toniic E-Guide

Early-Stage Global Impact Investing

DUKE THE FUQUA SCHOOL OF BUSINESS
CASE
CENTER FOR THE ADVANCEMENT OF SOCIAL ENTREPRENEURSHIP
CASE i3: INITIATIVE ON IMPACT INVESTING

Endorsements

"Toniic's very valuable E-Guide has the tools to start or enhance your investment strategy whether your goal is to build value close to home or around the world".
—Elizabeth Littlefield, CEO and President, OPIC

"For many impact investors, "impact" is the shortest line between capital and community. With this guide, Toniic offers those interested in walking that line meaningful guidance and tools based upon the actual experience of its members making early-stage investments in communities around the world. The Guide walks readers through each stage of an effective investment process from strategy development to term setting and monitoring of the impact investment. It is a real step forward in building our common body of knowledge for moving from good intent to good investing".
—Jed Emerson, Chief Impact Strategist, ImpactAssets

"The Toniic E-Guide provides actionable frameworks and concrete insights for how investors who are interested in helping grow to scale early-stage impact enterprises can do well by doing good. What I really like about it is that it takes the reader from the starting point of setting priorities for an impact investment strategy all the way through to the end goal of holding accountability over performance metrics, and along the way highlights the potential pitfalls and opportunities of which investors should be mindful".
—Abigail Noble, Head of Impact Investing Initiatives, Investors Industries, World Economic Forum

"Toniic's E-Guide: Early-Stage Global Impact Investing is a must-read for both impact investors and those who would like to attract early-stage impact investments. This guide delivers a trifecta of wins to its readers—an analytical framework, case studies and regional guides".
—Deborah Burand, Director, International Transactions Clinic, University of Michigan Law School

"This E-Guide from Toniic provides vital information to help those looking to invest in social enterprises that benefit the poor or vulnerable. The diverse case studies contained within this guide come from around the world, and demonstrate the power of layering grant and investment capital to propel the impact investing industry forward. These examples bring valuable perspective from those working on the frontline, and show impact investing in action".
—Zia Khan, Vice President, Initiatives and Strategy at The Rockefeller Foundation

"A valuable guide for impact entrepreneurs and investors".
—Sir Ronald Cohen, Chair of Big Society Capital

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Cover: E-Guide Participants from around the World

About the Guide

What is Toniic and Why an E-Guide?

Toniic is a global impact investor network and platform whose members promote a sustainable economy by investing in entrepreneurs, enterprises, and funds that seek to change the world for the better. This guide brings together lessons from Toniic members and their impact investor peers, who have collectively invested tens of millions of dollars into impact enterprises worldwide.

The goal of this e-guide is simple: to help those with an interest in investing in early-stage impact enterprises learn how this work is being done by their peers from wherever they are in the world. Using "The 7-Step Framework", this guide aims to help investors, especially those exploring how impact investing compares to their current investment practice, go from learning to action as global practitioners in impact investing.

The 7-Step Framework

Additional Guide Resources

Case Studies detail several syndicated investments made by the Toniic network that involved multiple rounds of capital and long-term engagement.

Short Regional Guides help investors understand some of the legal and practical challenges in investing in major regions around the globe, as well as providing some contacts and lessons from a featured deal in Asia, Europe, India, Latin America, Sub-Saharan Africa and the United States.

Read About Us to learn more about Toniic, as well as CASE i3, the research partner who helped write this guide. This section includes acknowledgements for our funders, partners, members and friends without whom this work would not have been possible.

What Is Impact Investing?

Impact investing is the act of investing

capital with the deliberate intention of achieving both financial value (return on capital) and social value (positive impact on social and environmental problems). Impact investing is a recently coined term, but the practice has been around for decades. Impact investments can be found at every stage and across most asset classes, and the desire to invest with impact can be implemented in both public and private market portfolios. Impact investing encompasses a broad range of activity from microfinance and community development finance, to investments in renewable energy, global health, education and international development. This values-based approach to investing is now being seen by some as a mainstream option for all investors. The World Economic Forum recently released "From the Margins to the Mainstream", part of their on-going work in analyzing impact investing for the institutional market. JP Morgan estimated in 2011 that in ten years the impact investing marketplace could be worth $400 billion to $1 trillion. According to the Global Impact Investing Network, over $4.4 billion was invested in 2011 alone.

The Toniic network has come together around this interest in global impact investing. Toniic members see early-stage impact investing as an important part of an overall investment strategy. Many members point out that a portfolio approach to impact investing complements seed-stage investing with investments in other classes and later-stage investments.

- For a primer on how to connect impact investments to an overall investment strategy, see Rockefeller Philanthropy Advisors' Solutions for Impact Investors: From Strategy to Implementation.

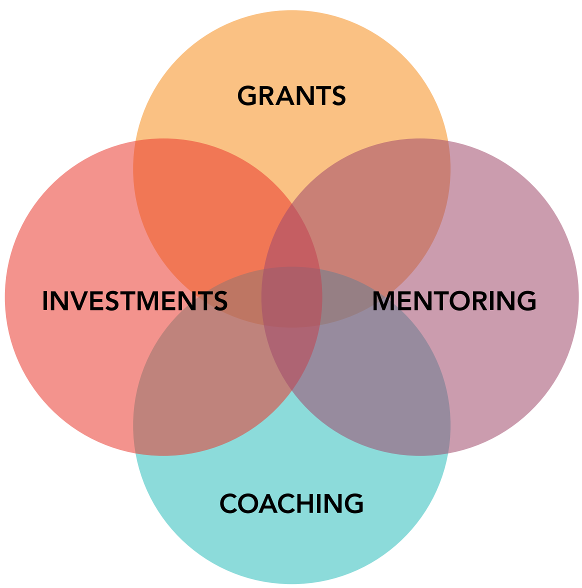
Risks, Rewards and Qualifiers

It is important to note that there are risks and rewards specific to any investing including early-stage investing. Impact investors, like all investors, have experienced a wide range of returns on impact and financials. Just as impact investments can result in market rate returns or higher, and can be similar in risk to other investments in similar asset classes, they can also result in sub-market returns, negative returns, or loss of principal, like their non-impact peers in the venture and angel investing world. Global impact investments can also be subject to fluctuating values in-country due to market size; different reporting, accounting and auditing standards; fluctuating currency valuations; regulatory changes; and political uncertainties. Investors must also determine if they qualify based on regulations in the country where the investment is located. Seeking out trusted in-country partners –investment intermediaries, investor peers and legal assistance – is key for improving outcomes.

Why Early-Stage Investing?

Early- and seed-stage ventures are commonly either pre-revenue or just earning revenue. These ventures typically face critical choices about the intersection between their impact and business models over the first 1-3 years; therefore, they often need more than just capital. Early-stage enterprises are an important investment focus for impact investors because the groundwork is laid during this phase for the company's customers, revenue model, impact thesis (its theory of change about how it will create social value), and overall sustainability. Early-stage investment opportunities, though they can be more complicated, are also particularly attractive because entrepreneurs and investors tend to hold very similar values: they are both seeking innovation and disruption for the greater good. Early-stage enterprises often contain, out of necessity, novel innovations that introduce substantial positive benefit to target populuations, thus offering a chance for significant impact.

Why great early-stage investment opportunities feel rare: the gap is not just about capital. One challenge of early-stage investing is that many investors currently perceive a shortage of high-quality, investment-ready early-stage deals around the globe. This is despite the enormous groundswell of interest in for-profit social enterprise as a tool for development and social impact, the explosion of interest by funds, governments and investors in impact investing generally, and an expanding terrain of incubators and accelerators focusing on social enterprises. The reality is that many early-stage ventures need help finding business models that work, customers willing to pay, suppliers and partners who can scale at the pace of their vision, and talent that can take them through the next few years and beyond.



Unique pathways require unique combinations of capital and support. Early-stage ventures have different paths to establishing a business model and plan that is truly investable, and these can vary widely. As a result, when impact entrepreneurs are in an early-stage of development, they typically need a combination of four types of external support: **grants, investments (in the form of debt or equity), mentoring and coaching**. It is rare, however, to find two entrepreneurs who need the same mix. Some may have an all-star management team who simply need a cocktail of investment capital. Others may have received grant dollars from a business plan competition, but lack the network and expertise to implement effectively. What Toniic members and their impact partners have been able to provide is diversity of capital and support with the flexibility to adapt to the needs of the entrepreneur in this critical early stage.

Putting deals on a path to access capital for scaling. When done well, this kind of flexible assistance can help actually change the risk and reward ratio that often seems to paralyze later-stage impact investors. Some deals that start out looking as though they are never going to provide a competitive return (often called "impact-first" after the Monitor Institute's 2009 report defining the term) can evolve over time into enterprises achieving a market rate of return. Pre-revenue early-stage ventures that try to blend impact with financial solvency and return need more than capital and a straight equity investment, otherwise they will often fail. This need drives **one of Toniic's core theories of change**: seed-stage enterprises can succeed thanks to introductions, business development, capacity support, and policy expertise. If early-stage capital is done in the right way and in the right pattern over time, some ventures can attract capital seeking a market-rate return for their ultimate scaling and growth. This pattern of need was documented eloquently by Monitor in their report, From Blueprint to Scale. Toniic's members have had some early success as well as challenges in meeting this set of needs, which is documented in the Case Studies. •

The 7-Step Framework

Each investor brings unique experience, values, biases, preferences, and opinions to his or her work. And while investment decisions are often subjective and personal, the most successful investors approach their portfolio with a keen sense of objectives, level of flexibility, and clarity on what constitutes "deal breakers."

"The 7-Step Framework" is meant to provide you, as a current or future early-stage impact investor, with a framework based on the successes and failures of your peers to encourage you to become more inquisitive, reflective, and self-aware. We expect that parts of the guide will raise more questions than answers. And, as you will see in this document, there is no single approach to early-stage global impact investing. Toniic and the global community of impact investors and intermediaries are field building. We invite you to join us.

Step 1: Developing an Investment Strategy

Before you invest in an entrepreneur, you should consider developing your personal investment strategy. **An early-stage investment strategy should be part of an overall asset strategy.** Impact investors seek

Your Impact Investment Strategy

to have their investments generate positive social and/or environmental impact in addition to a financial return. But whether they prioritize financial return or impact, what they define as impact, and how their investments achieve this, varies greatly according to their impact investment strategy.

Your impact investment strategy should take into account three basic items: your **investment priorities**, your **impact goals**, and your **assets**. We have included here the essential items that relate to creating **a strategy for the early-stage portion of our portfolio**. This process will help you articulate your mission, define achievable goals and objectives based around a particular theory of change, decide in what manner you will approach investments, identify and manage constraints and risks, and track your investments' progress.

1. Setting investment priorities. It is important to identify your investment priorities in the broad scheme of your overall investment portfolio.

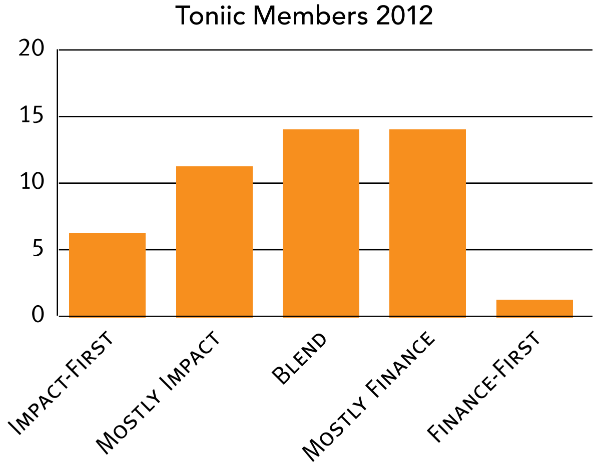
a. Financial-first or impact-first? In many ways, the dichotomy of impact versus financial-first is overstated, and some experts in the sector prefer to present this duality in terms of sequence rather than opposition. That said, as much as impact investors strive to achieve "blended" returns, we still make altruistic and investment decisions from two different brain centers. Thus, when a decision boils down to prioritizing either financial or social return, you should understand your financial and impact return targets.

Impact investors tend to fall into two general categories. **Financial-first investors** optimize financial returns with a floor for social/environmental impact. If you're this kind of investor, you're going to look for market-rate return potential inside subsectors that will yield some social and/or environmental good.

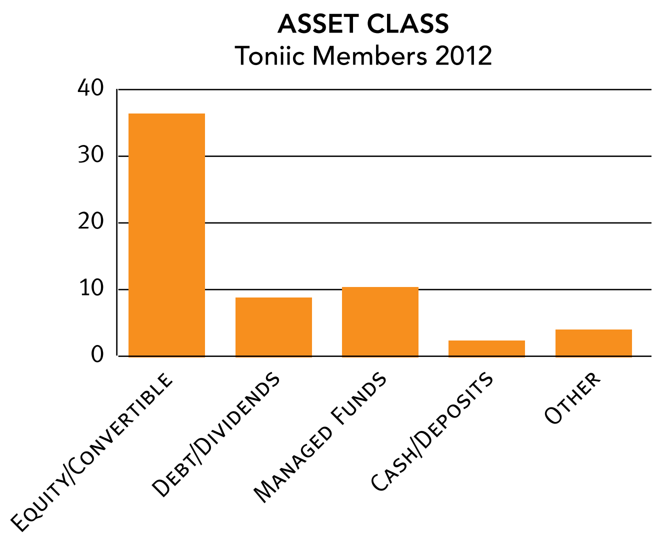
Impact-first investors value impact over financial returns. They are willing to accept a lower-than-market rate of return (they have a financial floor), in return for optimizing social or environmental impact. It should be noted that just because impact-first investments optimize for social return, it does not mean that their investments cannot beat market returns. "Impact-first" only designates investors that have a higher threshold for risk due to prioritizing impact. Some Toniic members experienced better than market returns from their impact-first investments in 2008 and 2009. These investors often pave the way by supporting new business models that will later become attractive to financial-first investors – once the company needs growth capital.

Investment priority example:
Toniic member Francois de Borchgrave invests in health, education and the environment in the developed world. His primary motivation is to demonstrate that financial returns can be achieved in addition to social returns in order to motivate other capital holders to invest in businesses creating impact. He differentiates his approach from mainstream investing by what he calls "investing with an acceptable discount." Depending on the investment, he is willing to accept a discount of up to 1/5 of the return in exchange for more social impact.

IMPACT-FIRST vs. FINANCIAL-FIRST
Toniic Members 2012



b. What portion of your portfolio will be devoted to early-stage impact investment? If you are targeting market-rate returns, you may wish to allocate more of your portfolio to impact investments; conversely, if you are an impact-first investor, you may wish to limit your commitments to a discreet portion of your portfolio in which you are willing to take more risk. Many impact investors have both types of investments in their portfolio. There are no hard and fast rules here, but your commitment to impact can influence and be influenced by the **kind of assets you deploy and the types of returns you expect**. More considerations about how to deploy your assets can be found in Evaluate Your Assets.



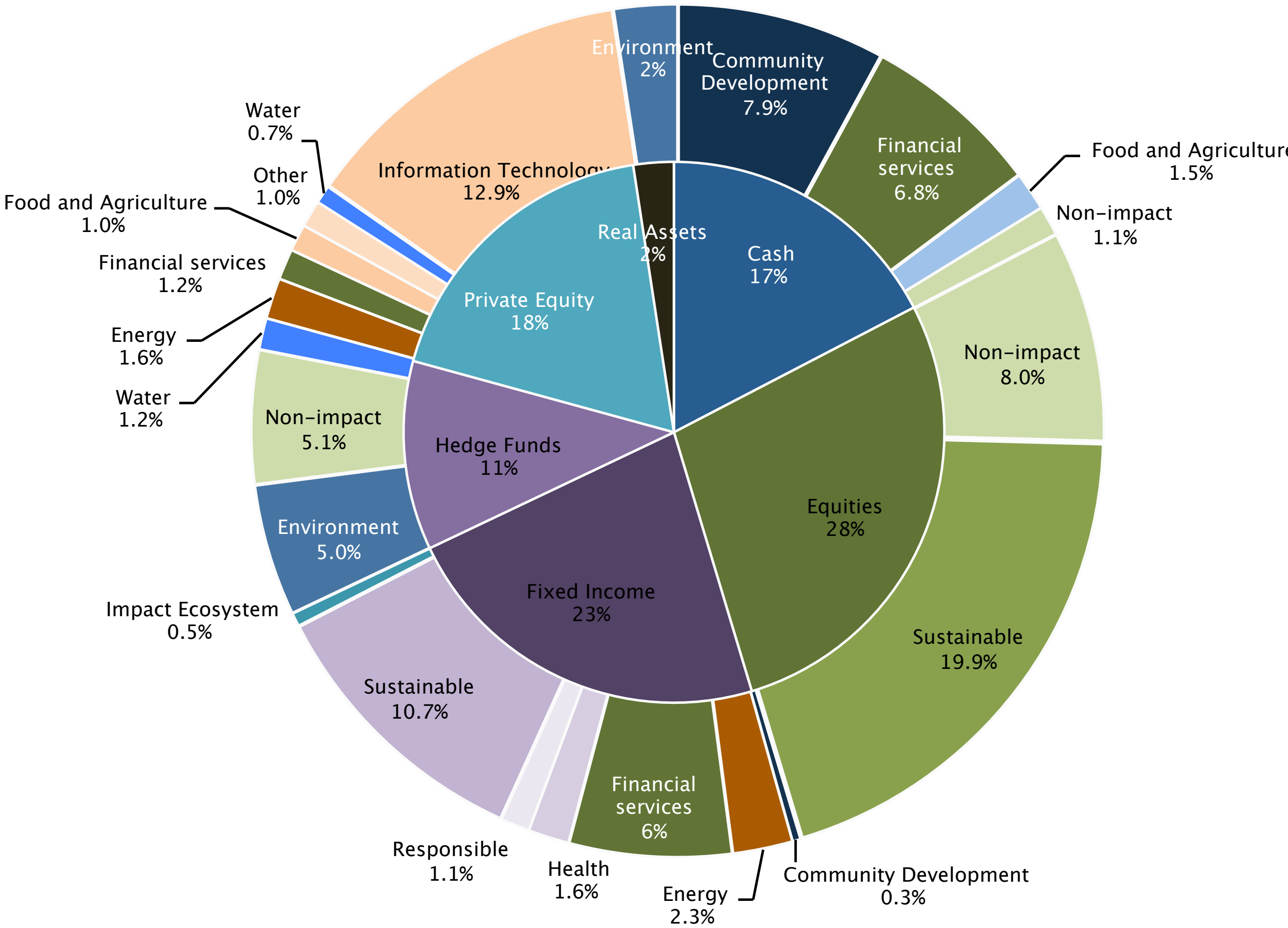
***Total Portfolio Approach**. Some investors have decided to place all of their assets under the screen of impact, aiming to find appropriate impact-oriented investments for every asset class, including early-stage privately-held investments. Meyer Family Enterprises is an example. They have designed a customized impact-oriented portfolio for each asset type they hold and aim to be 100% invested for impact by 2020. The diversification of risk under the total portfolio approach does not change significantly to achieve this. The difference is that within each asset class, the Meyer Family identifies ways to invest for impact as well as return. Their early- stage impact investing is part of the private equity and debt portions of their portfolio.*

2. Define your impact and align with your investment themes. Spend time reflecting on your impact goals, which include your mission and values, and your industry and investment themes, your sector depth preference and your geographic targets. The end result should provide clarity about your own theory of change and investment strategy.

a. Articulate your mission and values. This is a reflection exercise that will help as you begin to formalize your impact investing policy. Ask yourself what measurable impact you are seeking to achieve through your investments. Who is the ultimate beneficiary of your work? What are the values and characteristics you seek in the entrepreneurs and enterprises you wish to invest in?

b. Decide on industry, impact goals and investment themes. Once you have articulated your mission and values, you should have a general sense of the industry sectors and investment themes you're interested in. Examples of industry sectors in impact are health and wellness, water, and education. For a more complete list of areas of impact, consider using the IRIS sectors, which are fast becoming a norm in the impact investing industry. Impact goals are defined by the kind of outcomes you want produced to address a *problem, injustice or public or private-sector failure*, such as improving the lives of women, reducing global warming, or ending poverty. Now, combine these and translate them into more specific, process-based investment themes—for example, a food and agriculture impact theme might mean supporting initiatives that are regional, promote

KL Felicitas Foundation's Investment Portfolio: By Asset Class and Theme.

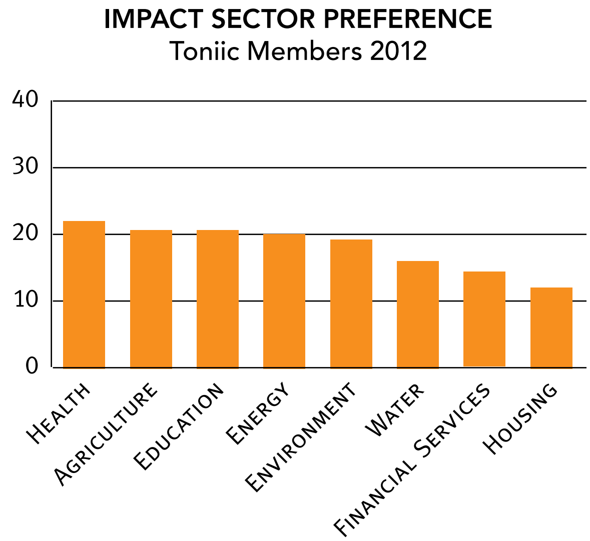


To learn more about the financial performance of this portfolio, see a newly released report, Evolution of an Impact Portfolio. This report demonstrates that impact investments can compete with, and at times outperform, traditional asset allocation strategies.

diversification, and harness or encourage sustainable practices. It's common for investors to start with some general themes and refine them over time, focusing on more specific tangible outcomes. It is also common for investors to start with a narrow focus and then broaden their interests as they are exposed to deals through investor networks.

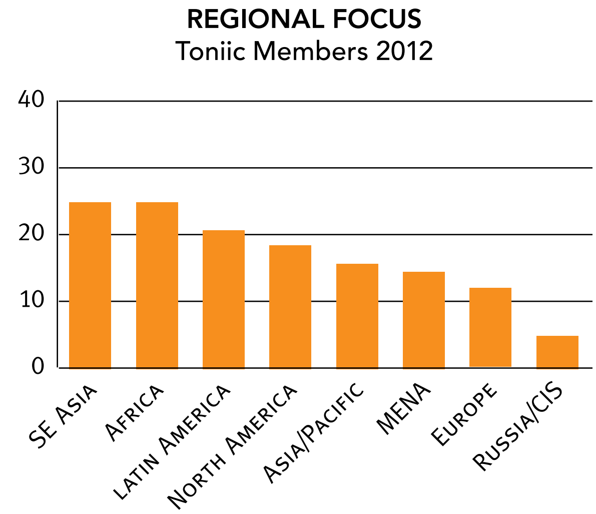
An excellent example of a sector strategy in Health Care in the US is Grantmakers in Health's Guide to Impact Investing.

c. Consider your sector knowledge to determine the investments you want to hold in your portfolio within the investment themes you identified. Some investors like to focus their portfolio on a specific sector so they can get involved in different business models aimed at solving the same problem. This provides a level of perspective and expertise that can be shared across and among entrepreneurs. Taryn Goodman of RSF Social Finance says her focus on agricultural deals has enabled her to "tell pretty quickly if the business is using a poor strategy or seeking the wrong type of financing." Other investors like to diversify sectors and geographies to distribute their risk so they are not over-exposed in one area. Sector choice is also an opportunity to align your value-add with your investment objectives – if you have deep experience in healthcare, you might want to leverage this by investing in impact investments focusing on healthcare.



d. Your geographical breadth preference. The costs and complexities of covering the globe are immense, and can lead to inefficient investing, as investors are often unaware of culture or regulatory geographic specificities. Similar to your sector focus, determine what region(s) you will target for your investments. Putting a manageable boundary around your geographic preferences will allow you to become more comfortable with the landscape, external risks, and regulatory differences of investing in that jurisdiction and develop helpful networks to support you. More information on regional differences can be found in [the Regional Guides].

You should also consider the implications of a sector focus alongside a geographic focus, as you can end up in a narrow area with few opportunities. Some Toniic members say it's important to be flexible about where you draw the line so you are not empty-handed when it comes to developing your deal pipeline.



e. Bring it together to define your theory of change. Now that you have identified impact and investment themes, and you know how broad and deep you wish to go with them, you should think carefully about your theory of change, specifically as it relates to your options as an investor. Challenge yourself to create one or more theories of change that include your sector focus, your target population, and an outcome you care about. This becomes a targeted version of your theory of change, which articulates your own impact as an investor as an if/then statement. For example, if rickshaw pullers had access to social capital to purchase their rickshaws, this asset ownership would then allow them access to the financial system, thereby moving them incrementally out of poverty. A cautionary note: if you are just starting out, be careful not to make the goals so broad or grand that they can prevent you from ever getting started.

3. Evaluate your assets. Every investor has more assets than just cash, and every investor needs to figure out ways to complement those assets to reduce risks and achieve their goals. In evaluating your assets, you will want to consider the size of your portfolio, the type of monetary assets you have, and the best way or ways to deploy them. You'll also want to evaluate your non-monetary assets in terms of expertise, knowledge gaps, network resources, the pace and style in which you want to learn and co-invest, and the kinds of partners you believe will make you most effective.

a. Consider your portfolio size. In sizing your early-stage impact investment portfolio you should consider **diversification of risk, time commitment, desired pace of learning, and follow on reserves**.

- **Diversification of risk**. Like any investment strategy, diversification of your assets is important to distribute your risk. Given the risk inherent in early-stage investments, investor Josh Mailman recommends doing at least five to ten deals in the $50K range to adequately diversify your portfolio. Another strategy for those with smaller asset bases is to invest smaller amounts in more deals through special purpose vehicles such as those established by The Eleos Foundation. Other investors blend direct investments with fund investments to lower risk. Whatever your strategy, you want to set a guideline that makes sense for your portfolio.

- **Time commitment**. Be realistic about the number of deals you can actively manage. If you do not think your schedule allows you to be actively involved in ten deals at a time, you may want to land at the lower end of the range. Stretching yourself too thin can have negative effects on your relationships with both entrepreneurs and fellow investors, as these deals often require time as well as money.

- **Pace of learning**. Some investors, like Bob Pattillo, like to do many deals to maintain a quick pace of learning. He develops lessons and expertise from each company in which he invests, so for him, a greater number of deals in his portfolio leads to deeper knowledge.

- **Follow-on reserves for equity investments**. Research on angel investments has shown that one of the most significant factors correlating with superior financial returns is the ability of the investor to participate in future rounds of investment as the company grows. This means that if you are making equity investments, it is prudent to establish a set-aside for follow-on rounds as part of your pool for early-stage investing. Some Toniic members and other early-stage investors set aside up to 50% of their early-stage pool for follow-on investments.

b. Which investment vehicle is the right one to choose? Now that you have a sense of what you want to invest in and the amount of money you want to devote to early-stage impact investing, it's time to consider in more detail which vehicles you will use to invest. Both the way the assets are managed and the way you deploy them will have implications on the kind of investing you can do. The more varied your vehicles and tools, the more flexible you can be with entrepreneurs. On the other hand, a dedicated focus to a specific kind of investing can also lead to improved knowledge and experience about that toolset.

Toniic members employ a wide range of asset vehicles for impact investing. The most common choices are private foundations, donor advised funds, public charities, private trusts, private assets and special purpose vehicles.

- **Private family foundations** in the US can invest either their endowment assets, called mission-related investments (MRIs), or their program or charitable budgets, called program-related investments (PRIs). A good discussion of MRI and PRI investing can be found on the Mission Investors Exchange website.

- **Public charities** have fewer constraints than private foundations; as a result, many nonprofit impact funds are set up as public charities, including New Schools Venture Fund, Root Capital, Calvert Foundation, Beyond Capital Fund and Acumen.

- **Donor Advised Funds (DAFs)** through a US public charity allow a donor to set up an account with a US public charity and contribute to that charity account. A donor then "advises" on what is done with the funds contributed to the account. Examples include RSF Social Finance and ImpactAssets.

- **Private Trusts** may be set up by families and individuals to support charitable giving and impact investing. There is typically no tax benefit from this type of trust unless tax exemption is pursued.

***Blending Capital**. During due diligence, Charly and Lisa Kleissner of the KL Felicitas Foundation determined that a program-related investment from their private family foundation was the appropriate investment to make in Grassroots Business Fund. The foundation made an equity investment combined with a grant. The grant to Grassroots Business Partners was for much needed capacity building for the types of investments targeted by the fund.*

- **Private Capital** is used by many investors because it is the most flexible capital of all.

- **Special Purpose Entity or Vehicle (SPV).** Usually a separate legal structure, like an LLC or limited partnership, that serves a narrow, specific, and temporary purpose such as serving as the vehicle through which investors aggregate capital to invest in an enterprise or fund.

c. Consider your non-monetary assets. It is important to consider your strengths and weaknesses as an investor, your knowledge of and access to networks, and your personal preferences.

- **Know your resource constraints**. Time constraints were discussed above, but it is important to recognize, and resolve, other kinds of resource constraints as well. These could include your mobility, your team, your decision-making constraints (board, spouse, etc.), your expertise, your language abilities, your capital, etc. You can partner with other investors, or with local institutions working on the ground. Sean Moore of Acumen Fund shared how essential these kinds of local partnerships have been for his fund to gain trust and expertise on the ground when investing in Africa. See our Sub-Saharan Africa Regional Guide.

- **Know your investment style**. Are you a leader, a joiner or a lone ranger? There are three styles of engagement within the Toniic network. Deal lead is suited for experienced investors who value guiding a deal, seeking the wisdom of other investors and enjoy syndicating to accomplish the capital raise needed. Those who prefer to work with a collaborative deal team can adopt the second style by joining or coming along side other investors. They can take advantage of multiple members participating in a syndicated round of funding. The third style is a more individual one. Sometimes an investor finds a deal, becomes committed, and invests individually in the deal.

Once you consider your investment priorities, define your goals and evaluate your assets, you have the basics of an investment strategy for early-stage impact investing. You are ready to move on to sourcing an investment pipeline. For some examples of impact investment policies, take a look at Mission Investors Exchange's website.

Step 2: Sourcing an Investment Pipeline

Sourcing your pipeline is about finding ways to access a selection of potential deals that fit your interests and strategy. Investors new to the impact space will quickly find that the problem is not how to find enough pipeline, but how to find quality pipeline. While there are online databases and global crowdsourcing sites, often searching through the volume of deals can be overwhelming. Many impact-oriented events and conferences have added "pitch" events for entrepreneurs looking for capital, but the quality of the deals presented can vary greatly and often pitch events do not tease up the most investable. In addition, global deals are often harder to source given geographic and cost constraints. Toniic members advise the following:

1. Find trusted partners. Look for value-aligned networks of investors, impact intermediaries, impact banks, investment advisory firms, incubators, and fund managers who will allow you to co-invest, or select some of their deals. For example, Greenstart partner Dave Graham brings quality deals from their accelerator to share with the Toniic network for co-investment and has become a trusted knowledge and deal flow partner. The best way to learn about partners is to trust your instincts with a bias towards jumping in and making a small initial investment. The deal flow sources and intermediaries in the space come in all shapes and forms—for example academic institutions, nonprofits and for-profit companies. One of the unique roles Toniic plays is to source vetted deals from around the globe from these kinds of intermediaries. Some notable types and examples of intermediaries in the space include:

Dealflow Networks Emerging Globally. *In 2012, Shawn Westcott and Ruth Brännvall founded Impact Invest Scandinavia (IIS), an angel impact investor network based in Sweden. The Nordic model of a strong welfare state is changing due to, among other things, privatization of government services, challenges from a changing and aging population, and a growing interest in developing markets, and new enterprises addressing these issues. With their combined experience, Westcott and Brännvall saw firsthand impact entrepreneurs who were having trouble accessing private start-up capital and an investment community that was unaware of the opportunities of investing in companies delivering blended value.*

In partnership with Toniic LLC, they have created a community of learning by doing that includes philanthropists, technology investors, banks, and governmental agencies, as well as a number of deal-flow partners. The network made its first investment recently with the company, Bonzun. In partnership with the Karolinska Institute in Sweden and the Ministry of Health in China, Bonzun operates a medical web portal providing information for pregnant women and new parents in China.

a. Incubators and accelerators help socially conscious start-ups refine their business models and prepare to pitch to investors. More incubators and accelerators are developing in regions around the globe as impact investors realize the importance of the intermediary space for global investing.

- Africa: The Impact Amplifier
- Central and Eastern Europe: Investment

Ready, NESsT

- India: Dasra Social Impact, Villgro SEED, Ennovent, Unltd India

- Latin America: Avina, Agora Partnerships, New Ventures Mexico, NESsT, Njambre

- UK: ClearlySo

- United States: Duke SEAD, Fledge, Global Social Incubator at Santa Clara, Good Company Residency, Greenstart, Hawai'i Investment Ready, Hult Prize, Hub Ventures, Impact Engine, Mac6, the Unreasonable Institute

- Global network of local incubators. Echoing Green Fellowship, Village Capital

b. Business plan competitions can help early-stage entrepreneurs connect with mentorship, practice pitching to investors and get their plans ready for first infusions of capital. Examples include Global Social Venture Competition and the William James Institute's Sustainable Business Plan. There is also a new generation of competitions, like Fish 2.0, that are sector focused and combine processes and tools used in incubators, accelerators, pitch fests and competitions.

c. Impact investing funds. A few pioneer vetted lists of impact funds include ImpactBase (for accredited investors only) and ImpactAssets 50. In addition, the GIIRS website includes benchmarked ratings of funds around the globe based on their intentions and practices around social impact.

d. Networking groups, such as the Global Impact Investing Network, HUB Ventures, Mission Investors Exchange, the Philanthropy Workshop West or the South African Network for Impact Investing, provide learning and community as well as access to resources for impact investors.

e. Deal Flow and investor networks. Investor networks in the impact investing space come in many sizes and cover different geographic areas. Some are sector-specific, while others look at all sectors in a specific geography, such as I3N in India. Others focus on all sectors in all geographies, like Toniic. Some take a regional approach to deals and membership, while others support global members and deals across all sectors. In most cases, these investor networks are open to accredited investors only, though some welcome any type of member. These networks can provide a wide variety of services like capacity building on the dealflow side as well as on the investor side, deal vetting, syndication services and more. Some are high touch, while others are more of a virtual community. Following are examples from around the world: Investors' Circle (US); Intellecap's Impact Investing Network (India); Ennovent's Impact Circles (India); ClearlySo (UK), Impact Invest Scandinavia (Nordics); Mission Markets (US based, online transaction platform for sustainable deals); PYMWYMIC (Netherlands); and Toniic (Global).

f. Key events and conferences can keep you informed of impact investing trends. These include multi-sector events like Impact Forum (Singapore), Investors' Circle's Beyond the Pitch events (US), SANKALP (India), SOCAP (US), PYMWYMIC (Netherlands) and Toniic Global Member Conference (US & Global) as well as issue-specific conferences, like the Yale Global Health and Innovation conference. Click here for GIIN's list of upcoming events around the globe.

g. Impact intermediaries, like Avina, D. Capital, Avantage Ventures, Intellecap, Total Impact Advisors and Greenstart, are developing in regions around the world to support entrepreneurs and investors. See our Regional Guides for a selection of intermediaries around the globe. More are being stimulated and supported by development agencies and foundations like USAID, the Omidyar Network and the Rockefeller Foundation.

h. Crowdfunding is becoming big business globally. Crowdfunding platforms, like Crowdfunder in the US and Symbid in the Netherlands, provide opportunities both for "retail" investments (for non-accredited and accredited investors) and "platform" investments (in crowdfunding platform enterprises for accredited investors). Globally, new platforms also provide investment opportunity for impact investors – examples include VC4Africa (which helps investors invest equity into African businesses) and Myc4 (which helps investors place debt in African businesses). Donation-based efforts also can seed early-stage companies, as is often the case on Kickstarter, or support investing in specialized sectors, such as Medstartr for healthcare tech start-ups.

2. Form or join a practice group. Over the past two years, a small group of members within Toniic have volunteered to act as practice group leads, creating informal mini "hubs" within the network. This is a welcome development, as it allows investors to learn more about a region of interest and learn from others with specific regional and/or investment expertise. Currently, Toniic has four active practice groups – three focus on regions (India, Africa, and Latin America) and the 100% Impact Network for members who have the intention to deploy 100% of their assets to impact.

Step 3: Conducting Due Diligence

Once you've identified a deal from the pipeline that you are interested in exploring, the due diligence period commences. This process is by far the messiest and most subjective—and thus received the most commentary from those we interviewed.

In general, due diligence is an investing imperative, and an iterative process. It brings discipline to the investment process and it helps you get the important things right.

Practices employed by early-stage investors are quite diverse. While some like to make a small initial investment to get to know how the entrepreneur operates, other members follow a rigorous due diligence process before they consider deploying any capital.

1. General advice

- **Share the burden**. One of the major benefits of the Toniic network is due diligence sharing. This allows potential investors to divide up the work and focus on their area of expertise.

- **Make sure you and the entrepreneur have a shared set of values and enterprise objectives.** Lack of alignment is one of the more frequently cited reasons for an investment derailing.

- **Know the environment of your prospective investment**—the cultural, political and regulatory landscape can pose significant risk to your investment, despite a strong leadership team and solid business and impact proposal.

- **Match depth to capital commitment**. Members were quite adamant that the depth of due diligence should strike a delicate balance, collecting enough data for rigorous analysis and providing value while not exhausting the entrepreneur in the process. Your due diligence process should focus on information that will get you to a decision and be commensurate to the size and type of capital you are planning to deploy.

- **Be part detective/investigative reporter**. You want to investigate and ask questions about what is driving the opportunity, and what can go wrong. Pay attention to common early-stage challenges. Seek numbers and specifics, ask the whys, be skeptical, look for supporting evidence, and be prepared to get it wrong.

- **Take a portfolio approach**. Apply an asset allocation strategy to your investment capital—paying attention to your liquidity needs, risk, and tax implications. Early-stage investing is considered high risk, so by definition it needs to be an intentional portion of your overall strategy with the inherent risk factored in to your return expectations.

- **Verification.** When all is said and done, take time to independently verify the information collected during the due diligence process. Much of what investors hear from the investee is self-reported, thus underscoring the importance of verification.

- **Use an escrow fund**. Avoid the trap of writing an investment check that is then immediately cashed prior to an "escrow" of funds being filled-out to sufficiently fund the business plan. Setting up an escrow account is an easy solution.

2. Organizing for Success. Since the due diligence process is your first interaction with the entrepreneur or team, Toniic members suggest that you follow the following general basic guidelines to organize yourself and your co-investors in order to approach the process in an informed way.

- **Be the lead or empower a lead.** Identifying one point person who manages interactions with the entrepreneur simplifies communication lines between the investors and entrepreneur and helps clarify team roles and responsibilities from the start.

- **Set team norms.** Create ground rules and time frames that you will adhere to as an investment team. How will you communicate and how often? One, quick initial conversation about norms will go miles in building trust and responsibility within the team.

- **Establish the critical path needed to get to a deal decision. List deal-breakers so no time is wasted.** Avoid *analysis paralysis* by identifying what information is critical to make a decision and what can go unanswered. Also note capacity-building needs for the enterprise to get them past any investment hurdles, or provide a conditional letter of interest, saying you would review them again if they can address specific factors in the future.

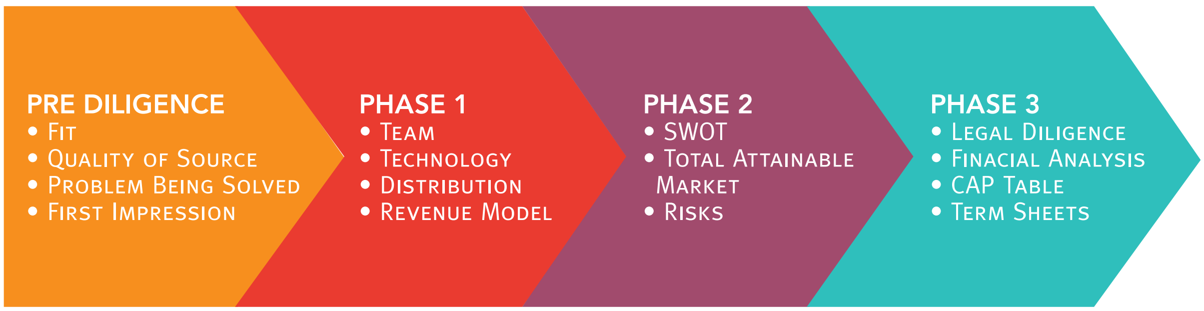
- **Stage your questions**. Each question from an investor typically means work for the entrepreneurs—and time away from running their business. Using your questions wisely can increase the efficiency of your due diligence and improve your relationship with the entrepreneur. For example, Toniic member Miguel Granier of Invested Development focuses on answering critical questions for each stage before going deeper. John Kohler shared that in his work with investors, he observes that "they usually employ a cascading set of screens to stage both their work and the entrepreneurs's work at stages of interest."

- **Treat diligence as capacity building**. Andy Lower (formerly with the Eleos Foundation) tries to add an hour of value for each hour he asks of the entrepreneur. Lisa Kleissner provided significant technical assistance to SMV Wheels in helping craft their business plan as part of her diligence. The entrepreneur should feel like you added value even if you don't invest.

- **Get to know the other investors**. If you are a minority investor, who is the majority investor and what is your relationship with him or her? If you are syndicating a deal, who are the potential co-investors? Do you know what their values and motivations are?

- **Consider outsourcing due diligence to a professional**. Bruce Campbell of Blue Dot Advocates recently assisted two investors

Sample Due Diligence Process



Source: Invested Development, 2013.

with a deal in Nairobi. They hired Open Capital Advisors to perform an in-depth on the ground diligence that was shared with other investors and eventually led to funding the enterprise.

3. Evaluate your legal constraints and opportunities before you dive into a new geography. Blue Dot Advocates suggests investors ask themselves the following questions prior to making an investment:

- Is the investment prohibited or restricted by the investor's country of citizenship either because (i) the country in which the company is operating is subject to sanctions or other legal action or (ii) because a company founder is on a list of persons with whom citizens of the investor's country cannot do business (e.g. a terrorist list)?
- Is the investment restricted or prohibited by the laws of the country in which the company operates?
- Is the investment subject to registration in the country in which the company operates and/or is there some other process that must be followed in order to make the investment enforceable? In some countries, for example, a stamp duty may be optional, but failure to pay the tax makes it harder for investors to enforce their rights.
- Has the investor group engaged local counsel to perform basic legal due diligence on the company's corporate and tax status, as well as its legal authority to enter into the proposed transaction?
- What are the tax implications of the foreign investment? Most countries have relatively complicated rules for the taxation of foreign investments due to concerns about hiding income and assets offshore.
- Will the investment return be subject to a withholding tax in the country in which the company operates, and, if so, at what rate? How is the withholding tax treated for purposes of the investor's tax obligation in the investor's country of citizenship, e.g. will the investor receive a full credit for the foreign tax paid?
- Does the investment documentation include a commitment that the company will comply with applicable anti-bribery and anti-money laundering laws, including the laws of the investor's country of citizenship that may apply?

4. In-depth. Once you've organized a process and completed basic document review and phone calls, Toniic members suggest including the following critical elements in your review:

"Start with having a beer or cup of tea with the entrepreneur. Investing is a journey, not a transaction; you are likely to be working together a long time. It helps tremendously to have a basic level of trust, respect and admiration for one another's hopes and dreams."
—Bob Pattillo,
Gray Ghost and First Light Ventures

"What I've learned from 20 years of investing is that a lot of time highly mission-motivated entrepreneurs are confused about the priorities of running their businesses."
—Stuart Davidson,
Sonen Capital

"Look for teams that bring unique insight to a problem and who learn quickly. Great teams versus good teams learn at a magnitude faster."
—Tabreez Verjee

"In early-stage, it is overkill to do six months of due diligence. Angel investors need to have a willingness to take risk."
—Miguel Granier,
Invested Development

"Have the hard discussions first. Impact investors tend to fall in love with the entrepreneur and the business then lose their discipline around financial due diligence."
—Liesbet Peeters,
D. Capital

- **Conduct an onsite field visit** – essential prior to any investment, performed by you or a trusted peer.

- **Respect cross-cultural styles** by partnering with an in-country potential investor or respected intermediary.

- **Perform reference checks** as provided by the enterprise and directly sourced from the community the enterprise serves.

Peer Wisdom. *A Toniic investor, after researching an investment theme, found an enterprise that seemed to meet his impact goals. He began the due diligence process to assess the viability of the business and the capability of the entrepreneur. Based on interviews he conducted with peers in the community where the business was located, he discovered that the target business was being promoted by an entrepreneur with excellent social acumen, but a poor business record including multiple failed start-ups that the entrepreneur did not disclose. This lack of transparency and managerial and business operations experience raised a red flag and the investor opted not to move forward.*

- **Perform an eco-system analysis as well as an enterprise-only financial analysis**. Who are the businesses' suppliers, partners, or competitors? Who will be most threatened if they are successful? What are the regulatory and legal constraints that could change their model over time? (For a useful framework for this analysis, see Cultivate Your Ecosystem. Note, the examples are nonprofits, but the analytical framework is valid for any impact entrepreneur.)

- **Perform an initial impact assessment**. An initial impact assessment should aim to understand the intentions of the entrepreneur around impact, the status of their operations in terms of staying accountable to that mission, and an assessment of the tracked impact of the venture. Taking a GIIRS online assessment survey will take most English-speaking entrepreneurs 2-5 hours, and allow investors to benchmark their impact intentions and performance against global peer groups. Note that GIIRS is working on a new assessment process targeted at early-stage enterprise. For now, it recommends that start-ups (with less than one year of operation) focus on completing the Impact Business Model. The assessment has been translated into Spanish, Russian, Portuguese, and Mandarin, with a French version coming soon. New research shows that "mission lock" makes a difference for enterprises already dedicated to impact—it can correlate with higher growth and better financial performance. Therefore, an initial assessment of impact during due diligence is worthwhile.

- **Make a clear final decision**. A quick "no" is better than a slow "maybe". But of course for the entrepreneur the best answer is yes; the second-best is no; and the worst is maybe. You'll want to be extremely clear with the entrepreneur throughout the process and let them know immediately if the answer has turned into no. If you are part of a diligence team, work to respect other investors' constraints, personal intuition and choices. For some investors, once all the data is in, their final decision may be a gut decision that does not align with the data. This is the nature of this data driven, but ultimately very personal decision-making process.

Step 4: Getting to Deal Terms

Once you are convinced of the potential of a particular investment, it's time to nail down the terms with the entrepreneur. There are often still a lot of open questions at this point; however, the conversations you have about deal terms will serve to clarify remaining questions and solidify the terms of your future relationship. There are four main areas on which to focus:

1. Clarify your investment options, based on the laws of the country where your capital is being deployed from and to.

2. Confirm your return expectations, the appropriate type of capital and right size of investment.

3. Get the terms right.

4. Close the deal.

***Keeping it simple**. Several Toniic members talked about wanting to give very early-stage ideas quick and simple capital in order to allow the entrepreneurs wide berth to develop their models. Experienced investors like Bob Pattillo talked about giving the earliest-stage entrepreneur the first $10-25K as a simple equity investment to essentially buy the right to get to know them and watch what they will do. Josh Mailman emphasized the futility of drawn-out negotiations at this stage, especially over valuation. He quipped, only partly in jest, "It's simple: if the company can't raise money for the next round, you paid too much."*

1. Clarify investment options based on country of capital origin and placement. Many of the investors actively investing globally in early-stage enterprises are in the US and Europe. As a result, the body of law in these regions is better articulated and understood. It is not the intent of this document to provide legal or financial advice regarding the legality or tax consequences of investments based on country of capital origin or placement. However, it is critical for all investors to secure professional assistance, preferably in-country, to ensure that the rule of law is followed and that tax considerations are understood and optimized. In India, Toniic investors have experienced dramatically fluctuating laws regarding investment of foreign capital. Other countries, like Rwanda, Mexico or Ghana, seek foreign capital and therefore have policies that make outside investment easier. A good place to start for doing business globally is at the appropriately named DoingBusiness.org.

2. Confirm your return expectations, the appropriate type and size of investment based on your analysis of the business opportunity. Simply put, what is the best type of investment to make in this company at this time. Choice of return expectations, type and size of capital should be based on a combination of factors relating to the entrepreneur (e.g., control, stage of development, business plan, cash flow, exit opportunities), your investment priorities and constraints (e.g., short-term or long-term horizon, risk profile and needs for cash), other investors (e.g., the ability of your investment to help leverage other capital), and local context (e.g., speed to market needs, local norms or constraints and local tax and investment laws).

a. Following are the more commonly used types of investments for financing seed-stage enterprise.

- **Grants**. Best for earliest stage ventures when there is a clear need for research and development into a business model. You can also utilize grants to hire a local intermediary, many of whom are nonprofit (see Step 2: Sourcing an Investment Pipeline for examples), to help your entrepreneur become more investment-ready. Grant capital can also be used to provide Program-Related Investments – as either debt or equity. The corpus of a foundation can be invested in Mission-Related Investments. For more information on these types of investments go to Mission Investors Exchange.

- **Loan guarantees**. Can be most useful when there are other investors interested but sitting on the sidelines, due to perceived risks or lack of capital. Foundations and public charities can play a critical role in providing targeted loan guarantees to help unlock investor capital. Acumen Fund, for example, has frequently used loan guarantees to unlock more market rate capital, either as a loss tranche in a layered deal, or as a generic letter of credit for the entrepreneur for a certain amount of time, to give them flexibility and reduce their risk as they find other investors, scale a supply chain, etc. A CGAP document outlines institutional use of loan guarantees in microfinance institutions.

- **Debt**. The most fundamental question when considering debt is the strength of cash flow inside the company. Can this company take on the burden of debt payments at this time? Can the company afford to pay you regularly and still invest in its growth? Key terms are interest rate, amount of loan, duration and date of payments, and any conversion provisions. See TechStars Open Source Model Seed Financing Documents for a checklist and some generic templates. There is a strong track record for debt in microfinance and community development finance. Both the Eleos Foundation and the Peery Foundation began their impact investing programs with debt investments.

- **Demand Dividend**. Demand dividend is a flexible investment vehicle, where terms can be adjusted to fit the enterprise business model and the investor's investment objectives. It matches payments to cash flow, has a 'honeymoon period' to allow capital to go to work, returns a multiple of the investment as a fixed payoff amount, and aligns incentives with term sheet covenants and a financial plan focused on cash. This structure is useful, for example, for investors investing in community-based initiatives for which an equity exit is not appropriate, but the ability to share in the profit is warranted. A link to a form to create your own demand dividend term sheet can be found on the Santa Clara University website.

Catholic Sisters Use Debt Fund to Empower Under-Served. *Sister Corinne's Congregation, the Dominican Sisters of Adrian, Michigan, wanted to align their mission with their retirement fund investment needs. To achieve this, they created the Portfolio Advisory Board and became actively involved in filing shareholder resolutions and conducting dialogs with corporations around environmental, social and governance issues. In addition they developed what at that time was described as an "alternative fund" providing loans to organizations in low-income communities. With this fund, the Sisters could invest in a way that not only provided a modest upside for retirement, but also allow the Sisters to support the very communities and causes that many had worked for during their active years in ministry.*

In 1978, with an MBA and community organizing experience, Sister Corinne and her fellow Sisters began with small, often direct lending. Food banks, credit unions and daycare centers were among their first investees. They struggled to find enough quality deal flow, but stood firm on their requirement that investments be aligned with their investment objectives – to serve under-served, poor communities.

Today, Sister Corinne actively manages two portfolios – the Religious Communities Investment Fund (RCIF) *and* the Mercy Partnership Fund*, a program of Mercy Investment Services. She believes that the communities they support through their loan funds are acting as the emissaries of the ministry of the Sisters – many of whom are too frail to continue active work in these needy communities. Sister Corinne described their unique relationship with their investees as a "mutual ministry". The Sisters pray every day for the continued success of the investees and the investees continue the critical work for the under-served. Indeed, a mutual and powerful ministry.*

- **Quasi-debt**. Convertible debt may be an option when the round is very small or the company needs some bridge financing. It may provide some protection for everyone while offering a reasonable upside. See how convertible debt works at Own Your Venture. One investor shared with us that he believes quasi-debt is not the best deal for an investor. Bottom line, weighing the investment options with your peers is advised.

- **Quasi-equity**. Quasi-equity financing (also known as mezzanine financing or subordinated debt) is another form of financing frequently used by SMEs. It typically involves a mix of debt and equity financing, which allows investors to achieve gains through capital appreciation and interests on debt-repayment. Read more on quasi-equity at BME Forum.

- **Revenue share**. Revenue share is usually structured as an investment where financial return is calculated as a percentage of the investee's future revenue streams. This vehicle can be a useful source of finance when debt financing is inappropriate or too onerous, or where share capital may not be possible due to the investee's legal structure. Unlike a loan, this investment is dependent on the financial performance of the organization. Sometimes revenue share is also called quasi-equity, though we see it as a subset. See a great case study at CAF.

- **Profit share**. Same as revenue share, only the investment specifies payments to investor out of bottom line profits instead of top line revenues. This is clearly less risky for the company and more risky for the investor in terms of assuring a significant return.

- **Equity**. Most appropriate for seed stage where cash flow is uncertain because of the stage of the venture, equity funding also requires that there is significant growth potential for the venture, and that an exit scenario is plausible. The key terms are the pre-money valuation and the post-money percentage of ownership by the investor. Equity investments also give investors the opportunity to be involved in the governance of the company, through board or observer seats, if they desire. See TechStars Open Source Model Seed Financing Documents and the Unreasonable Institute's term sheet page for some generic templates.

b. Syndication preference: select appropriate investment style. You may decide to make this investment alone, but often there are other investors expressing interest. Consider the following when deciding how best to proceed:

- **Individual Investment**. The pros are that you are in control of all deal terms and negotiation with the entrepreneur. You can make the deal at your own pace, which might mean very quickly. The cons are that you are alone on due diligence and may miss things that others see, and that you will need to cover all the costs of due diligence yourself.

- **Syndicates**. Multiple investors coming together in a round with the same terms can be a huge simplification for the entrepreneur once the deal is done and can be a great learning experience for investors. On the other hand, a healthy syndicate requires great soft skills, patience and communication as issues are discovered. From a financial perspective, many investors prefer to invest in syndicates to reduce risk, and some insist on minority percentages of the total round in order to be sure other investors are as committed to the deal as they are.

- **Special Purpose Vehicles**. Several Toniic members have set up special purpose vehicles, usually LLCs, to allow syndicate investors to invest in a legal intermediary set up for the sole purpose of investment in a specific company. The advantages of these, according to The Eleos Foundation, who has created several of them, is to make it easier for investors to come in with smaller amounts of capital, with set terms, into a US-controlled vehicle for investments in global early-stage deals.

c. **Use appropriate legal counsel**. Most traditional firms providing legal services for term sheets do not understand the impact investing space and therefore their advice and version of term sheets mirrors more stringent and onerous conditions usually found in the venture capital market.

Several investors warned about the importance of finding appropriate legal counsel. "Do not let your lawyer take an aggressive equity template off a shelf and apply it to these sorts of deals," said Chloe Holderness, managing director of Law for Change and the Lex Mundi Pro Bono Foundation, which connects impact entrepreneurs around the world with pro bono counsel. Deborah Burand, a clinical assistant professor at University of Michigan Law School and director of the International Transactions Clinic, is working with the ANDE network, bringing together the general counsels of its members to create better templates and tools for investments in social enterprises. She says that another critical factor is alignment with your co-investors, as the lessons from failed microfinance deals show that social and financial investors can clash when it's time to negotiate workouts (or possibly even liquidations) of the investee company.

3. Get the terms right.

a. Keep it simple. Once the investment vehicle is defined, the term sheets can be drawn up. At this early-stage, most of the investors' advice was to keep it simple. Focus your time on what the entrepreneur needs to succeed instead of over-negotiating a term sheet.

When it comes to valuations, simplicity is also key. Valuations at this stage include so many assumptions and projections that they are often – as Josh Mailman describes – "silly." Be realistic about how much time to spend on developing the perfect valuation.

b. Consider integrating impact terms and metrics into term sheets. Some members include impact metrics in their term sheets. They recommend focusing on a small number of key business indicators and sector specific metrics. The ideal is to attach these as an Exhibit or include as a schedule of reporting requirements. See Step 6: Assessing and Achieving Performance and Toniic's E-Guide to Impact Measurement.

Toniic co-founder Morgan Simon points out that this is a great time to lock in appropriate benefits around ownership of the enterprise, if that is an impact goal for the investor and entrepreneur. For example, SMV Wheels set aside an employee ownership pool in their term sheet, Liberty and Justice is structured so its factory is 49% employee-owned, and New Era, a "green" window manufacturing company, has an all worker-owned minority pool. Ownership terms are highly relevant to the investment vehicle conversation as ownership structure impacts the type of vehicles that are appropriate for investment.

It is not advisable to steer the mission of a company by tacking on extra impact metrics. Cathy Clark from Duke University notes that there is wide consensus among later-stage fund investors that putting too many mission-specific terms into term sheets at the early-stage is a mistake; many funds, especially community development finance funds, did this in their early days and discovered that these terms didn't help entrepreneurs maneuver effectively, and in some cases, actually limited their ability to raise bridge and other future capital. You want to stick to terms that empower the entrepreneurs to do what they need to do to help the company succeed financially and socially.

c. If applicable, document scope of capacity building needed, estimate of cost and how it will be provided. Many early-stage investments need more than capital. If you have emerged from your due diligence process with a sense of the kind of technical assistance the entrepreneur needs, this is the time to document it.

d. Drilling down with the entrepreneur. Getting to an agreement on the exact terms of the deal is nearly always more time consuming than the investor expects. A few key pieces of advice from the network:

- **Collaborate and reconcile with the investee**. Often, early-stage entrepreneurs do not understand term sheets, a fact which puts the investor in the driver's seat. This means an investor may have to spend time to educate the investee.
- **Valuation tips**. Typically valuation is proposed by the investee, but in seed stage the financial model may be in such flux that the rules of thumb used for more mature enterprise investments may not apply, and the investee may not have experience in how to prepare a valuation. Be aware that some early- stage entrepreneurs may inflate their enterprise valuations.
- **Meaningful tranche hurdles**. Consider some very simple performance based tranche milestones, both financial and social.

4. Closing the deal.

At the end of the negotiation process, you will hopefully emerge with a deal that both parties can sign and a relationship that is mutually beneficial. But this is not always the case. A fuller set of potential outcomes is:

a. Say yes and sign.

b. Say yes with conditions. What are the conditions that need to be settled as part of the deal you are agreeing to? These should be discussed up front as potential deal breakers and be clear in your term sheet.

c. Say no, but with conditions to get to a yes. What concrete future changes would make you come back and take a second look?

d. Say no, but provide useful feedback. By the time you are developing your term sheet, it is likely that you've developed a relationship with the entrepreneur and taken up a significant amount of his/her time. If the deal doesn't pan out, be sure to provide useful feedback to the entrepreneur about why you decided not to invest. This will allow you to maintain a strong relationship with the entrepreneur.

e. Say no, but pass on to an investor who might be interested. If appropriate, you may also consider passing the deal on to other investors who could be interested. Obviously, this will depend on the reasons you couldn't get to yes.

Step 5: Managing for Mutual Success

Once you have made the investment, you enter the management phase, in which you figure out the best ways to interact with your investee to help maximize mutual benefit. As Charly Kleissner of the KL Felicitas Foundation says, "It's not just about throwing out money and waiting for the 1 in 20 to be a huge financial hit. This would be as dangerous in the impact investing space as it is in the venture capital space. There is a dire need for direction and mentoring in the early stages." This process is highly diverse and depends on the needs of the venture, and the experience and availability of the investor. Below are some thoughts and guidelines from Toniic members about what they have learned.

1. Establishing a regular financial and impact reporting process.

a. Balance needs vs. time. You want to develop an accurate sense of what is going on with the enterprise, but that needs to be balanced with what is reasonable to expect from a busy entrepreneur. No matter what level of engagement you undertake with your investee, you'll want to ask the entrepreneur for some regular progress reports in writing. Most experienced investors are sensitive to rightsizing metrics and reporting and thus ask the entrepreneur for copies of the periodic reports they are preparing, regardless of whether they are for other external stakeholders or for internal use.

Two Approaches to Metrics*. Ian Meyer of the T. and J. Meyer Family Foundation asks entrepreneurs to tell him what they are already measuring and why. This helps manage expectations and tries to meet them where they are." He also mentioned that having the conversation around reporting early is critical to maintaining a good relationship long-term. The Eleos Foundation, takes a beneficiary-focused view of measurement. To measure impact they ask "what more can the investor do to empower the entrepreneur and empower the community they are working with?" They believe that maintaining focus on the benefits to the "end user" or the community in which the entrepreneur operates is paramount to measuring a successful investment. The foundation tries to make sure* *indicators are not just set by the investor, but are also coming from the impacted communities themselves.*

b. Shortcuts, benchmarking and portfolio-wide reporting. Some members use common reporting tools, like GIIRS or IRIS indicators. For a closer look at how a Toniic member developed their strategy for measuring impact across their investment portfolio check out this case study. Toniic published a set of core IRIS indicators that members have recommended investors start with to track outputs; more detail on this in Step 6: Assessing and Achieving Performance. There is also the question of how best to roll up metrics across an early-stage portfolio in order to understand your investments from a portfolio point of view. Very few members reported having enough consistency in both financial and social indicators across their portfolio to do this in an automatic way, though we have seen later stage fund managers who use IRIS to collect data, enter it into the SalesForce-based PULSE platform and then pull reports from SalesForce for internal use with their own investors or stakeholders. B Analytics, a project of B Lab, features GIIRS ratings and also offers investors a platform in which to benchmark investee portfolio performance against similar groups, by industry, stage, and geography. For most early-stage investors, however, rolling up a few key metrics may suffice.

Signal other investors. *Toniic member Miguel Granier of Invested Development (ID) says when his fund makes a commitment, this signals other investors that ID is willing to take the risk in this enterprise and interested investors need to act. In the case of their investment in Simpa Networks, they timed this well, as a previous funder had come in with a $40K convertible grant and ID engaged with Simpa in June of 2010. By early September, ID had agreed to a $350K equity investment pending a minimum $500K raise. As part of the agreement, Miguel's team mapped out a series of operational and financial milestones for the company, and actively shared the map with other investors at conferences including the September 2010 SOCAP event. According to Mike MacHarg, co-founder of Simpa Networks, "Miguel was a tremendous supporter and definitely expedited the round with these tactics. Having the ability to argue that an additional $150K would activate the first $350K got strong attention—and those conversations turned into larger commitments (the Hilti Foundation came into the round with an initial discussion of $250K to activate the ID investment, then decided to increase to $750K once they saw the plan)." By December 2010, Simpa Networks had raised the remaining capital it needed to complete a $1.3 million Series A round.*

2. Working directly with the enterprise

a. Provide direct ongoing support. Depending on what governance provisions were outlined in the deal structure, you may be asked to provide ongoing support – however formal or informal – to the entrepreneur. Particularly in the early days, your feedback, advice, and network can be extremely beneficial – as long as it is welcomed from the team. An example of this kind of direct support is seen in the case of Healthpoint Services. Toniic member Charly Kleissner helped founder Al Hammond negotiate potential involvement with pharmaceutical companies who were interested in investing early on.

b. Remember entrepreneurs want partners, not just oversight. Ask your entrepreneurs what they need regularly and think about how to help give them access to networks, resources, etc. Talk with them about the frequency of check-ins that will make sense for them, recognizing that earlier-stage businesses might benefit from higher frequency. Think about the best way to engage by phone and what natural points in their business cycle emerge for live field visits. What are the most critical issues in your opinion and what are theirs? For which issues or problems might you have the most help to offer? Remember every time you interact with the entrepreneur, you are taking their time and energy away from running their business; be disciplined and add value.

Beware of mission misalignments. *Cathy Clark of Duke University spoke to social entrepreneurs who have assembled a pool of investors with diverse goals and then tried to use the impact-focused investor as an anchor for their mission intentions. "I wrote a case study a few years ago on a health venture that had big mainstream VCs as its primary investors interested in selling its product in developed markets, though the CEO's passion was base-of-the-pyramid markets. She felt this was the only way to get the money required for clinical trials.*

She then did two things to support her mission: she cultivated and won a PRI from a major foundation interested in BOP markets and then contracted with the Gates Foundation and the World Health Organization to distribute the product at cost in those markets, convincing her investors that this was a net financial benefit to the company (a low-cost loan funding no-cost distribution and reach)."

Clark warns, "In my experience, this strategy only works as long as the company is thriving. As soon as money gets tight, the board in this situation will insist the social objectives be subsumed. And who would blame them, as they were not given the opportunity to buy in to the investment's mission-related objectives at the time of their investment, and there was no one representing this interest on the board, which should have triggered a re-evaluation of objectives at the time of the PRI. Unless the mission is locked in legally or by a third party impact certification, the alignment of mission and financial goals is tested every time the company raises new money and creates new relationships and has got to be carefully articulated throughout the lifespan of the impact-focused enterprise, especially at exit."

c. Consider governance roles and needs. The degree of involvement and partnership will also depend on the governance structure of the venture and your level of involvement in it; equity investments, for example, may come with board seats, which require more engagement. Note that if the entrepreneur is inexperienced, he or she may need some coaching about how to best build out a board and then engage it, and on how to prepare information to help the board to give good advice and make smart decisions.

d. Share success and help with follow-on funding. At some point, your investee venture may either become profitable on its own, learn that it cannot survive, or go back to the market for more capital.

If your venture is doing well, you should be a champion for your investee. Share their success and lessons with other investors, other entrepreneurs, at conferences, etc. Since the capital market ecosystem is young, success can hinge on the level of engagement of investor and resources he brings to the table in these conversations. Active investors need to also work on the follow-on capital opportunities with their networks.

Step 6: Assessing and Achieving Performance

Another key part of the investment process is assessing and achieving your performance goals through the investment. While the ultimate goal of an impact investment is to achieve financial returns alongside social impact, we will discuss the two objectives here separately. Still, in most successful ventures, these two objectives are highly interdependent. Three key focus areas for achieving performance include:

1. Setting clear targets for social and financial performance
2. Managing financial returns
3. Managing impact

1. Setting clear targets for social and financial performance.

a. Start with the end in mind. One of the most important aspects of achieving performance is having a clear notion of what level of performance you want to achieve. Your success will often depend on that notion being clearly communicated amongst the entrepreneur and other stakeholders so that when choices arise, you, the governing board and the investee are pointed toward the same vision of performance.

b. Financial targets. On the financial return side, you want to have a clear understanding of what kind of return equals success to you, and attempt to manage toward that. This will be specific to your type of investment vehicle. Managing financial targets means that as seed investor, you may need to assist the enterprise in identifying the next round of investors and, if and when appropriate, an exit or harvest.

c. Impact targets. On the impact side, you want to build in with the investee a clear, shared notion of success, in terms of overall theory of change (what will happen as a result of our intervention?), interim indicators (what are the metrics we can track to be sure that is on the right path?) and ultimate social impact (how will we know we've succeeded?). In most businesses, it can take some time to get to this level of common understanding and actionable measurement.

Successful social venture exits can be enhanced by "locking in" mission commitments before exits occur. Companies do this in various ways—some through their by-laws, some by building it into their brand, some by certifying their impact through a product or a company-wide certification, or new form of incorporation, such as Benefit corps or L3C's in the US or Community Interest Companies in the UK. The B Corporation certification in the US was started in no small measure to help protect the mission interests of companies through merger, acquisition and IPO. Cathy Clark's research has shown these kind of impact certifications correlate to better financial performance then other impact-oriented firms, at least in the US, where they are most widespread.

2. Managing financial returns

The overall strategy of managing financial returns can depend on the instrument you used for the investment. Maintaining an active ownership role enables you to keep a clear line of communication with the entrepreneur and activate your network of resources if necessary.

a. For debt and debt-like investments, if the company meets its payment obligations on time, you have your return. Management issues arise when the company does not have the required cash flow to service its debt. Refinancing, fire sale and/or write-off or partial write-off are the key options. Toniic members point out that waiting too long to decide among these options can force the choice into a write-off.

b. For revenue and profit-sharing investments, the financial return expectations are tied to the revenue or profits, i.e. they go up and/or down based on company financial performance, and are usually capped to a negotiated maximum return and/or might include a potential further upside based on revenue and/or profits. Incorporating specific reporting expectations through the term sheet development can be a plus to providing visibility into revenue and profit.

c. For equity and equity-like investments, exits can be through merger and acquisition, IPO or management buyout. The most common exit for impact enterprises is a merger or acquisition, especially globally. And the process of engaging and managing suitors is complicated, time-consuming and a key role that an investor can play.

Generally, equity exits are scarce but increasing for early-stage impact investing. For example, Toniic member Bob Pattillo counts seven successful exits among the 24 early-stage investments he has made through his fund, First Light Ventures. Similarly, impact investor Josh Mailman has had three exits from the 55 early-stage deals he has completed through Serious Change L. P., and sees clear signs of progress: “More than 15 of our investments are no longer early-stage, and we see more mainstream venture investors joining successive funding rounds for deals we have led, ranging from organic foods to education and mission-driven online ventures”. The Grassroots Business Fund has had three successful exits. Tim Radjy of SocialAlpha Investment Fund has had one successful exit and is completing one more. In the domestic US market, there is a longer track record, as Investors’ Circle reports over 35 mergers and acquisitions and IPO events for its members’ investments in early-stage impact enterprises since 1992.

d. What an investor can do. As an investor, you can help evolve the ecosystem by contributing to the creation of more appropriate term sheets for the risks of your investments, such as considering convertible debt, so you can still reap a return even if there is no equity opportunity. Or use a revenue sharing model like Demand Dividend, with a floor and cap on returns. As an example, John Kohler, on the advisory board of the Global Social Benefit Incubator, and a Toniic Board Member, is working on impact term sheets based on his work with over 200 global social enterprises. Work with your peers to cultivate later-stage investors as an exit strategy for successfully nurtured early-stage enterprise.

3. Managing impact

Toniic Institute has published a guide on impact measurement based on member feedback with a focus on early-stage impact metric challenges and opportunities. We recommend checking out this guide in full at Toniic’s E-Guide for Impact Measurement. Following is a brief on critical lessons from members.

a. Current practices. Investors tend to bring their own practices and opinions to the table when they consider investing, so it will come as no surprise that the impact measurement principles we’ve seen throughout the network are diverse. The current range of practices is represented in Figure 7, below.

b. Why Bother? Although some investors get by without measuring anything and rely on anecdotal evidence only, for those more public about their portfolios, this is one of the more frequently asked questions from their peers. More and more, both investors and investees see the value in and want to devise a way to easily and meaningfully measure impact Why? Because:

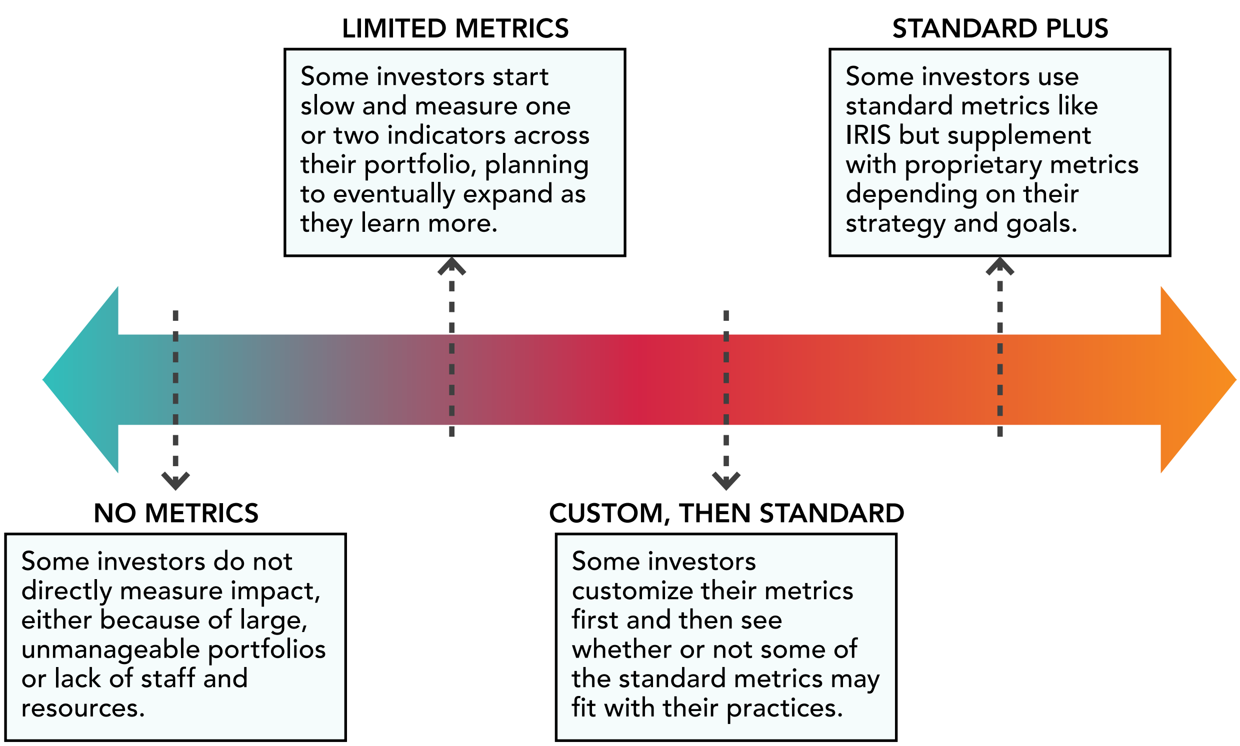
- Incorporating impact measurement serves as a powerful communication tool between investor and investee, as well as between investee and beneficiary. It clarifies expectations, establishes accountability, reveals areas of need, and showcase progress. It also aligns investor and investee around what is important to both.

- It allows investors to compare the impact performance of an investment over time, or compare performances between investments, and even across sectors.
- Strong measurement can help promising enterprises attract new capital from a market of investors who want to be able to show both financial and non-financial success. Anecdotal data is not sufficient.

c. Toniic members's approach. While the Impact Reporting and Investing Standards (IRIS) from the Global Impact Investing Network (GIIN) are a critical new tool within the impact investing ecosystem, the 450+ indicators included in the database can get overwhelming, particularly for early-stage investors. Toniic members have identified a short-list of frequently reoccurring metrics they use for most investments. Check the Toniic E-Guide on Impact Measurement for specifics. Also, Toniic members typically combine financial and sector metrics with anecdotal stories of impact to provide a more nuanced picture of an investee's impact. For a primer on how to use IRIS, check out this new publication by GIIN.

d. Additional advice from experienced investors. When asked to reflect on impact measurement, Toniic members had the following insights.

- **Early integration improves communication.** It is never too early to start a conversation around impact measurement and reporting. Maintaining this conversation throughout your process will ensure that you are fully aligned with the entrepreneur.
- **Output plus outcome does not always equal impact.** Data outputs like IRIS plus



a measurable outcome or consequence do not necessarily equal the targeted impact. Establishing whether an output is or is not a decent proxy for the impact desired requires some up-front investigation, design work, and research. If that is skipped, the impact investor and venture use the output to gauge "potential impact" at their peril.

- **Check-lists can lead to narrow vision**. A check-list metric process can result in a failure to see critical business challenges when those challenges do not fit in the narrows of the selected metrics. Rather, investors should collaborate with investees in order to agree upon what is feasible and satisfactory to both parties.

- **Keep it short and simple**. Key indicators need to be carefully vetted and shortlisted in order to reduce the reporting burden for both investor and investee.

- **Variety of data leads to a better understanding of impact**. Collecting and analyzing cross-sector, sector-specific, and enterprise-specific data can paint a much better, broad picture of an organization's impact. Focusing on only one or two of the three types can leave gaps in the impact story.

- **Syndication brings efficiency**. By syndicating, Toniic members can share resources and ideas, leverage each other's capital, and require a singular set of data from all of the group's investees. Unless the investor has very few formal measurement requirements, this can simplify the due diligence process and lighten the burden of impact reporting for both investor and investee.

- **Trust but verify**. Since impact is currently mostly self-reported, it is important for investors to corroborate through field visits, meetings with the entrepreneur and staff, and inputs from others like customers, venders, and competitors.

- **Accountability**. How do you know the enterprise is serving actual needs of its intended beneficiaries? Does the enterprise have mechanisms in place to ensure this ongoing communication?

For more detail on impact measurement, consult [the Toniic E-Guide for Impact Measurement]()

Step 7: Cultivating Lessons for Impact Investing

Reflecting on practices and developing lessons from experienced practitioners should not be confined to formal assessments like this one. Toniic members are constantly experimenting with new models, developing norms, and pushing through boundaries, all of which positions them to provide consistent, invaluable feedback to each other and the field. Investors should understand the value of these experiences and communicate with each other frequently to magnify the impact of their work.

The network is still young, but as it grows, it will be increasingly important to review, assess, and share the expertise it develops. For example, while now there is a small number of members who have deep early-stage impact investment portfolios, as investors develop experience with more mature portfolios with proven impact, clean exits, and demonstrated return, it will be important for others to understand the evolution of their process and the methods they have employed to generate their success. And, of course, it will be just as important to discuss their failures and mistakes – and what lessons they learned from those experiences.

Impact investing—particularly in early, high-risk stages—is relatively new and unproven.

As Toniic and other angel networks develop as impact seed-stage investors, it is important to remember that the knowledge and experience that they gain can and should be used to build the field. "The 7-Step Framework" outlined above is synthesized from the collective experience of over 40 impact investors. Below, we continue by sharing specific stories that show this process, with its many nuances, in action. •

Doug Lee sharing his impact investing work in South Korea at the Toniic Global Meeting 2013.

Case Studies

We include here four case studies that represent interesting investment stories that have emerged within the Toniic network. Each case study tracks the significant kinds of engagement and support, as well as capital, the companies received as they evolved from high-risk start-ups to more investable enterprises. We provide a graphic map of the sequence over time of debt, equity and business support provided to the investees by multiple partners. We believe these case studies exemplify the important network of collaboration that early-stage global impact entrepreneurs often need to succeed.

1. Healthpoint Services – Transforming Healthcare in India

2. BioLite – Parallel Innovation to Spur Growth and Impact

3. Liberty & Justice – Creating Empowerment in Africa

4. SMV Wheels – Asset Ownership for Rickshaw Drivers in India

Healthpoint Services — Transforming Healthcare in India

The following case study demonstrates how Toniic members helped move a seed-stage investment from Seed Round to A Round and beyond. It is also an example of how investors can assist early-stage investees with business model development in order to have a larger impact.

Healthpoint Services is a social enterprise that has the goal of catalyzing better rural & peri-urban healthcare. It was co-founded by base-of-the-pyramid researcher and strategist Al Hammond along with Amit Jain and Chris Dickey, and was incubated by Ashoka, the world's largest network of social entrepreneurs, which remains an active partner. The company's goal is to transform rural healthcare through newly available technology—advanced water treatment, rural broadband, tele-medical software, and advanced point-of-care diagnostics.

Healthpoint Services International is structured as a holding company with an Indian subsidiary (Health Services India). Health Services India owns and operates E Health Points (EHP), which provide families in rural villages with clean drinking water, medicines, comprehensive diagnostic tools, and advanced tele-medical services that bring a doctor and modern, evidence-based healthcare to their community. As of 2013, Health Services India has provided over 31,000 tele-medicine consultations, 17,000 diagnostic investigations, has filled 36,500 prescriptions and has provided safe drinking water to 300,000 users daily.

Identifying the opportunity. Toniic member Charly Kleissner got to know Healthpoint through the Santa Clara Global Social Benefit Incubator at the time the company was going through a capital raise. While Healthpoint had already raised a seed round, it wanted to find investors who were better aligned with the social mission of the company than the large corporations interested in investing at the time. However, Al Hammond found that early-stage impact-focused capital was in short supply. Impact-focused funds were interested in supporting growth and expansion, but were unwilling to assume the risk required at such an early stage.

First round: a Program-Related Investment. The Toniic network stepped in to fill the gap. In Al Hammond's experience, "Toniic [was] one of few groups interested in early-stage investing." Charly met with Al and his partner and decided to invest in the venture. However, he wanted to ensure that the capital was the right fit for the stage of the company. Instead of an equity investment, he brought together a number of investors—including several future Toniic members—over the course of six months to do a $600,000 Program-Related Investment round. The KL Felicitas Foundation (KLFF), Eleos Foundation, Peery Foundation, Woodcock Foundation, and Beyond Capital, amongst others, invested in early 2011 through a 2% 3-year interest-only convertible note that gave the company latitude to develop and fine tune their model.

Active investor engagement. In addition to rallying investors and contributing capital, Charly took on an active mentor role. He took a board seat to represent the Toniic capital and coached the principals on the types of investors—ones with government connections or on-the-ground capacity to help scale quickly—that Healthpoint should be pursuing. He also helped the company prepare for a leadership transition that would attract bigger capital and negotiate more favorable terms with other investors. Beyond Capital Fund also provided pro bono legal support from McGuireWoods and additional transactional support from partner Tres Vista Financial services.

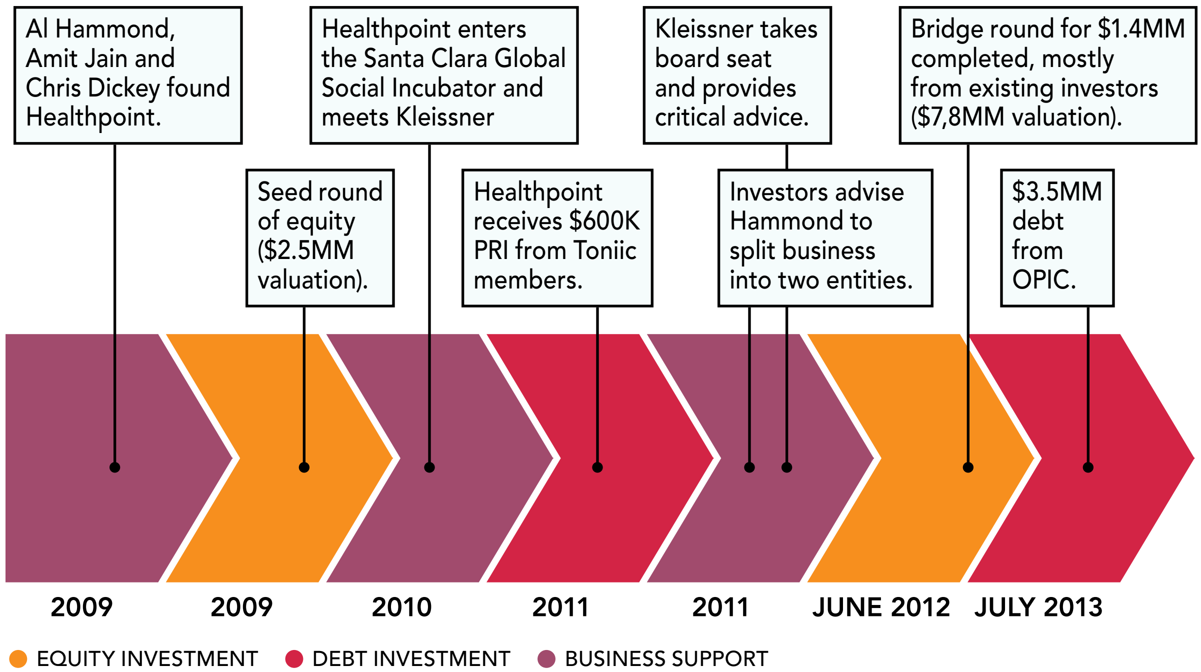
Building comfort with PRI investments. The Healthpoint loan was the first PRI investment for Eleos Foundation, which had only given grants up to that point. When Eleos former Executive Director Andy Lower approached the board suggesting a low-interest $50,000 loan to the for profit company, the board perceived the investment as too risky. However, they were willing to give a grant in the same amount without any reservations. When Lower pointed out to them that they had the opportunity to recover the principal with a modest return, rather than what amounted to a guaranteed loss, and also to signal interest to other investors, the board agreed to give it a try.

Market feedback. The collective PRI capital allowed Healthpoint to test market receptivity and operational effectiveness for their two services: water purification and distributed tele-medicine. As it turned out, the two businesses performed quite differently. The water purification business was met with great demand, while the tele-medicine offering stumbled in the face of unsustainable cost structures in combination with too little patient traffic. As a result, Healthpoint first turned to a hybrid model—with its water business subsidizing its telemedicine business—and then decided to split the two lines of businesses into separate entities in order to use appropriate capital for each, i.e., impact capital for the water business (both debt and equity), and grants and subsidies for the health business.

Splitting the company into two. The model was bifurcated in mid-2012, in preparation for the company's new round of capital raising. The water model was poised for scale and, as Toniic member Stuart Davidson put it, "became instantly investable," and is expected to deliver a profit by the end of 2014. Once water purification was isolated into its own business, Healthpoint was successful in raising investor capital to help it grow. Meanwhile, the tele-medicine side of the business was placed into a foundation to explore alternatives to the walk-in clinic model. The foundation also received a $250,000 grant from Grand Challenges Canada to build up its ante-natal care.

Critical early-stage risk capital. Toniic members were able to fill a critical funding gap for Healthpoint, allowing the company to fine tune its offering and focus its efforts on quickly scaling its successful water purification business. At the same time, Toniic member's impact orientation and willingness to offer program-related capital were a better fit for an early-stage mission-driven organization than corporate investors seeking a 20% return on investment. The PRI investors also agreed to hold their conversions on the convertible note until a full Series B round, even though it was clear a bridge round would be needed sooner. As Healthpoint matures, commercial capital

Healthpoint Investment Timeline



will become increasingly important to help the company scale and enter new markets. Indeed, the company raised a $1.4MM bridge round in June 2012, followed by a $3.5M debt investment from OPIC. Al credits impact-oriented angel funding as critical in getting Healthpoint to where it is today. "Toniic has a serious orientation toward impact paired with a low overhead model most investment funds cannot match, and thus plays a critical role in the impact investing space," he says.

Check out E Healthpoint Introduction Video from Ashoka here and NPR Special Series – Social Entrepreneurs: Taking on World Problems here.

BioLite — Parallel Innovation to Spur Growth and Impact

The following case study examines the risks and rewards of bifurcating a for-profit business into the near-term recreational market and the long-term, high-impact, developing world market. It also highlights the power of metrics to ascertain impact, build a business, and encourage investment.

BioLite began as a night and weekend project to build a super-efficient wood-burning camping stove. Its two founders, Alexander Drummond and Jonathan Cedar, were working at a design consultancy called Smart Design in New York City when Alex made the first prototype by attaching a fan to a tin can. Thrilled by how the simple addition of a fan allowed wood to reach the efficiency of a modern fuel like petroleum, the two friends set about making a more sophisticated version. Soon, they realized that the stove generated enough excess thermal energy to charge electronics, and the BioLite CampStove was born.

A project intended for the recreational market is applied to the developing world. The BioLite HomeStove emerged in 2008, when the BioLite team attended ETHOS, a conference on wood-burning stoves. At ETHOS, they heard devastating statistics about the deleterious health effects of fumes from indoor wood-burning stoves – 4 million people in developing countries die prematurely each year from related diseases. At the same time, BioLite entered their "camping gizmo" into the conference's clean stove competition, and won. When they realized that their stove was the only one in the competition that didn't plug into an outlet – i.e., the only one that could serve off-the grid populations – they knew that the fundamentals of their idea could have massive impact in the developing world.

HomeStove Trials in Osmanabad.

This is when BioLite's business model bifurcated into what Jonathan calls "parallel innovation" – that is, developing a core technology for a product that has near-term potential in a high-profit market, and using the gains to incubate a product with high long-term impact and financial potential in a more challenging market. Using this business model, they began iterating towards the larger, more rugged HomeStove, their stove for use in the developing world, at the same time as they pursued the recreational market with the CampStove.

Parallel innovation poses challenges to investors, but also rewards. BioLite's first attempt at fundraising through Toniic failed, because several potential investors felt that the CampStove would sideline the company's impact potential in the developing world. Other early-stage investors felt nearly the opposite – that the HomeStove posed too much risk for a startup. "If we were GE," Jonathan says, "putting dollars into a new market with a long break even period would be normal. But for a startup, investors want to see nearer term returns."

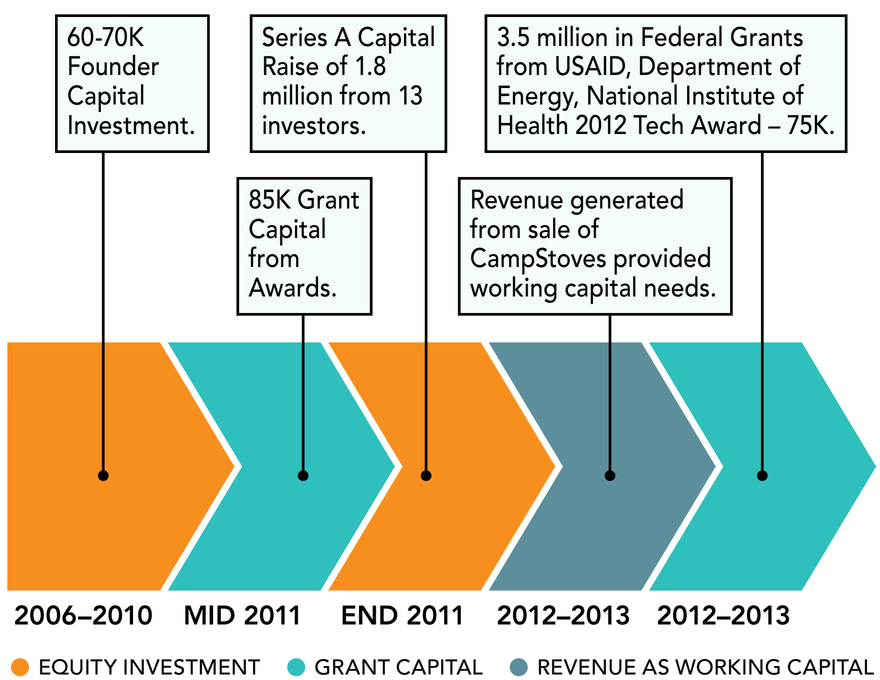
But eventually Toniic investors stepped up stating that from their perspective that the two markets essentially provided two shots at the same goal. Their commitment was quickly followed by a large investment from the Disruptive Innovation Fund. The Department of Energy and USAID eventually also made large grants to help create field trials for the HomeStove and to adapt some of the HomeStove technology to built-in cooking units in Latin America. BioLite was off and running.

A year of successes in the recreational market. So far, the CampStove has been very successful. Their first year of sales in 2012 were triple the company's initial estimate, and the product was shipped to more than 70 countries. This was in part due to what Jonathan called a "happy accident". Strong media coverage resulted in boosting online sales, which provided substantially larger gross margins compared to sales to wholesalers and retailers.

For example, when Hurricane Sandy hit, one of the firm's engineers took a case of CampStoves out to City Hall and began charging people's phones. The company received great press coverage as a result, and saw a huge bump in end-of-year sales – 50% of their sales occurred in the last three months of the year. It also provided them with clues about a market that they had known about from the beginning but not explored: the emergency preparedness market.

For the HomeStove, a focus on data-gathering and field-testing. BioLite has been data-focused from the beginning, often collecting more data than what investors and grantees request. The most striking example of this is that they built in an electronic usage-logging system into the HomeStoves. Currently this is allowing them to track usage through three different field tests – funded by grant organizations in the UK and US, made through academic partners in the US, and facilitated by partners on the ground. But first things first. According to Jonathan, "We first need to answer the underlying questions of whether cookstoves have a measurable health value and if they are used consistently." The field tests taking place in Ghana and India through 2013, will map usage rates and health outcomes from the 10,000 HomeStoves. Future data collection

BioLite Investment Timeline



opportunities including measuring variables that will affect company decisions down the line, such as price point, pay-as-you-go feasibility, charging capability, and branding.

The importance of equity investments from investors. In order to be sustainable, Jonathan states that the company must be driven by revenue and for-profit investment rather than by grant funding. Although they were able to access grants to complement their own capital investment into bringing the HomeStove to market, Jonathan's business plan did not require this in order to get this product to market. However, having the grant capital allowed them to move at a faster pace and at a larger scale. Social impact organizations that are struggling to find capital through grants, he says, often don't have the resources or flexibility to attract highly trained professionals with specific skill sets. Instead they have to rely on generalists, which can make it difficult to turn out a truly state-of-the-art product. This is why it was so important for BioLite to have equity funding from impact investors, and also why it was so crucial that they kept a reserve of capital and reached profitability before that capital ran out. According to Jonathan, "grant funding is not as flexible with respect to the reality of a business like ours, whereas an equity investment combined with revenue generation gives us the ability to fail in small ways and still be in existence."

Check out BioLite's CEO, Jonathan Cedar, introducing the new BioLite CampStove here.

Liberty & Justice — Creating Empowerment in Africa

Unemployment and poverty rates in the African country of Liberia both hover around 80 percent. Women are excluded from the most productive sectors of the economy, including rubber and timber production. Although the country boasts abundant natural resources, a geographically strategic port, and a progressive government, the lack of investment capital and technical assistance has kept Liberia—and specifically its women—locked in poverty.

An innovative cooperative structure. It was in this environment that two best friends, Adam Butlein and Chid Liberty, set out on a mission to transform the global apparel supply chain from exploitation towards partnership and sustainability. They partnered with a small group of grassroots Liberian women who wanted to take an economic stand. While many of their neighbors sell garments locally, these women partnered with Liberty & Justice to launch Africa's first Fair Trade Certified™ apparel factory, and subsequently went global. Today, their company, Liberty & Justice (L&J), is headquartered in San Francisco, CA with operations in Monrovia, Liberia and Accra, Ghana. The Liberian Women's Sewing Project is a worker-owned corporation with 49% of the company's shares owned by its workforce. The majority (51%) share is owned by L&J's Liberian subsidiary; however, the profits are pledged to the Liberty & Justice Foundation—a nonprofit organization with programs in economic empowerment, education, and healthcare.

First two rounds of capital. According to co-founder and CEO Chid Liberty, who was born in Liberia but spent the first 28 years of his life in the United States, the company needed capital from its earliest days. After raising about $150,000 from friends and family, the founders realized an acute need for more cash to build a working apparel factory. Chid, based in San Francisco, networked his way through the impact investing and entrepreneurship circuit, connecting with investors and other social entrepreneurs at PYMWYMIC, Toniic, Eleos Foundation, BALLE, Investors' Circle, [Social Venture Network](#) and others. His first outside institutional capital came from Root Capital, which after about a year of engagement provided around $200,000 in March 2010 in a deal split between debt and equity funding. Later, he raised a $600,000 equity round, a good portion of which came from Josh Mailman, through his Serious Change fund

Getting to Series A with help from the Eleos Foundation. The hurdle for Liberty & Justice was moving from that initial equity round to a true Series A round. They set out to raise $2.4 million and were engaged early on with the Eleos Foundation. According to its former Executive Director, Andy Lower, Eleos can take a lot of risks that others cannot take in working with early-stage entrepreneurs to get them over the initial "hump" of getting their model working. They have also devised a structure where they create a separate LLC for each investment for other accredited investors to invest in, with as little capital as $10,000. In addition to the pooled capital, the foundation shares their intensive due diligence to allow other investors to leverage their extensive time on the ground with the entrepreneurs.

An inspired Liberty & Justice factory employee.

Balancing risk mitigation and empowerment. Eleos made an early commitment to work with L&J and worked within the Toniic network to promote more interest. But the fact that the investment was in Liberia, a country with many risk factors, ended up being a deterrent to some for the deal

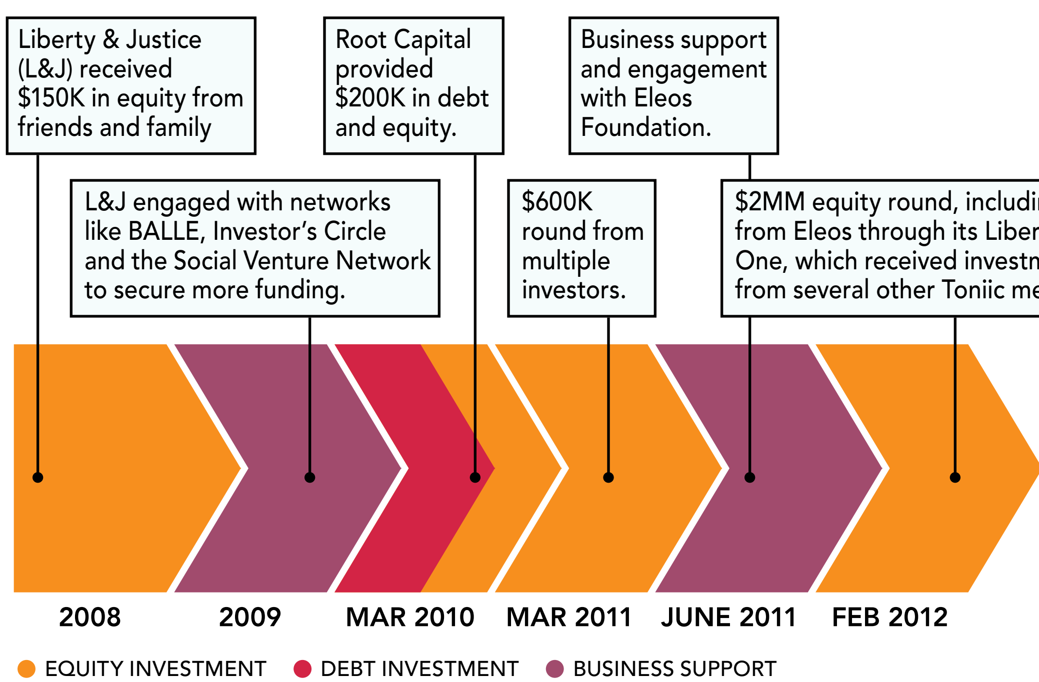
Andy believes a more flexible and culturally sensitive mindset is critical throughout the deal process, from initial due diligence to deal terms to impact tracking. "How many questions are you asking? Spending six months grilling the entrepreneur for a $10,000 investment is not a helpful exercise. Then when it comes to impact, you really need to concentrate on the intentions of the entrepreneur. The entrepreneurs are evolving. What are their measures of impact for? Are they for the investor's ego? Or were they set by the grassroots community members themselves? What more can the investor do to empower the entrepreneur and empower the community they are working with? This is how we try to measure impact."

Effective deal syndication requires sensitivity. Liberty & Justice's Series A round closed in February 2012. Eleos Foundation invested $1.1 million though its new LLC, Liberian Fund One, which received investments from several Toniic members and external individuals. Other institutional investors came in to complete the round at about $2 million. Chid said the investment structure and leadership Eleos provided was extremely helpful. He reported that the trickiest issue in deal negotiation was valuation and encouraged other entrepreneurs to be aggressive in sticking to what they want at the time of deal negotiation. His insight as an American-raised and educated entrepreneur working in the developing world is valuable for investors to hear: "Remember when you are working with entrepreneurial teams in these less developed countries that the balance of power is very one-sided. Many entrepreneurs feel that this capital may be their only chance to continue on their path, so they will spend huge amounts of time and energy to meet your needs, often at their own detriment. Investors need to be sensitive to these factors." His advice to entrepreneurs is even more direct: stick to your guns and remember that this capital needs opportunities like yours you as much as you need them. Andy agrees: "As an impact investor one needs to tone down an aggressive adversarial stance and find ways to use a different lens; what can I do to help this entrepreneur to empowering more people living at the base of pyramid? It's not about my ego but impacting lives." He believes Toniic can play a role to encourage investors to work more effectively alongside entrepreneurs.

As for the women owners in Liberty & Justice, early indications of social impact have been noteworthy. In a country where women are often forced into marriage and are frequently the victims of spousal abuse, one sixth of the factory's employees divorced their husbands within the first half of the first year of the factory's opening. Andy believes this is an argument for why community-based indicators are essential alongside top-down investor metrics; the latter will not necessarily capture what might be the most significant measures within that particular community. Impact investing can have the ability to create real empowerment, it seems, at many levels.

Watch the Eleos Foundation and Chid Liberty of Liberty and Justice speak about working together here. Chid Liberty talks about impacts of his company on Vimeo here and Chid Liberty talks about perceptions of downside risks in Africa in iOnPoverty series here.

Liberty & Justice Investment Timeline



SMV Wheels — Asset Ownership for Rickshaw Drivers in India

The following case study demonstrates how grant capital can be used to help prepare an impact-first investment to become investment ready.

Naveen Krishna's uncle was a rickshaw driver for a while and used to share his experience about this community when Naveen was growing up. This was the underlying impetus for Naveen to create a business to empower rickshaw drivers and street vendors to own their own rickshaws and carts in order to improve their own lives. Today, his company, SMV Wheels, provides both modern and traditional cycle rickshaws and carts in combination with vocational and marketing support to lower caste men in India, enabling them to gain security, stability, and economic mobility

Naveen Krishna with SMV's modern rickshaw model.

A rocky start leads to a powerful network of support. Previously, Naveen was part of a nonprofit organization that used a grant-based model to serve this constituency of rickshaw drivers. As an employee, he was selected to attend Dasra Social Impact (DSI), an India-based program helping scale promising nonprofits and social businesses to positively impact thousands of lives. To do this, DSI selects social entrepreneurs to join peer cohorts to learn from each other and industry experts. As part of the DSI program, Naveen won the Village Capital program's competition—a program that uses the power of peer support to build social enterprises and awards investment capital to a peer-selected enterprise. When he returned to work, his boss informed him that the nonprofit had different plans for the investment capital than Naveen believed were prudent. When Naveen questioned him, he was fired.

Luckily, one of the investors he had met through this process, Toniic member Bob Pattillo, saw potential in Naveen's idea and gave him a small personal loan of $2,000. Using that capital, Naveen went back through the DSI program in order to develop a new for-profit business targeting the same market, and he won the competition again. Following that experience, he applied for many awards for social entrepreneurs in India and internationally, through organizations like Sankalp and UnLtd India, and won more grant seed capital for his fledging enterprise.

To further develop his business plan, UnLtd India and DSI worked with Naveen. Again, Naveen used his network to solicit their review and comments on the evolving business plan and financial model.

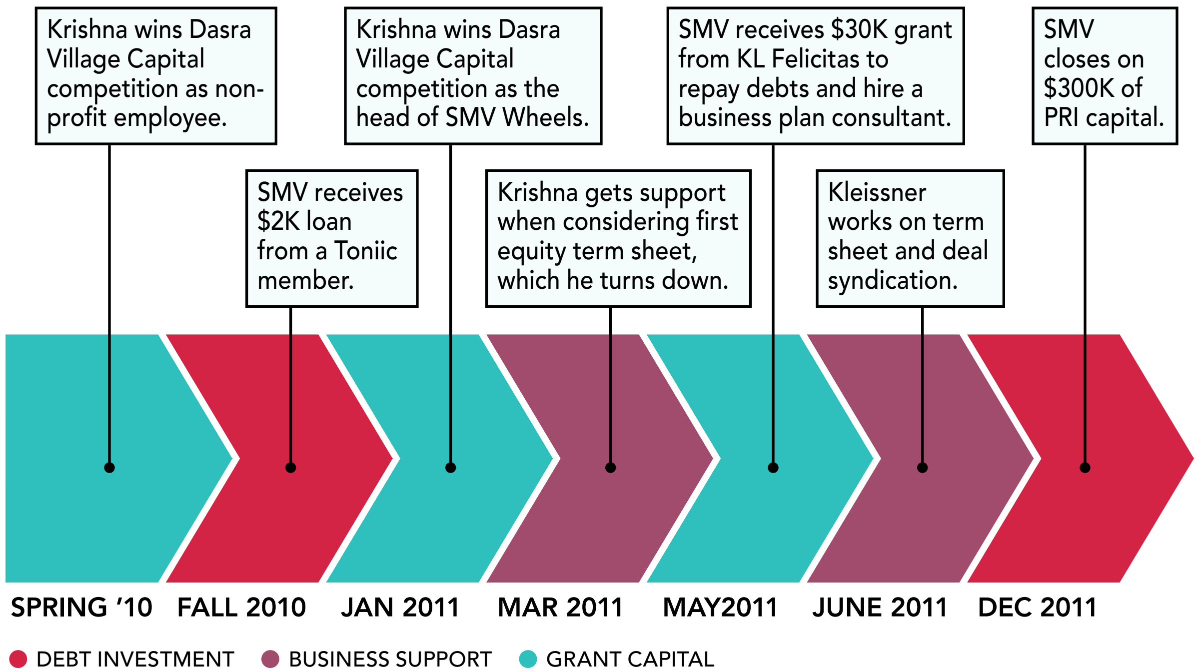
Navigating the road of investors. Unfortunately, despite his initial success, the bumpiest part of the road was still ahead. After winning the Village Capital competition, he received an aggressive equity term sheet from some Indian angel investors in March of 2011. Leveraging the network he was able to build while at DSI, he received pro-bono advice from a former JP Morgan and hedge fund manager and several other impact investors (many of whom were from the Toniic network) who advised him not to take the terms of the deal. Then, in parallel, two groups within Toniic approached Naveen with two very different investment proposals. Once again, Naveen tapped into his DSI network. Aligning the impact intent of both investor groups, Naveen, with the help of one of the Toniic investors, Lisa Kleissner, was able to bring the two groups together, right size the capital raise and execute terms that were appropriate for the size and stage of the enterprise.

Smoothing out the issues. There were several issues that Lisa focused on. She felt Naveen had a strong business model, very good networking skills and the respect of his beneficiaries, but what he lacked were adequate COO and CFO skills. In her opinion, he was not asking for enough money to build the capacity the business needed to succeed. So the capital raise that Lisa assembled included a detailed capacity building plan and a layered capital approach for providing the needed skill building and financial support. To get a detailed scope of what was needed on the capacity building side, DSI brought in a team for a three-day session to work with Naveen. The result was a revised business plan and financial model calling for 30% more capital to allow for three years to achieve breakeven volume. Second, there were some outstanding debt issues, mostly accumulated unpaid employee wages from the start-up year that had not been fully covered by the awards from competitions, that Lisa felt needed to be cleaned up in order to make SMV more attractive to potential investors. Because Lisa has access to grant and investment capital, her foundation, the KL Felicitas Foundation, provided a $30,000 grant to SMV. $10,000 of the grant was used to pay a business plan consultant and the balance was used to offset the accumulated debt. “This grant was a stopgap measure,” Lisa said. “You could say that I leveraged our $30,000 grant with a $300,000 investment to help support a business, that if successful, has the opportunity to change the lives of millions of rickshaw drivers.”

Getting ready for investment. Lisa started work on the SMV Wheels term sheet in June of 2011 and worked over five months to attract additional capital. During those five months, feedback from the prospective investors was channeled back to Naveen and the business plan and financial model were further strengthened. Naveen put the grant funding to good use; however, this was not enough capital to enable him to satisfy the growing orders for rickshaws. Lisa reflected that the whole process took much longer than expected. Travel schedules were delayed, internet access was uncertain, and it was difficult to get people on the phone around the world. But that wasn’t all; on a deal level, there were real challenges in investing in India. “You can’t do what would have been the preferred investment choice for a business in this stage—a social debt round,” Lisa explained, “As a foreign investor, it has to be a mandatory convertible debenture.”

A collaboration on mandatory convertible debt. Finally, all of the preparatory and strategy work paid off. In December 2011, SMV Wheels closed on $300,000 of capital; $75,000 of it was a PRI from Lisa’s foundation, alongside money from the UnLtd India

SMV Wheels Investment Timeline



Foundation, First Light Ventures, A-Spark, and the Peery Foundation, a donor advised fund from the Silicon Valley Community Foundation. Lisa, as the key syndication lead, coordinated an agreement with UnLtd India to provide ongoing technical support. She said her role included acting as a one-stop shop for the investors, coordinating the Indian regulatory requirements through her network of professionals in India, synthesizing the different needs of the investors, pushing back on term sheet requirements that were not aligned and finally, setting and holding to a deadline for completing the investment. "Trust is an essential part of the syndication dynamic," she said.

She and some of the other investors continue to work closely with the company, and Naveen said he's very pleased with the monthly advice he gets, especially since he has no formal board of directors. His advice to other entrepreneurs is to navigate the "give and get" with investors; first, be consistent, as people want to invest in people who will do what they say, and second, don't be afraid to keep asking for what you need.

For additional information visit SMV Wheels Blog, SMV Wheels Video for Unreasonable Institute, BloombergUTV Down to Earth E 2: SMV Wheels and World Bank award in development market place.

Regional Guides

There is no question that early-stage direct impact investing in global contexts can be quite challenging. But from mobile telephony in Kenya to renewable energy in India, it is also clear that the opportunities for innovators to find novel ways to disrupt systems have never been greater, and many Toniic members and others are working to lend a hand as well as dollars to support and nurture these early-stage endeavors with the potential to impact millions of lives.

Know before you go. We developed this set of Regional Guides to give some context to what an investor might want to know before preparing to invest directly (in companies rather than in funds) in one of these six regions: Africa, Asia, Europe/UK, India, Latin America, and the United States. The guides are based on targeted interviews with a handful of intermediaries and investors in each region, and should be viewed as a jumping off point, rather than an exhaustive list of issues.

Cross-cutting themes. Across all developing market regions, there were some cross-cutting themes and thoughts for impact investors:

- Many entrepreneurs in these regions do not consider themselves social or impact entrepreneurs or use the labels; they may be confused as well by the term impact investing.
- There are not enough investment-ready ventures, thus investors need to be flexible about sector and geography as well as the kind of first investments they make.
- There is a dearth of management expertise for these start-ups.
- On-the-ground interaction and communication with the entrepreneurs and management team is crucial to due diligence and monitoring. Many investors have been burned trying to do this work from far away and some local institutions are emerging to help fill this gap.
- The sophistication of entrepreneurs is very low in terms of financing experience and knowledge —for example, hybrid instruments which mix debt and equity are rare outside of developed markets like the US and the U.K.
- The impact investing landscape is still coalescing and as a result there are information and communication gaps between the various existing networks and players; don't be surprised to find you are making first-time connections on the ground as part of your process.
- The lack of exit opportunities in many developing markets makes it difficult to successfully and profitably exit a venture and move on to another.

Despite these macro factors, many of these regions are experiencing a great deal of interest and support by multilateral development agencies and foundations who are hard at work developing the infrastructure supporting impact investment. Omidyar Network and the Rockefeller Foundation are two significant contributors (see examples of their work in India, Latin America, and globally.) The current trends in impact investing indicate that these markets will surely evolve significantly in the next 5 years as a result.

Our Regional Guides explore investing in **4 developing markets (Asia, India, Latin America, and**

Sub-Saharan Africa), and for comparison, 2 more mature ones (Europe/UK and the US). Each guide contains:

1. **Market Overview.** A short description of key factors influencing early-stage direct investment, especially by foreigners

2. **Opportunities.** A handful of legal, institutional, cultural, or financial trends that create opportunities for early-stage impact investors

3. **Challenges.** A critical list of things investors should be aware of as they approach investments in this region

4. **Investment Profile.** A sample story or deal from an impact investor to give context to the opportunities and challenges above

5. **Resources.** A list of institutions and people, with web links, who can be helpful to investors working in the region.

The field of global seed-stage investing is dynamic. As such, we welcome your comments on these guides, pointers to additional resources, and any investing stories you wish to share with your peers. Comments and suggestions can be sent to toniic.institute@toniic.com.

Investing in Asia

Market Overview

With some of the fastest growing economies in the world and as home to the majority of the global poor, it is no surprise that Asia's social enterprises are increasing in number and diversity. Development and investment funds are beginning to flow not only to microfinance institutions but also to for-profit companies engaged in alternative energy, fair trade, eco-tourism, rural education, IT, and health care reform. (Note: Investing in India is detailed in a separate regional guide.)

Opportunities

- **Business-enabling environment**. Asia is home to an incredible number of entrepreneurs, and many of its cultures have a strong entrepreneurial bent. While much of the capital available for social entrepreneurship is found in Singapore and Hong Kong; other countries, like Indonesia, Vietnam and Cambodia, are also emerging as new hotbeds of social enterprise activity. Singapore and Hong Kong in particular have a highly-educated workforce, low currency risks, sophisticated regulatory environments, strong investor protections, and highly developed business infrastructures (including local arms of international financial service providers). Indonesia, Vietnam, Cambodia and, newly, Myanmar, have innovative grassroots models of social enterprise to address poverty, many of which have been adapted from the early leadership of India.

- **Production costs**. Much of Asia has experienced a boom in manufacturing over the last few decades. Businesses in this region benefit from their proximity to relatively low cost labor and extensive manufacturing capabilities in countries like China, Vietnam, and Bangladesh.

- **Growth of Islamic finance**. Over the last decade, Muslim populations in countries like Indonesia, Pakistan, Bangladesh, and the Philippines have grown, creating opportunities for new financial instruments—such as Shariah-compliant funds—to play a role in supporting social enterprises.

- **Changes in tax law**. Across Asia, many countries prohibit NGOs from actively investing in funds, requiring them to keep assets in savings accounts. Some countries have now begun taxing the revenue-generating activities of NGOs, spurring many to change their legal status and creating a greater incentive for new organizations to select a for-profit legal status.

- **Increasing government support for social enterprises**. In the recent past, several Asian governments have announced strong support for the growth of social enterprise. This includes the announcement of several new funds. The government of Thailand has developed a Social Enterprise Master Plan for 2010-2014 and is working on creating supportive regulations for social enterprise through the upcoming National Social Enterprise Act.

Challenges

- **Direct investing**. Due to exchange controls and restrictions and requirements regarding foreign ownership of equity, especially in countries like China, it is sometimes difficult to make direct investments in social enterprises. Many outside investors avoid the complications by investing in an offshore holding company. Fluctuating currencies can further complicate the technicalities of direct investing.

- **Investment options**. Locating investment-ready social enterprises in Asia can be difficult due to the nascent state of the social entrepreneurship landscape. A certain degree of risk-aversion also exists in some countries, where more work is needed to create and incentivize an entrepreneurial culture. Due to this, investors must be more flexible in terms of the sectors and/or impact areas that they target.

- **Deal structuring**. Low levels of financial sophistication among entrepreneurs and start-up enterprises require investors to use primarily straight equity or debt in lieu of hybrid investment instruments.

Resources

- **Asia Community Ventures**. Non-profit organization based in Hong Kong formed to promote collaboration among key players in the social sector ecosystem and to catalyze the flow of ideas and capital for a sustainable society. http://www.asiacommunityventures.org

- **Asian Venture Philanthropy Network (AVPN)**. A membership-based non-profit organization dedicated to building a high impact venture philanthropy community across the Asia Pacific region and providing networking and learning services for members. http://www.avpn.asia

- **Association of Sustainable and Responsible Investors in Asia (ASRIA)**. A Hong Kong-based non-profit membership association dedicated to promoting sustainable finance and responsible investment (SRI) in the Asia Pacific region. http://www.asria.org

- **GIINSENG (formerly the Hong Kong Social Investor Club)**. An educational non-profit organization promoting impact investing in Hong Kong and China by providing members with an opportunity to learn about impact investing through engagement with entrepreneurs and investments in social enterprises. http://www.giinseng.org

__Global Team with Local Impact.__ Mr. Ming Wong recently invested in One Earth Designs, a company focused on providing low cost solar cookers, heaters, and generators that reduce indoor pollution. Founded by two students from MIT and Harvard, this three-year old company assists rural villagers in northern China and other developing countries where firewood is scarce and dry waste is often used as a fuel of last resort. The company is incorporated in Hong Kong, where Mr. Wong is based, and benefits from the region's low taxes, legal protections, and the nearby manufacturing expertise in southern China. After two years of intensive, on the ground mentoring of the founding team and of watching their vision become reality, Mr. Wong is excited about One Earth Designs' progress and recent funding from the DOEN and Calvert Foundations. Mr. Wong credits the success of this deal with his ability to cultivate a relationship with the founders over time, work closely with them as their ideas evolved, and build mutual trust as their team and operations became investment ready.

- **Hong Kong Social Entrepreneurship Forum (HKSEF)**. A membership-based organization dedicated to promoting and supporting the development of social entrepreneurship. http://www.hksef.org/index_en.php?cid=4

- **Impact Hub**. A global network of people taking action towards a single purpose: impact. http://www.impacthub.net

- **Impact Investment Exchange (IIX)**. As the sister company of Shujog, IIX aims to be the home of Asia's first private and public platforms for social enterprises to raise capital efficiently. http://www.asiaiix.com

- **Impact Investment Shujog Ltd**. An advocacy, research, and capacity-building non-profit social enterprise seeking to foster growth, maturity, and innovations to the social enterprise and impact investment sectors of Asia. http://shujog.org

- **Singapore's Social Innovation Park Ltd (SIP)**. A not-for-profit organization that incubates social entrepreneurs and innovators worldwide to bring positive innovations to lives and societies. http://www.socialinnovationpark.org

- **Social Ventures Hong Kong (SVhk)**. A venture philanthropic organization, aiming to provide financial and non-financial support to Social Purpose Organizations or Social Enterprises in Hong Kong. http://www.sv-hk.org

- **SOW Asia Foundation**. A non-profit providing financial resources and strategic support to social enterprises focused on poverty alleviation, healthcare, education, and the environment. http://www.sowasia.org

- **STEP Philanthropy Hong Kong**. Membership-based group of legal, accounting, and financial services professionals who work with both private and corporate clients on trust, estate, tax, asset protection, and financial planning matters. http://www.step.org/branches/asia/hong_kong.aspx

- **The Program for Social Innovation and Change (PSIC)**. Taught at the Centre on Asia and Globalisation at the Lee Kuan Yew School of Public Policy in Singapore, the program focuses on social innovation at the intersection of the for-profit, non-profit, and public sectors. http://www.spp.nus.edu.sg/cag/Social_Innovation.aspx

- **Toniic Asia.** Toniic is a global network of action-oriented impact investors. http://www.toniic.com

Investing in Europe/United Kingdom

Market Overview

For Europe, social enterprise and impact investing are familiar concepts dressed in new terminology. The United Kingdom (UK) and the Netherlands are far ahead of the field followed by Western Europe with a vibrant innovation

and entrepreneurship ecosystem, supported by incubators and accelerators, active investors, supportive government bodies, research institutions and intermediaries. However, Europe is not a homogenous region and the stage of the social enterprise investment market differs greatly from country to country.

Opportunities

- **Capital + intermediaries.** The terminology and infrastructure around social entrepreneurship is nascent in Central and Eastern Europe, but the field is starting to coalesce around the concept. While the number of investable social enterprises is currently limited in this part of Europe, there is a lot of potential when pairing the large amount of capital searching for impact opportunities with new intermediaries providing support to entrepreneurs.

- **Social entrepreneurship is just entrepreneurship.** A recent survey of the start-up landscape found that one in three new enterprises are considered "social" in nature and very few early-stage businesses—social or not—are currently receiving the capital they need. There is opportunity in plugging into the traditional entrepreneurship and innovation infrastructure to create more quality deal flow.

- **Government support for entrepreneurship, particularly in the UK.** There are multiple pools of government capital available to help spur early-stage investment. These sources are popping up regularly as the government tries to jumpstart innovation and entrepreneurship, so keep an eye out for new pools of capital available. Three examples are: Angel CoFund. The £50M Angel CoFund was created in November 2011 to invest alongside three or more angel investors for equity investments between £100K and £1M in UK start-ups. The government accepts the same deal terms as the lead investor, reducing complicated negotiations. Investment and Contract Readiness Fund. The £10M, three-year fund provides capital for enterprises to get them investment ready. If entrepreneurs need bridge capital to refine their business model, hire talent, develop a legal structure, etc. this fund will provide that support. Big Society Capital.

Leveraging the Network for Efficiency. *Johannes Weber of Social Venture Fund recently invested in Auticon, a Germany-based company that provides IT jobs and job skills training to people with Autism. The initiative began as an effort to bring working opportunities for people with Autism to Germany. To achieve this, Weber's team partnered with Passwerk, a successful Belgium-based company with a similar mission and business plan. Thanks to Passwerk's expertise and openness, the formation and implementation of Auticon's business plan did not suffer the same inefficiencies that companies starting independently in new countries face. Auticon did have to tailor its approach to Germany – different European countries have different kinds of governmental regulations and support – and this is often a stumbling block for initiatives that are trying to scale up across countries. However, thanks to an experienced and motivated CEO, the help of Passwerk, and a pared-down business plan, the company is succeeding. Kois Invest recently made an investment in the Social Venture Fund to capitalize the scaling of this enterprise to other cities in Germany. They also are providing necessary expertise and mentorship to help Auticon manage this growth.*

Utilizing unclaimed assets, the Independent Commission, chaired by Sir Ronald Cohen (known as the "father of social investment" and pioneer in social investment in the UK), established Big Society Capital in 2011 to develop and grow a sustainable market for social investment in the UK.

Challenges

- **Mismatch between capital and social enterprises**. There is a large growth in available capital but few investment-ready opportunities. Currently there is a concentration of mission-first enterprises that are not investment-ready. For example, a five-year old global fund reviewed 60 deals throughout Europe last year and did not invest in any of them. The field needs to develop better business models to absorb the interested funds. Several incubators and accelerators have emerged in response to this need.

- **Pace of deals**. The pace of deals similar the the US, however, getting traction with investors can be harder because of the lower density and geographic distance between members of the financial community (not clustered together, don't know each other before doing the deal). Europeans place a high value on relationship building as a necessary first step to any investment syndication.

Resources

- **Big Society Capital**. Government-sponsored investment bank established to develop a sustainable social market in the UK, invests in social investment finance intermediaries. http://www.bigsocietycapital.com/

- **Bridges Ventures**. Specialist fund manager dedicated to using an impact-driven investment approach to create superior returns for both investors and society at-large. http://www.bridgesventures.com/

- **ClearlySo**. Intermediary providing corporate finance and financial advisory services to social entrepreneurs looking to raise capital. Runs UK-dedicated social angel group Clearly Social Angels. http://www.clearlyso.com/

- **Deutsche Bank Impact Investment Fund**. Fund of funds, investing in social investment intermediaries that lend to social enterprises. https://www.db.com/unitedkingdom/content/en/social_investments.html

- **European Venture Philanthropy Association**. A membership association made up of organizations interested in or practicing venture philanthropy and social investment across Europe. http://evpa.eu.com/

- **Impact Hub**. A global network of people taking action towards a single purpose: impact. http://www.impacthub.net

- **Impact Invest Scandinavia:** Angel impact investor group focused on social and ecological businesses. Scandinavia representative of Toniic, LLC. Works with investors in Scandinavia, with investments occurring globally. Based in Stockholm, Sweden. http://www.impactinvest.se/

- **Investment Ready Program**. Capacity building social enterprise from Central and Eastern Europe located in Vienna, Austria. http://social-impact.org

- **LGT Venture Philanthropy**. Impact investor supporting enterprises with social and environmental impact by providing blended capital, mentoring, and network opportunities. Also offering co-investment or fund investment opportunities. http://www.lgtvp.com/

- **NESsT**. A catalyst organization for social enterprises in emerging markets, providing financial capital, training and mentoring, and access to markets for a high-impact entrepreneurs. In Central & Eastern Europe, NESsT works in Croatia, Czech Republic, Hungary, Romania and Slovakia. http://nesst.org/

- **Omidyar Network**. A philanthropic investment firm investing in and field building social for and not-for-profit enterprises globally. http://www.omidyar.com

- **Prime Advocates**. Legal services and consultancy for social enterprises and impact investors. http://www.primeadvocates.com/

- **Put Your Money Where Your Mouth Is Community (PYMWYMIC)**. Angel impact investor group and conference in the Netherlands, Belgium and Luxembourg. http://www.pymwymic.com/

- **SE Outreach**: A social business program, with majority funding from the Swedish international development agency, focused on early-stage entrepreneurs working in developing and emerging markets. Includes an accelerator program and incubator. A program of Social Entrepreneurship Forum based in Stockholm, Sweden. http://www.se-forum.se/

- **Social Enterprise UK**. National body for social enterprises in the UK. Does research, advocates for social enterprises, and supports social entrepreneurs through information, advice and networking. http://www.socialenterprise.org.uk/

- **Social Venture Fund**. Impact investor in Germany. http://www.socialventurefund.com

- **Toniic Europe**. Toniic is a global network of action-oriented impact investors. http://www.toniic.com

Investing in India

Market Overview

India's impressive economic growth over the past decade has supported the development of a vibrant investing environment where impact investors are competing with traditional venture capitalists to source deals. As the government continues to grapple with issues related to poverty alleviation and the provision of basic services, social ventures are beginning to fill

the gaps and address some of India's most pressing issues, including health, education, energy, agriculture, livelihoods, and financial inclusion.

Opportunities

Market potential. India is the second most populous country in the world with 1.2 billion inhabitants, has the fifth largest economy, and yet is home to 41% of the global population living on less than $1.25 per day. With such a large low-income population and with recent government reforms to allow higher levels of foreign direct investment into the economy, India presents social impact investors with significant opportunities. Scaling enterprises within India poses challenges but also provides significant value opportunities if done correctly

Government and regulatory ecosystem. The Indian government has recently announced several overdue regulatory changes that will enable better investing into social enterprises- including recognition for angel investor pools and framing more supportive regulation for investor funds. It has also announced a US$ 1 billion fund called the India Inclusive Innovation Fund, which will be focused on social innovation, and funding and supporting small and medium-sized enterprises. With the recent creation of the Indian Impact Investor Council, a self-regulatory body to lobby for impact investing that is anchored by Aavishkar and Omidyar Network, the dialogue between regulators and impact investors is set to go further than ever before.

- **Strong entrepreneurial culture**. India has a very strong entrepreneurial culture—micro enterprises abound and are encouraged. Even the poorest households are typically engaged in some form of economically productive activity. This creates a huge opportunity for fixing market gaps and building market-based solutions to poverty, such as the example highlighted below.

- **Agriculture**. With 70% of the Indian rural population working in agriculture and allied sectors, the stagnation in the contribution of those sectors as a percentage of GDP from 19% in 2004 to 18% in 2011is of concern. This trend has attracted several social ventures that focus on supporting the entire value chain from pre-harvest to post-harvest. For example, Janani Foods works on increasing crop yields in a financially and ecologically sustainable fashion, while Star Agri works to resolve logistical issues such as transportation, storage, and processing. Recognizing the importance of agriculture for the Indian population, the government has instituted the capital subsidy scheme to incentivize investment in these areas.

Challenges

- **Debt Financing**. Utilizing debt presents an additional legal challenge for a foreign investor as it is classified as External Commercial Borrowing (ECB). Except for limited exceptions, ECB requires approval from the Reserve Bank of India (RBI). The approval process is time consuming and for all practical purposes is not a

Trusted Local Partners Enable a Deal. *Charly Kleissner worked with Ankur Capital in Mumbai to structure an investment in PBK Waste Management Solutions. PBK provides products to help repurpose the over 120,000 tons of daily garbage produced by India's cities. Ankur Capital is a great example of an engaged local partner. Not only did they provide the necessary oversight and coaching to get to an innovative impact term sheet, but they also co-invested in the deal.*

viable option for smaller debt transactions. Convertible debt is available as an option, but the debt must convert into equity at some point – return of principle is not possible (although the investment may accrue interest).

- **Equity Financing**. Equity financing does not require prior approval by the RBI, although the investment must be registered with the RBI by the Indian company. Unless the equity investment is directed through either a Mauritius or Singapore investment vehicle, a withholding tax will apply to any gains on the investment.

- **Corruption**. From 2010 to 2012, India fell seven spots to 94th out of 176 countries in Transparency International's Corruption Perceptions Index. Despite significant attempts by the Government to address the issue, corruption is still widespread, increasing the cost of doing business. Investors should beware of costs and fees offered to expedite legal processes.

- **Finding and Retaining Talent**. Finding top talent for social enterprises is difficult due to limited monetary resources and scarcity of human capital with management and high-level operational skills. As such, building successful management teams takes time and the burnout rate tends to be significant. When evaluating an investment, it is critical to assess the skills of the management team, their background and track record, and their contractual relationships with the venture.

- **Slow adoption**. Up until 2 years ago there were few Indian impact angels. Over the last two years multiple impact angel groups were formed, such as I3N and Ennovent's Impact Circles, which are now starting to move capital into the social space.

Resources

- **Aavishkaar**. A venture capital fund focused on early stage ventures within the social impact field, particularly in education, energy, health, water and sanitation, and microfinance. http://www.aavishkaar.in

- **Acumen**. Acumen is a non-profit that raises charitable donations to invest in companies, leaders, and ideas that are changing the way the world tackles poverty. http://acumen.org/regions/india/

- **Ankur Capital**. A social venture fund enabling start-ups impacting low-income communities. http://www.ankurcapital.com

- **Artha**. A private community created to provide a space for impact investors seeking to support sustainable social enterprise in India. http://www.arthaplatform.com

- **CIIE India**. Centre for Innovation Incubation and Entrepreneurship located in Ahmedabad. http://www.ciieindia.org

- **Dasra Social-Impact**. Capacity builds social enterprise and organizes social impact open sessions at which investors can seat and listen to entrepreneurs pitching their ideas for capital. http://www.dasra.org

- **Ennovent**. Ennovent helps their clients accelerate innovations for sustainability in low-income markets in Asia. http://www.ennovent.com

- **Ford Foundation**. The Foundation's goal is to address persistent poverty by empowering socially marginalized groups and improving government policies. http://www.fordfoundation.org/regions/india-nepal-sri-lanka

- **Gates Foundation**. The Foundation works with partner organizations worldwide to tackle critical problems such as global development, health, and policy issues. http://www.gatesfoundation.org

- **Grassroots Business Fund**. An emerging markets fund with a team and investments in India. http://www.gbfund.org

- **Grassroots Innovations Augmentation Network (GIAN)**. A good place to look for social ventures. http://north.gian.org

- **Intellecap**. An Indian intermediary focused on Indian enterprise offering investment banking services, a yearly social enterprise conference, and an angel network focused on social enterprise in India. Toniic members have access to this network through a partnership agreement. http://www.intellecap.com

- **Lok Capital**. Launched with the support of the Rockefeller Foundation, Lok Capital is "a hands-on financial investor with social performance goals and standards dedicated to promoting financial and social inclusion through all its activities." http://www.lokcapital.com/about_lok.html

- **Omidyar Network**. A philanthropic investment firm investing in and field building social for and not-for-profit enterprises globally. http://www.omidyar.com

- **Toniic Asia**. Toniic is a global network of action-oriented impact investors. http://www.toniic.com

- **Unitus Seed Fund**. Accelerating bottom of the pyramid startups. http://usf.vc

- **Unltd India**. A launchpad for social entrepreneurs in India. http://www.unltdindia.org

Investing in Latin America

Market Overview

Although roughly 175 million people in Latin America are still living in poverty, the region has experienced tremendous growth over the past five years and has seen improvements for even the most vulnerable segments of the population. While the investing climates vary widely by country, many Latin American countries present attractive investing opportunities due to their comparatively favorable regulatory conditions.

Opportunities

- **Favorable Regulatory Environment.** Through the North American Free Trade Agreement and other foreign investment treaties, many countries in the region—like Mexico and Colombia—have attracted significant investment inflows and established clear regulations governing foreign investments in local companies.

- **Consumer Base.** In countries like Mexico, 70% of the population lives above the poverty line, earning between $2 to $8 a day. This earning level creates an excellent opportunity to introduce market approaches to poverty reduction.

- **Government Support.** Investment projects in economically disadvantaged areas or areas undergoing industrial redevelopment are usually eligible for regional aid, such as corporate tax exemptions, low-cost or free industrial land sites, and financing from federal, state, and municipal governments.

- **Geography.** Proximity to the US and small time-zone differences make it easier for investors to visit and work more closely with entrepreneurs than in other regions.

Challenges

- **Corruption:** According to the Transparency International Corruption Perception Index, two-thirds of the region's 32 countries are ranked on the low end of the list placing them among the most corrupt nations on the planet. Brazil and Mexico were highlighted in the 2012 report as working on much needed reforms.

- **Exchange Controls.** Various exchange controls are imposed by countries in Latin America and these are often accompanied by tax implications for the investor. Brazil, for instance, requires registry in the Central Bank in order to make a capital investment. To avoid legal and bureaucratic complications, many investors fund ventures through a feeder fund as opposed to directly.

Demand Dividend in Action. *Maya Mountain Cacao (MMC), a 2013 Agora Partnership Impact Enterprise, was recently funded by three Toniic members using the demand dividend alternative investment structure. MMC sources premium cacao from small-holder Belizean farmers for their clients – makers of fine chocolate products. Their model delivers exceptionally high-quality cocoa, a growing source of income for farmers while also contributing to reforestation efforts and promoting sustainable organic agricultural practices.*

This investment was structured by the Eleos Foundation through their LLC model. Pi Investments, which has a specific emphasis on community empowerment and ownership, joined the LLC. PI has been working with the entrepreneur to build a fully inclusive model, with all stakeholders, from farmers to buyers, having the opportunity to participate in both governance and ownership structures. Their hope is to create a model for the cacao industry that goes beyond a fair trade premium model to fully share upside potential with all parties.

The fact that the investment was structured as a demand dividend also played into Pi's decision. The variable obligation implied in this investment offers a clear and mission-preserving path to liquidity for investors, while providing the flexibility required for MMC to achieve growth.

- **Instability**. The rules of law change frequently and unexpectedly in some countries in the region, making investments riskier. Venezuela and Bolivia have suffered political upheaval and/or revolution. Argentina, and Brazil have stable governments, but dynamic currencies or economic policies, which make compliance with all the norms and licenses especially challenging in sectors such as health and the environment. Chile and Colombia have some of the most stable investing environments; Chile boasts perhaps the best-developed VC scene in Latin America.

- **Liquidity**. Few acquisition opportunities exist for selling smaller firms through third-party sales, and the likelihood of an IPO is even lower. Therefore, alternative investment structures should be considered that allow exits based on the firm's cash flows. Given the limited exit opportunities, investors in the region usually prefer to use debt as opposed to equity.

- **Partnership Building**: In the US and Western Europe, investors trust the rule of law and the legal system, allowing partnerships and agreements to be completed quickly. In Latin America, however, investors must rely on partners to navigate the local culture and business environment as a strong regulatory framework does not always exist.

- **Tax Laws**. Due to the complexity of various tax regimes in the region—and a high-level of noncompliance—it can be difficult to be competitive if your investment is not structured in a tax-efficient fashion.

Resources

- **Adobe Capital**. An impact investment fund that provides a mix of financing and technical assistance to promising, high-impact small and growing businesses (SGBs). The company provides flexible financing solutions, from working capital loans to support day-to-day operations, to equity-like investments to finance the purchase of long-term assets, company expansions and/or acquisitions. http://www.adobecapital.org/

- **Agora Partnerships**. The accelerator program is the main activity, but Agora also acts as an incubator, a venture fund, and a mentoring partner. Focused only in Latin America, Agora targets companies with mature customer base and expected growth of 20% within 3 years. http://agorapartnerships.org/index.php

- **The Aspen Network of Development Entrepreneurs (ANDE)**. A global network of organizations that invest money and expertise to propel entrepreneurship in emerging markets. http://www.aspeninstitute.org/policy-work/aspen-network-development-entrepreneurs

- **Banco de Desarrollo de America Latina (CAF)**. A financial institution dedicated to the regional development of Latin America. Focused on areas such as infra-structure, social development, and environment, CAF offers loans and other types of financial and technical advisory. http://www.caf.com/view/index.gasp?ms=19

- **Banorte**. A bank from Mexico with a special focus on SMEs. http://www.banorte.com/portal/pyme/home.web

- **Endeavor**. Endeavor helps high-impact entrepreneurs by providing a network of seasoned business leaders, who provide mentorship, strategic advice, and inspiration. www.endeavor.org

- **Fundacion Avina and Avina Americas**. Both non-profit organizations, Fundación Avina identifies tipping-point opportunities in the region, then shares these with Avina Americas in an effort to build regional alliances. Fundación Avina employs its resources, local presence in 13 countries, and relationships with thousands of allies to build shared strategies with the potential for continent-wide impact. http://www.avina.net/esp/

- **IGNIA**. A venture capital firm based in Mexico that supports the founding and expansion of high-growth social enterprises that serve the base of the socio-economic pyramid. http://www.ignia.com.mx/bop/index.php

- **Inter-American Development Bank (IDB)**. The bank has formed partnerships with institutional investors, wealthy individuals, foundations and companies to advance projects that generate social and financial returns. As well as providing technical assistance, it has arrangements to co-finance projects through equity investments, syndicated loans, and partial credit guarantees. http://www.iadb.org/en/inter-american-development-bank,2837.html

- **NESsT**. A catalyst organization for social enterprises in emerging markets, providing financial capital, training and mentoring, and access to markets for a high-impact entrepreneurs. In Latin America, NESsT works in Argentina, Brazil, Chile, Ecuador and Peru. http://www.nesst.org

- **New Ventures**. Founded in 1999 by the World Resource Institute, New Ventures operates in three Latin American countries (Brazil, Colombia, and Mexico) providing business development services to environmentally-focused SMEs. New Ventures prioritizes enterprises that seek biodiversity conservation, energy efficiency, natural resource conservation (non-water, non-energy, non-agriculture), pollution prevention and waste reduction, sustainable energy, and water resource management. http://www.wri.org/project/new-ventures or http://www.nvm.org.mx/

- **Pipa**. Brazilian accelerator focused on projects that generate shared value. Based in Rio de Janeiro, the company offers capital and mentorship to entrepreneurs who want to make a positive impact in the world. http://www.pipa.vc/

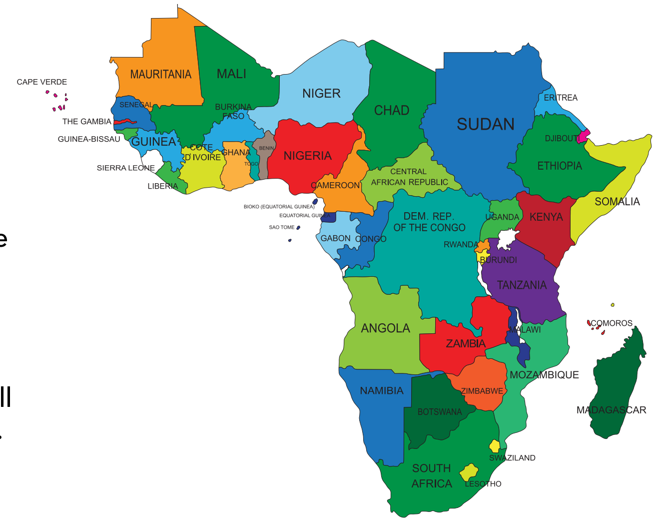
- **Start-up Chile**. A program from the Government of Chile to attract world-class early stage entrepreneurs to start their business in Chile. http://startupchile.org/

- **Toniic LatAm.** Toniic is a global network of action-oriented impact investors. http://www.toniic.com

- **Vox Capital**. A young venture capital fund in Brazil focused on business at early stages of development, directed to low-income Brazilians and with profound positive social impact.

  Their preferred areas are education, health and housing. http://www.voxcapital.com.br/

Investing in Sub-Saharan Africa



Market Overview

Six of the world's ten fastest-growing economies over the past decade were in sub-Saharan Africa, and seven African countries are forecast to be among the 10 fastest growing economies in the world between 2010-2015. Foreign direct investments in the region have grown at a compound rate of 20% since 2007. However, the region still has the highest overall percentage of the population living in poverty. Starting a business also remains difficult, especially in terms of capital expenses. For example, the cost of all fees to start a business averages 67.3% of regional income per capita—the highest of all regions measured. While the impact investing landscape is generally strongest in South Africa and Eastern Africa, the entire region is in great need of capital support and capacity-building for entrepreneurs.

We recommend the April 2013 Omidyar Network report: Accelerating Entrepreneurship in Africa, which provides a detailed view of investment conditions in the region.

Opportunities

- **Potential for impact.** Although there are areas where significant impact investing infrastructure has begun to take hold, most of the impact space is very under-developed, meaning that experienced, hands-on investors can add real value. They can also encourage other impact investors who have an appetite to invest in the region and don't know how to jump in.

- **Culture of community investment**. Similar to the classic foundation model of making as much money as possible through business and then giving some away philanthropically, the culture of profit feeding community philanthropy is strong; however the term "impact investing" is still new for African investors.

- **A wealth of natural resources**. Africa boasts 10% of the world's oil reserves, 40% of its gold ore, 80% of its chromium and platinum reserves, and 60% of its uncultivated and arable land. As development and political stability increase in the region, these resources will increasingly become great opportunities for growth, investment, and positive impact.

- **Hybrid structures and partnerships.** Active investors strongly recommend working with local organizations in partnership or with hybrid organizations. Some investors have found success utilizing a partnership model as a four company approach: local for-profit, local non-profit, Western for-profit, and Western non-profit. Liberty and Justice has a similar setup. Investors should choose partners who are final decision-makers, as engaging with intermediaries can often be a time sink rather than a value-add.

Challenges

- **Cost of capital.** The high cost of capital in Africa makes it difficult to find co-investors willing to collaborate on deals offering less than 15% returns, whereas foundations utilizing program-related investments in the United States are often satisfied with returns at 5% or lower.

- **Timeliness of doing business.** Expect to spend time in transit (transportation break-downs, poor road conditions) and time waiting for meetings. Investors should practice patience and plan on scaling timetables for activities by at least 1.5 times.

- **Foreign investment regulations**. Regulations vary greatly by country, with some countries actively encouraging foreign investment and others with more burdensome regulation. Kenya, for example, has very few restrictions on foreign investment and has suspended the capital gains tax for foreign investors. In South Africa, on the other hand, foreign investors must receive special share certificate endorsements or they may encounter difficulties withdrawing money over time. In some countries in Africa, governments may cap the percentage a foreign investor can own of a local company.

- **Finding entrepreneurs**. Because "impact investing" is new, entrepreneurs may not define themselves as such; South Africa has called this type of funding "charitable investment". Also, appetite for entrepreneurship may be low in some areas. For example, in South Africa, there is little incentive for entrepreneurs to take the risk of investing their own money due to the lack of tax benefits or loss write-off opportunities, especially in the face of other more attractive grant and Black Economic Empowerment funding opportunities.

- **Corruption**. Nine of the twenty lowest ranked countries on the Corruption Perceptions Index are in Africa, though investors interviewed feel that these challenges are surmountable.

From protoype to Series A*. Eleos first learned about Sanergy in a Toniic meeting in early 2011, when Sean Foote put the deal on the Gust platform. At the time, the co-founders were finishing up business school at MIT, and had two test toilets in use in the Nairobi slums. While the consumer-facing sanitation side of the business plan was well developed, the conversion of waste to organic fertilizer was less developed. In June 2011 Eleos invested an initial $20,000 to hire an agro-chemist to run tests to prove that Sanergy could produce fertilizer at a price point and with quality characteristics that the Kenyan market would adopt. The results were positive, and so in February 2012 Eleos created an LLC to aggregate $410,000 in convertible debt to fund a 60 toilet pilot program. This LLC included several Toniic members. Eleos took a board seat to further assist the company's growth. The pilot exceeded expectations, and in March 2013 Eleos led a $1.25 million Series A equity round. Eleos converted its convertible debt, and put together another LLC to invest $425,000 in the Series A round. Several Toniic members, Acumen Fund, and Spring Hill Equity Partners also participated in the Series A round. Acumen and Spring Hill Equity Partners are also now participating at the board level.*

- **Investors' comfort with ambiguity**. Investors need to be comfortable with ambiguous market norms. Be honest and realistic with your risk tolerance and with not knowing projected financial returns. Focus on supporting the entrepreneurs' mission. Entrepreneurs are often pressed for time and staff to service investors' questions; be respectful, especially when considering relatively small investments.

- **Lack of legal recourse**. It should be assumed that recourse to legal contracts, if required, does not lead to compensation for non-local investors. Most often the main incentive for the entrepreneur to maintain compliance with your investment agreements will be maintaining face rather than the threat of financial loss as a result of an action. Legal action should be used only as a deterrent. The best security against requiring recourse to legal remedy is to work with local co-investors.

Resources

- **Accelerating Entrepreneurship in Africa, Omidyar Network report, April 2013.** http://www.omidyar.com/sites/default/files/file/ON%20Africa%20Report_April%202013_FInal.pdf.

- **Accounting firm, Ghana**: Virtual Point Associates. http://www.virtualpointassociates.com

- **Africa Venture Capital Association (AVCA) –** A VC industry body with members that are predominantly funded by DFI's and as such share many of the criteria of impact investors and a good source of potential co-investors and deal sourcing. http://www.avca-africa.org

- **Business Partners International**. A specialist risk finance company for formal small and medium enterprises (SMEs) in South Africa and selected African countries. http://www.businesspartners.co.za

- **CIA World Factbook**. A good entry point for investors looking at new countries. https://www.cia.gov/library/publications/the-world-factbook/

- **Co-Creation Hub, Lagos, Nigeria**. A social innovation center dedicated to accelerating the application of social capital and technology for economic prosperity.

- **D. Capital Partners**. Mission is to mobilize diverse financial resource to solve the world's most pressing problems, particularly in developing countries. http://dcapitalpartners.com/

- **Emergent Asset Management**. Emergent Asset Management is an alternative investment firm offering hedge fund and private equity strategies. http://www.emergentasset.com

- **Ernst & Young**, 2013 "Getting Down to Business" report. An annual report by E&Y on Africa that provides useful data on trends and developments across the continent

- **Impact Hub**. A global network of people taking action towards a single purpose: impact. http://www.impacthub.net

- **Law Firms**:
  - Kenya – Hamilton Harrison & Mathews. http://www.hhm.co.ke

- Kaplan & Stratton Advocates. http://www.kaplanstratton.com/home.html
- Anjarwalla & Khanna. http://www.employmentlawalliance.com/firms/africalegalnetwork
- Uganda – Katende, Ssempebwa & Company. http://www.kats.co.ug
- Ghana – Bentsi-Enchill, Letsa & Ankomah. http://www.belonline.org
- Kimathi & Partners. http://www.kimathilegal.com
- Global – Blue Dot Advocates. http://www.bluedotlaw.com/

- **The Liberia Philanthropy Secretariat (LPS)**. Encourages information sharing and collaboration between the Government of Liberia, foundations, and the civil society while expanding philanthropic support in Liberia. LPS makes it easier for foreigners to deploy capital in the country. http://www.supportliberia.com

- **NEXII**. Nexii worked to support the development of market infrastructure for impact investing. However, in 2012, they came to the conclusion that they were too early to market. Follow this link to learn more about their business transition and the lessons learned.

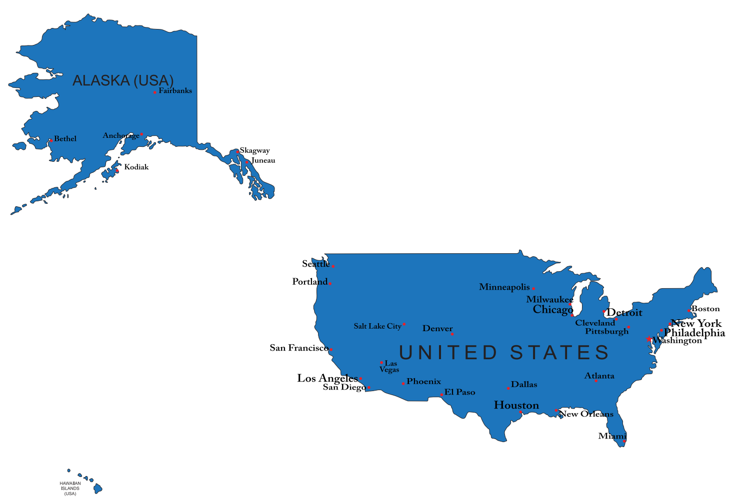
- **Open Capital Advisors (OCA), Kenya**. Open Capital is a financial services and strategy consulting firm based in Nairobi that supports high-impact businesses, investors, and innovative solutions throughout East Africa. OCA's work enables sustainable businesses to grow and raise capital while helping markets to allocate capital efficiently. http://opencapitaladvisors.com

- **South African Social Investment Exchange (SASIX)**. South Africa's first online social investment stock exchange is a place where anybody can invest in social development projects. http://www.sasix.co.za

- **Toniic Africa**. Toniic is a global network of action-oriented impact investors. http://www.toniic.com

- **Venture Capital 4 Africa (VC4A)** – The leading online platform that links African entrepreneurs with investors. https://vc4africa.biz

Investing in the United States



Market Overview

While the term "impact investing" was coined in Bellagio, Italy in 2007, the practice in the US benefits from over half a century of investment in market-based social change strategies. Despite some ongoing challenges, this makes the US one of the most mature of the early-stage impact investing regional markets.

The entrepreneurial approaches that began with the Community Development movement and Community Development Financial Institutions (CDFis) are now being applied beyond poverty alleviation to a much broader set of social and environmental challenges. Today, a diverse group of American institutions, including banks, the government, public companies, consulting firms, funds, universities, networks and accelerators are driving the social enterprise movement both in the US and globally.

Opportunities

- **Practitioner networks driving change**. Voluntary associations and networks of practitioners have been at the cutting edge of impact entrepreneurship and impact investing, developing practices for over 25 years and working to influence institutional norms. One of these, the network of B Corporations, has been successful at driving policy change as well – as of August 2013 they have helped pass legislation in over 20 states allowing companies to incorporate themselves as "Benefit Corporations," a new class of corporation that is required to create material positive impact on society and the environment.

- **Active industry associations for a diverse set of impact goals**. There have been waves of activity across a number of industries, beginning with community and economic development, and expanding to Lifestyles of Health and Sustainability (LOHAS, such as organic foods and sustainable consumer products), media, cleantech, renewable energy and energy efficiency, health, education, and agriculture.

- **Educational institutions supporting the trend toward values-driven investing**. Driven largely by the demand by students and the new entrepreneurial wealth appearing in the early 2000's, nearly every top MBA program in the US has built programs to introduce its students to the study and practice of corporate social responsibility, social entrepreneurship, and increasingly, impact investing.

- **Rapidly maturing infrastructures**. Through the different fields of philanthropy, intermediary organizations that support emerging investors, impact investing funds, more sophisticated impact measurement tools, and platforms for individual investors, the US impact investing community is rapidly organizing to provide increasingly sophisticated support, tools, and capital of all kinds.

Challenges

- **Investment readiness of impact enterprises**. While there is significant growth in impact enterprises emerging from universities, fellowship and award programs, and accelerators, investors report that many of these are not investment-ready. Many entrepreneurial support organizations are working on the ground to identify and better-prepare companies that are indeed ready for investment. Investor-focused institutions like Toniic and Investors' Circle can then work to select those most ready for investor engagement and serve them up to investors.

- **Relation of target population to growth**. A recent report on US impact enterprises[11] found a positive correlation between impact commitment and growth trajectory across industries, unless the company was focusing on underserved populations. These companies have a much slower rate of growth. Investors with interest in supporting underserved populations should adjust their return expectations and structure their investments accordingly.

- **Marketplace gaps due to varying maturities within different industry sectors.** While there are a lot of investors joining the impact space and the market is maturing, there are still many industries and impact areas where capital sources are quite difficult to locate, especially at early stages.[12] Early-stage investors in consumer products, cleantech, health, and organic food, for example, will generally have an easier time locating like-minded co-investors in the US than those in sustainable agriculture, media or education. Incentives for later stage investors are generally limited to community development and other areas supported by policy carrots, or investments where market-rate returns have been historically proven. Thus, there is still an important role for the early-stage impact investor to help support a broad range of impact enterprise impacts and industries.

Government Programs

- **National Impact Initiative (NII).** Launched in 2013 at the G8 Social Impact Investing Forum in London, the NII expands funding for impact investing across various government agencies. http://www.whitehouse.gov/blog/2013/06/07/announcing-national-impact-initiative-uk-s-g8-social-impact-investing-forum

- **Development Innovation Ventures (DIV) at USAID.** DIV holds quarterly grant competition for innovative ideas and invests in early stage social ventures using a tiered-funding model, investing small amounts in relatively unproven concepts and subsequently funding only those that prove they can work. http://www.usaid.gov/div/

From Incubation to Exit. *Happy Family is a mother-owned, mother-run "good food" enterprise that seeks to engage, educate and empower parents through a full line of organic food products targeting infants, toddlers and young children. It is a good example of a company taking advantage of the supportive ecosystems for social enterprises in the US.*

Visram credits part of the success of her company's growth to independent-minded, non-VC investors, who understood the company's mission. These included experienced founders of consumer product companies like Honest Tea and Stonyfield Farm, as well as mission driven institutional investors, including RSF Social Finance, which has specialized expertise in the food industry and introduced the deal to the W. K. Kellogg Foundation. According to Tony Berkley, Director of Kellogg's Mission Driven Investments, "The Company has placed a premium on accessibility for low-to-moderate income families and has aggressively sought WIC approval nationally. Part of our investment was to contribute to the working capital line RSF was providing, and we put in additional money as equity."

In 2011, Happy Family became a B Corporation, earned $34 million worth of revenue, and nearly doubled that by 2012. On Mother's Day 2013, French food giant Danone announced its purchase of Happy Family. Visram reported publicly shortly after the acquisition: "They want me to continue to run the show, they love our spirit and they are not proposing any management changes."

- **Overseas Private Investment Corporation (OPIC).** OPIC is the US government's development finance institution. In 2012, it committed $333 million to impact investing around the world in sectors such as healthcare, education, renewable resources, and water. http://www.opic.gov/

- **US Small Business Administration (SBA).** The SBA runs a $1 billion Impact Investment Fund and a $1 billion Early Stage Fund, both launched through its Small Business Investment Company (SBIC) Program. http://www.sba.gov/category/lender-navigation/sba-loan-programs/sbic-program/general-information/key-initiatives

Practitioner Networks

- **Aspen Network for Development Entrepreneurs (ANDE).** A global network of 175+ organizations that works to propel entrepreneurship in emerging markets. http://www.aspeninstitute.org/policy-work/aspen-network-development-entrepreneurs

- **B Corporations (B Corps).** B Corps are certified by the nonprofit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency. The B Corp community presently encompasses more than 796 Certified B Corps from 27 countries and 60 industries. http://www.bcorporation.net/

- **Business for Social Responsibility (BSR).** BSR works with a global network of over 250 members companies, developing sustainable business strategies and solutions through consulting, research, and cross-sector collaboration. http://www.bsr.org/

- **The Global Impact Investing Network (GIIN):** A nonprofit organization dedicated to increasing the scale and effectiveness of impact investing, the GIIN addresses systemic barriers to effective impact investing by building critical infrastructure and developing activities, education, and research that attract more investment capital to poverty alleviation and environmental solutions. http://thegiin.org

- **Impact Hub.** A global network of people taking action towards a single purpose: impact. http://www.impacthub.net

- **Investors' Circle (IC).** Founded in 1992, IC is today the largest early-stage impact investing network in the US. Together with angels, venture capitalists, foundations and family offices, IC has propelled $172 million plus $4 billion in follow on investments in 271 enterprises dedicated to improving the environment, education, health and community. http://www.investorscircle.net/

- **Social Venture Network (SVN).** Founded in 1987, today SVN is a highly influential network of business leaders and social entrepreneurs. It also helped incubate other networks such as Net Impact, Business for Social Responsibility (BSR), Business Alliance for Local Living Economies (BALLE), B Lab, and American Sustainable Business Council (ASBC). http://svn.org/

- **Toniic.** A global impact investor network and platform based in San Francisco whose global members promote a sustainable economy by investing in entrepreneurs, enterprises, and funds that seek to change the world for the better. http://www.toniic.com/

Industry Associations

- **CleanTech Group**. Cleantech Group's research, events and advisory services accelerate market adoption, stimulate demand, and remove barriers to cleantech innovation. http://www.cleantech.com/about-cleantech-group/

- **Community Development Venture Capital Alliance (CDVCA)**. CDVCA is the network for the field of community development venture capital investing. It promotes the field by combining advisory, education, communications, and best-practice dissemination through conferences and workshop. CDVCA also runs its own investment vehicle, the Central Fund. http://cdvca.org/

- **Lifestyles of Health and Sustainability (LOHAS)**. LOHAS provides business-focused resources—including education, news, and B2B gatherings—for companies growing the LOHAS market, an estimated $290 billion US market for goods and services focused on health, the environment, social justice, personal development and sustainable living. http://www.lohas.com/

Funds, Foundations and Foundation networks

- **GIIN ImpactBase**. http://www.impactbase.org

- **ImpactAssets50**. http://www.impactassets.org/impactassets-50

- **F. B. Heron Foundation**. http://www.fbheron.org/

- **KL Felicitas Foundation**. http://klfelicitasfoundation.org/

- **Omidyar Network**. http://www.omidyar.com/

- **Rockefeller Foundation, Impact Investing**. http://www.rockefellerfoundation.org/our-work/current-work/impact-investing

- **W. K. Kellogg Foundation's Mission Driven Investing**. http://mdi.wkkf.org

- **Mission Investor's Exchange**. https://www.missioninvestors.org/

- **Social Impact Exchange**. http://www.socialimpactexchange.org/

Donor-Advised Funds

- **Arabella Advisors**. http://www.arabellaadvisors.com/

- **ImpactAssets**. http://www.impactassets.org/

- **RSF Social Finance**. http://rsfsocialfinance.org/

- **Tides**. http://www.tides.org/

Fellowships, Accelerators and Incubators

- **Ashoka.** https://www.ashoka.org/
- **Echoing Green.** http://www.echoinggreen.org/
- **Fledge.** http://fledge.co/
- **The Hub.** http://bayarea.the-hub.net/#
- **Santa Clara Global Social Benefit Incubator.** http://www.scu.edu/socialbenefit/entrepreneurship/gsbi/
- **Social Entrepreneurship Accelerator at Duke (SEAD)** http://dukesead.org
- **Unreasonable Institute.** http://unreasonableinstitute.org/

Educational and Research Programs

- **Ashoka U.** Ashoka U catalyzes social innovation in higher education through a global network of entrepreneurial students, faculty and community leaders. http://ashokau.org/
- **Net Impact.** Net Impact is a community of more than 40,000 students and professional leaders creating positive social and environmental change in the workplace and the world. https://netimpact.org/
- **Columbia Business School, Social Enterprise Program.** http://www8.gsb.columbia.edu/socialenterprise/home
- **Duke University, The Fuqua School of Business, CASE and CASE i3 Initiative on Impact Investing.** http://caseatduke.org and http://wwwcasei3.org
- **Harvard University, Initiative for Responsible Investment and Social Enterprise.** http://hausercenter.org/iri/ and http://www.hbs.edu/socialenterprise/
- **Insight at Pacific Community Ventures.** http://www.pacificcommunityventures.org/reports-investing
- **GIIN's research database:** http://www.thegiin.org/cgi-bin/iowa/resources/links/index.html
- **Santa Clara, Center for Science, Technology and Society.** http://www.scu.edu/socialbenefit/
- **Stanford Graduate School of Business, Center for Social Innovation.** http://csi.gsb.stanford.edu

Impact Metrics

- **B Lab.** A nonprofit organization that certifies B Corporations, a new type of corporation that uses the power of business to solve social and environmental problems. http://www.

bcorporation.net

- **CARS**. A CDFI assessment and ratings system, providing a third-party assessment of impact and financial performance. http://www.carsratingsystem.net

- **Global Impact Investing Rating System**. Assesses the social and environmental impact (but not the financial performance) of companies and funds using a ratings approach analogous to Morningstar investment rankings or S&P credit risk ratings. http://giirs.org

- **Impact Reporting and Investment Standards (IRIS)**. An initiative of the GIIN, IRIS is a set of metrics that can be used to describe an organization's social, environmental and financial performance. http://iris.thegiin.org

- **MIX Market**. Provides access to financial and social performance information covering approximately 2,000 MFIs around the world. http://www.mixmarket.org

- **Progress out of Poverty Index**. A tool for pro-poor organizations to estimate and track the poverty rates of those they serve. http://progressoutofpoverty.org

- **PULSE/App X**. Web-based software managed by App-X helping organizations track and benchmark financial, operational, environmental, and social data to better demonstrate impact. http://www.app-x.com/pulse

Information Services

- **Impact Driven.** A start-up impact information service "building a curated community of impact". http://impactdriven.co •

Appendix

About Toniic

Toniic provides its members with a powerful suite of investor tools giving easy access to quality deals, process support, education, and a global expert peer group. Investing out of their own accounts, Toniic members receive all the advantages of angel networks in traditional investment sectors. Toniic also supports social entrepreneurs by providing quality feedback and support through interaction with our global network of investors and dealflow partners, many of whom are experienced entrepreneurs. For "less talk, more Toniic", follow us on Twitter.

The Toniic Institute is a 501 (c) 3 managing our work on research and advocacy in the impact investment field. Toniic Institute's mission is to make relevant original knowledge and materials available for impact investors in order to broaden the field of impact investing and deepen understanding amongst impact investors and social entrepreneurs.

Our members and board advocate for impact investing by leveraging their skills and the resources of the network in their work in capacity building programs for entrepreneurs, impact investing workshops for investors, panel and keynote presentations at conferences all over the globe, and active participation in policy discussions both at the local and global level.

Research currently publicly available includes:

- Toniic E-Guide to Impact Measurement: sharing practices of Toniic members around impact measurement and providing recommendations for assessing impact for seed-stage investments.
- Toniic E-Guide to Early-Stage Impact Investing: impact investor sharing their early-stage investment practices and information on vetted global impact investing resources, in partnership with Duke University's CASE i3 program.
- Redefining Impact: Case Studies in Transformative Finance: Research on models of community-centered design, governance and ownership, in partnership with Wilson Sonsini Goodrich & Rosati and Confluence Philanthropy/

About CASE i3

DUKE THE FUQUA SCHOOL OF BUSINESS
CASE
CENTER FOR THE ADVANCEMENT OF SOCIAL ENTREPRENEURSHIP
CASE i3: INITIATIVE ON IMPACT INVESTING

The mission of the CASE i3 Initiative on Impact Investing is to establish a rich set of resources and activities for students, entrepreneurs, investors, funders, academics and policymakers to explore and support the field of Impact Investing over its critical period of development over the next 5-10 years.

CASE i3 was commissioned by the Toniic Institute to create this E-Guide, and CASE i3 conducted interviews with *investors, entrepreneurs and intermediaries around the globe.

CASE i3 is part of CASE (Center for the Advancement of Social Entrepreneurship), the award-winning research and education center based at Duke University's Fuqua School of Business. CASE promotes the entrepreneurial pursuit of social impact through the thoughtful adaptation of business expertise.

CASE i3 was the first comprehensive global program at a top global business school to blend academic rigor with practical knowledge in the emerging field of Impact Investing. Our three strategies are to prepare students, support practitioners and develop a research community for the field. View our blog or recent videos. Follow us on Twitter for daily updates on the impact investing field. Or just view CASE i3 by the numbers.

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Sean Foote, Labrador Ventures
John Fullerton, Capital Institute
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