesses in our portfolio.

We seek to help investees manage their risks and pursue opportunities to enhance ESG performance in a way that encourages the outcomes we want to see as a responsible investor, while at the same time enabling them to realise the business benefits that prudent ESG management can offer.

We provide additional expertise and resources on a case-by-case basis to help investees increase their commercial performance and development impact, with a focus on our priorities of gender, diversity and inclusion and climate change. We also manage a technical assistance facility, called BII Plus, that can be allocated to pipeline and portfolio companies to add value.

Our ESG Toolkit shares practical guidance for responsible investors in emerging markets, and our Gender Toolkit provides guidance on gender-smart investing and gender-smart approaches to build value for businesses.

Impact at exit

Responsible exits

When we exit an investment, we consider both the financial and impact implications, including how impact will be sustained after we have left and our ability to help ensure the sustainability of impact. We seek to ensure that exits are consistent with the achievement of our mission and objectives (both financial and developmental), and within the scope of our Policy on Responsible Investing.

To help us do this, we have produced guidance for responsible exits. It is comprised of multiple principles for ensuring sustainability of impact and with applicability to different asset classes, making explicit our influence over the exit outcome in different investment contexts.

During both portfolio management and at the point of exit we assess key considerations, such as deal timing, exit readiness, exit structuring, and buyer-alignment considerations. This approach is accompanied by a detailed Exit Investment Committee Paper, which is used to practically operationalise the guidance through a checklist and supporting framework.

When exits are considered, we undertake formal approval process which sets out a clear rationale for the exit, with commercial and impact returns assessed equally (including analysis relative to original expectations). How development impact will be sustained after our exit is an important factor that is reviewed and the development impact considerations are analysed in depth through an exit review with lessons learned.

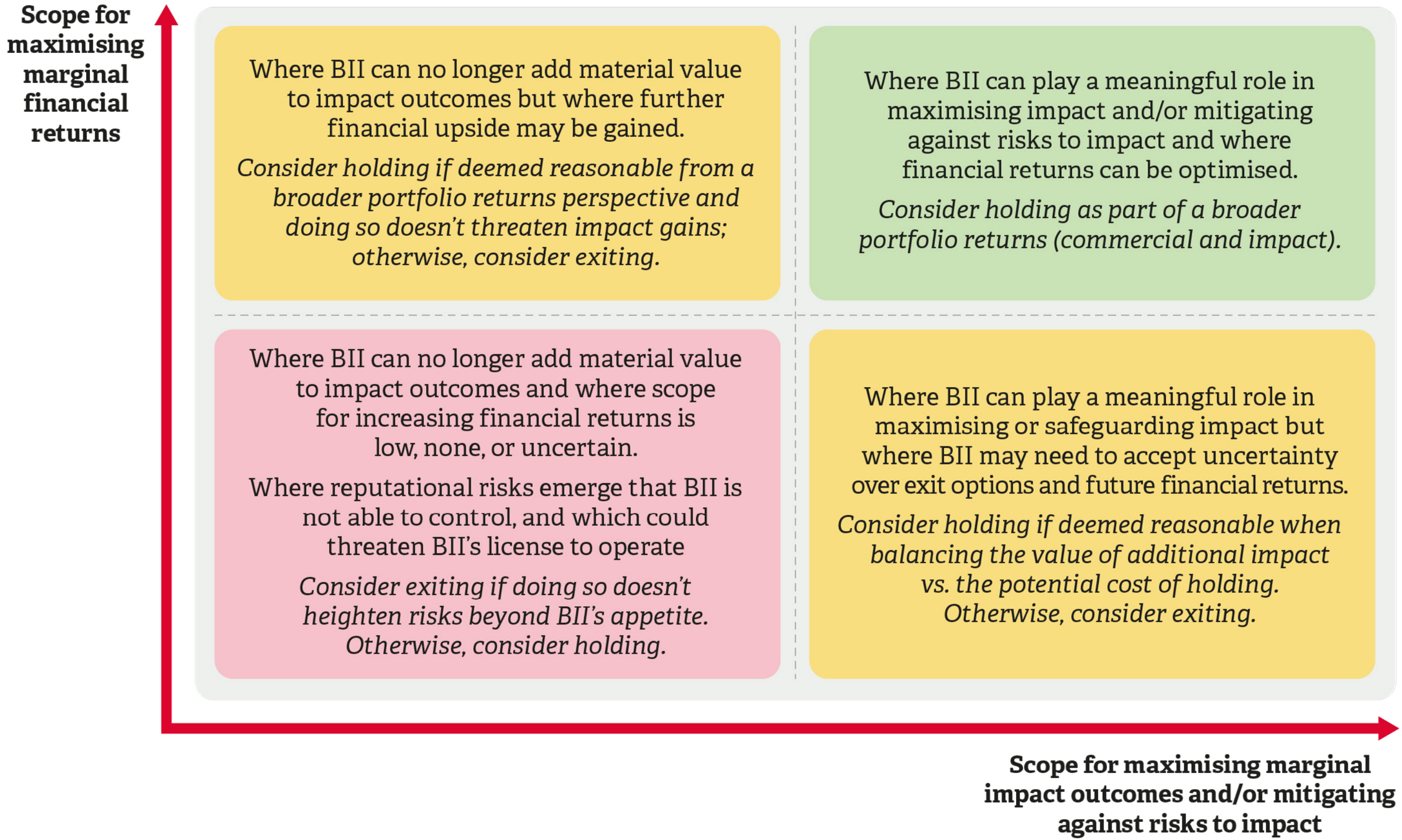


***Figure 8:** Framework for considering exit decisions based on impact and commercial considerations*

Continuous learning

As part of our commitment to drawing out and learning lessons from our investments, our evaluation and learning programme reviews the key development impact outcomes of our investments against our impact framework and the external evidence base to help us better understand where and how BII creates impact. The reviews focus on what lessons we should learn, and what we should do differently or more consistently in the future.

The programme is co-managed with and financed by the FCDO and uses independent evaluators overseen by an expert steering group. As well as portfolio-wide reviews, the programme supports deep dives into themes and transactions where our independent experts believe outcomes warrant further analysis.

We also commission Insight studies aimed at enhancing our understanding of impact-related themes, exploring the impact of strategically important investments, and learning from impact success stories and failures.

Another way we learn about our impact is through portfolio monitoring. We annually compile a portfolio-wide impact results analysis alongside the impact disclosures in our Annual Review.

In addition to scrutiny from our Internal Audit function, impact performance is also reviewed quarterly by the FCDO, our shareholder, and regularly by UK Government agencies such as the National Audit Office and Independent Commission on Aid Impact.

Insight is a series of practical and digestible lessons on the issues of private sector investment and development. They're based on our experiences, knowledge and research and are aimed at investors, businesses, development professionals, and anyone with an interest in private sector development.

Find all our publications at bii.co.uk/insight

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W: bii.co.uk/impact-equals

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