



# INNOVATIVE FINANCE FOR DEVELOPMENT (IF4D)

A snapshot of InterAction members' IF4D activities.

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## Executive Summary

This Landscape Assessment Report presents the findings of InterAction's survey of its membership to identify the state of the field of Innovative Finance for Development (IF4D). The survey is the first major component of a larger project funded by The Rockefeller Foundation with the objective to strengthen the ability of the international non-governmental organizations (INGOs) to engage more deeply in IF4D programming, and to implement improved approaches for measurement and evaluation of their programs.

As a result of this survey, we now have baseline data on:

1. Ten years' worth of members' projects involving IF4D, across a wide range of deals, size, location, and degree of level of success.
2. INGOs' specific role in their IF4D transactions, the stage of their deals' development, and whether they know if they achieved the expected results.
3. INGOs' motivations, internal challenges, and constraints to the adoption of innovative finance mechanisms.

### The Sample: InterAction members

InterAction had 178 members at the time the survey was conducted. We received a total of 50 clean responses completed in time for the analysis. These 50 members' aggregated 2015 revenue is \$5,636,177,982.

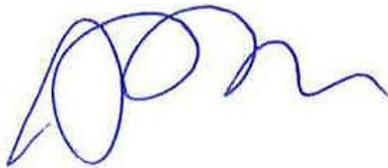
### Key Findings

- **Current engagement:** Demand for IF4D is strong. 88% are looking to expand/enter the market for the first time, and 40% of respondents are already implementing IF4D activities;
- **Instruments:** There are important differences between the instruments used by IF4D-implementing organizations and the instruments of most interest to non-implementing organizations, signaling a discrepancy between expectations and reality. Among implementers, the most common instruments are performance-based contracts and impact investing tools; the least common are results-based approaches. Conversely, non-implementers are most interested in results-based approaches and voluntary contributions; they are least interested in impact investing tools.
- **Roles:** There are similar differences in the roles played by experienced NGOs and the roles new entrants expect to play. The most common role played among INGOs already managing IF4D approaches was as an investor (35%). In contrast, beginners in the field are interested in playing the role of recipient (70%). Only 4% of beginners reported wanting to play an investor role. This dichotomy may reflect the different reality that INGOs face today compared to their more experienced peers: namely, a more constrained funding environment.
- **Barriers:** Informational barriers and insufficient internal capacity are significant challenges for both the more experienced and the beginner INGOs.
- **Assets:** For the most part, there is convergence between implementing and non-implementing organizations on what they bring to the table: reputation/credibility, technical expertise, sector expertise and local knowledge.
- **Sectors:** Food security and agriculture is the top sector of activity for implementers, and of interest for new entrants as well.

- **Geography:** Although members are implementing IF4D activities in all regions of the world, they tend to be concentrated in Southeast Asia (68%) and Latin America and the Caribbean (50%)
- **Challenges and Constraints:** IF4D activities place new burdens on INGOs across various dimensions. Implementers report their IF4D engagement(s) required somewhat or considerably more: time to implement (73%), external partner engagement (64%), and rigor in impact measurement and evaluation (64%), compared to traditional grants.
- **Learning and Resource needs:** Experienced INGOs and new entrants express similar resource needs: connecting with funders, and developing toolkits and frameworks. Both groups need significant support in identifying the “right fit” instrument for their organization and sourcing investment.

The Landscape Assessment Report provides baseline data and findings for The Rockefeller Foundation, the innovative finance field, and our members, so that together, we may have a clearer view of the requirements to support the INGO community to engage in IF4D. With this knowledge, investors and new actors will be in a better position to enrich its knowledge base on working in partnership with INGOs.

We look forward to receiving your questions and comments, and the way forward, together.



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## Introduction

Innovative financing for international development and humanitarian programs (IF4D) has expanded over the past decade, and every day, more international non-governmental organizations (INGOs) make the strategic decision to move into this space as part of their business plan. There is evidence of INGOs utilizing financial mechanisms and instruments—beyond traditional grants—to mobilize new forms of capital and to improve the efficiency or effectiveness of existing capital to tackle social and environmental problems. However, the adoption, testing, and evaluation of innovative financing models seem to have remained low amongst INGOs.

With support by The Rockefeller Foundation, InterAction conducted research aimed at exploring the state of IF4D inside of InterAction’s membership. Since the start of the first IF4D-related activities at InterAction in 2015, InterAction has conducted concerted efforts to increase our membership capacity. We have also operated under a few assumptions about the INGO sector in general and our members in particular: there is a lack of familiarity with their options; INGOs tend to be risk-averse and avoid the cost of being first movers; and lack understanding of how to measure the result of their IF4D investments.

The size and diversity of InterAction’s membership was an advantage for the research team. As the largest coalition of INGOs in the United States, InterAction has direct access to 178 INGO CEOs, their CFOs, and IF4D decision-makers in each organization. We were also fortunate to have the support of pioneers in the Impact Investing field, like the INGO Impact Investment Network, among others, whose candid input allowed the team to avoid redundancies and other pitfalls.

The survey was launched in February, 2017, and pre- and post-survey in-depth interviews were conducted with industry leaders and other key informants. The baseline data gathered in this survey fits into a larger project that we aim will have, by July 2018, contributed to strengthening the evidence base for IF4D.

This *Landscape Assessment* is intended for a small audience that includes key research contributors, InterAction leadership, and The Rockefeller Foundation, and is organized in 4 sections:

1. Research Methodology: building a team and deciding on process.
2. Definitions: setting the stage, or making sure we are talking about the same thing.
3. Survey Findings: exciting data and analysis about the state of the IF4D field for INGOs.
4. Recommendations and Next Steps: ideas of short and medium-term activities across sectors.

What is stimulating about our findings is that we now know there are more INGOs seeking to expand their activities in, or to enter the IF4D market, than INGOs already in the space. We have an idea of their preference for types of financial instruments, their organizational motivations, the barriers they will meet, and specific resource needs to build their capacity. We also see there is overlap in the most salient challenges for both INGOs with experience in IF4D and the novices.

The research also allowed us to provide recommendations specific to INGOs, the donor community, and coalitions. We look forward to conducting training and new research to gain deeper understanding of what it will take to strengthen measurably our members’ capabilities to be viable business partners in IF4D.

## Project Management

Alicia Phillips Mandaville, InterAction VP for Global Development & Policy Learning serves as the Project Director. Luisa Córdoba, Senior Manager of InterAction's Business Council and Private Sector Working Group serves as the Project Manager. Support for major activities for each objective was provided by staff on the Global Development Policy and Learning team, in coordination with InterAction's Executive Office as needed. We retained the services of two leading consultants. Elina Sarkisova, who focused mostly on the selection of the financial instruments/mechanisms, questionnaire design, pre-survey interviews, survey execution and data analysis. Bulbul Gupta focused on post-survey interviews, analysis, and May 24-25 training-related production, including curriculum design, and case study formulation.

## Project Team Short Bios



**Alicia Phillips Mandaville** represents InterAction membership, expanding the position, partnerships and influence of NGOs in multilateral and bilateral fora and events. Previously, Alicia was the vice president for international and social impact work at Amida Technology Services, a data-technology company focused on resolving complex problems in data access, interoperability, analysis, and security. Before that she spent nine years in U.S. public service, most recently as the chief strategy officer at the Millennium Challenge Corporation (MCC). Alicia managed both the data-driven tools and qualitative research that the agency relied on to allocate billions of dollars for investments in infrastructure, agriculture, health, and other economic development programs. This specifically included developing research methods to assess and monitor country governance and human rights, economic growth, and development aid effectiveness. In 2009 Alicia was detailed to then Deputy Secretary of State Jacob Lew's office for the first Quadrennial Diplomacy and Development Review. She joined the U.S. Government after working at the National Democratic

Institute from 1999-2005, where she focused on the role of democratic institutions in national poverty reduction efforts.

Alicia holds a BA in international relations from the College of William and Mary, an MA in international conflict analysis from the University of Kent in Canterbury, and has completed the coursework for a PhD in Economics at American University. She has published work on the role of data in international development and on democratic institutions.



**Luisa Córdoba's** portfolio includes the management of the Private Sector Working Group, the Leadership Training Series, and our rapidly-expanding portfolio on Innovative Finance for Development (IF4D). She is inspired to find solutions that spring from connecting the right people with the right issues, and is familiar with the demands of incubating new initiatives. Luisa brings 10 years of domestic and international experience in NGO strategy, fundraising from private sector and foundations, and alliance management. Luisa joined InterAction in 2007 and has enjoyed a rising career, starting as a Program Associate and managed different fundraising levels of responsibility, until she became the Manager for Resource Development, where she generated resources and managed a diverse private foundations grant portfolio. Prior to InterAction, Luisa ran the training arm for social

services at The Performance Institute, a boutique consulting firm in Northern Virginia specialized in designing performance-based budgets and contracts mainly for government agencies and U.S. nonprofit organizations. Before coming to the United States, she managed a training program for Madres Comunitarias (Community Mothers) in a PPP between the Colombian government and the Fundación Social, a social enterprise century-old private foundation in Bogotá, Colombia.

Luisa was born in Bogotá, where she received her BA in Business Administration from the Pontificia Universidad Javeriana. In 2006 she earned her Master's Degree on International and Public Affairs from the School of International Public Affairs (SIPA) at Columbia University, New York.



**Elina Sarkisova** is an independent consultant with a decade of experience in international development, including policy, finance, program management and monitoring and evaluation. She has spent the last 5 years advising and working alongside governments, foundations, nonprofits, social enterprises, consulting firms and private investors to research, design and structure innovative finance mechanisms that leverage private capital and focus on results. She is an expert in results-based financing mechanisms, including impact bonds. Her clients include the Center for Global Development, Gates Foundation, USAID, Kois Invest and Instiglio. Prior to becoming an independent consultant, Elina oversaw a \$14M refugee resettlement program in Europe and Central Asia for the U.S. Department of State.

Elina earned a Master of Public Affairs (MPA) from the Woodrow Wilson School of Public and International Affairs at Princeton University (with a concentration in International Development) and a Bachelor of Science in Foreign Service from Georgetown University. She is fluent in Russian and Spanish and dabbles in Mandarin Chinese. Of Armenian-Russian descent, Elina was resettled to the U.S. as a refugee from the former Soviet Union when she was 8 years old and currently resides in Washington, DC with her husband and daughter.



**Bulbul Gupta** is a Social Innovation Advisor with 16 years of experience in multi-stakeholder partnerships, corporate sustainability, innovative finance, entrepreneurship, and public policy. She is passionate about advancing technology & innovation in under-served markets to drive collective impact in lives and livelihoods. She is the former Head of Market-Based Approaches for the Clinton Global Initiative, where she worked with Fortune 500, Global 3000 corporations, BCorps, investors, non-profits, and governments on responsible investing, sustainable sourcing, shared value/inclusive growth, financial inclusion, workforce development and employee engagement. Previously, Bulbul has led partnerships at The Asia Foundation, help launch them at USAID's GDA, and worked at The Packard Foundation, USTR, and Capitol Hill in D.C. Her consulting roles include Multi-nationals, the White House; Mission Measurement, Greystone Bakery (a B Corporation), USAID; Instiglio, and other INGOs and social enterprises.

Bulbul is an Adjunct Professor at NYU in Social Innovation, Corporate Social Responsibility, and Impact Investing; and a Diversity & Inclusion trainer for the BCorp community. She serves as Board Chair of Upaya Social Ventures, and on the Advisory Councils of the Global Sourcing Council, Cornerstone Capital, the Unreasonable Institute, Village Capital's FinTech & Future of Work, the Global Entrepreneurship Summit 2016. She was an outside policy advisor to Hillary For America in 2016. Bulbul has a B.A. in International Affairs from George Washington University, and a Master of Public Policy from the University of Michigan, with coursework at Ross School of Business, where she studied under CK Prahalad, when he was writing "Fortune at the Bottom of the Pyramid." She is the daughter of immigrant tech entrepreneurs from India, married to the PayPal/eBay/500 Startups mafia, and has lived in DC, New York, and Palo Alto, with her husband, and 2 Jedi daughters.

## Acknowledgements

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InsideNGO and members of its Impact Investing Working Group, including ANDE, PACT, Mercy Corps, and consultant Tiffany Chen  
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World Vision US  
Shraddha Kothari, and Aditi Shankar

And all InterAction member CFOs and CEOs.

## Research Methodology

The research captured data from InterAction members in four phases: desk research and online literature review, qualitative interviews, a questionnaire/survey, and follow-up interviews.

### Phase I: Desk Research and Online Review

The research team conducted desk research to collect IF4D information that was available internally, and published by a vast number of outlets, including by government agencies, United Nation agencies, companies and other NGOs invested in the topic, and members themselves.

Internally: Member CEOs have several occasions during the year to meet with InterAction's own leadership, including the CEO, president, and vice presidents. In addition to other external events, we hear from CEOs at least during 4 Board of Directors meetings, the Annual Forum, and the December CEO Retreat. Each checkpoint serves a different purpose but in a continuum and together they inform our strategy and 3-year plan. IF4D has been discussed at recent meetings.

In addition, the Private Sector Working Group (PSWG) is a platform for members interested in building their capacity to partner with corporations. New business models and new partners have always been of interest, and a few of the group's meeting have tangentially addressed this theme.

Externally, the team established connections with IF4D experts inside and outside the INGO world to develop technical partnerships and draw on intellectual contributions for the analysis, and to begin to socialize this new initiative among the InterAction membership.

Phase I was conducted in three overlapping steps. First, we understood the need for engaging new points of contacts inside each InterAction member, beyond the CEO. We decided to engage the CFOs, and through them, identify other key member staff relevant to our project.

Next, we identified the financial mechanisms or instruments which INGOs are utilizing more frequently and/or visibly. We found a list of 17. For a detailed list of financing mechanisms identified, please refer to Table 2 on page 11.

Finally, and in preparation for Phase II, we sought to pre-identify sets of primary INGO motivations for entering into IF4D activities, the assets INGO may bring to the table, and the challenges and constraints facing them.

### Phase II: Qualitative Interviews & Survey Design

The team conducted pre-survey in-depth phone interviews, and in-person meetings with a group of members and with expert non-members and others to:

- Deepen our preliminary understanding of reasons for member engagement in IF4D.
- Gauge a measure of whether members feel their IF4D-related programming has met their goals and expectations.
- Identify questionnaire best practices to achieve the highest possible response rate.
- Identify potential cases for case study development, and workshopping at tailored trainings, and
- Collect information on IF4D trainings and resources already in the market to ensure our products will complement other existing initiatives.

Member staff from select member organizations served as questionnaire pilot testers.

## Phase III: Survey Execution

Table 1: Survey Methodology

Dimension	Characteristics
Date Open	March 21, 2017
Date Closed	April 7, 2017
Medium	Survey Monkey
Scope	178 InterAction members were encouraged to self-report, even those not currently or previously engaged on IF4D activities.
Point of Contact	Each organization designated one individual to fill the information on behalf of the whole organization (CEO, CFO, or member of the Leadership Team).
Special instructions	CFOs were advised to collect the necessary data beforehand
Number of Questions	A minimum of 2 questions to a maximum of 14; its length dictated by each organization's level of engagement in IF4D.
Question Format	Structured and unstructured.
Time to Fill	30 minutes to fill, not taking into account the time required for internal coordination prior to submission.
Confidentiality	Responses not to be attributed to a single participant without their express consent.
Incentive	Respondents were offered one pass to an IF4D training on May 24-25, 2017 at InterAction.
Responses	We received a total of 58 responses, of which 50 were completed in time for the analysis.
Data Handling	<ul style="list-style-type: none"><li>• Data validation and analysis were conducted for two weeks.</li><li>• Reached out to members with incomplete responses to encourage them to finalize their submission.</li></ul>

The main survey objectives were to record:

1. As many members' projects as possible in IF4D, of any size, location, and level of success, going back 10 years.
2. INGOs' specific role in that transaction, or at any part of project in any part of its cycle, i.e. ideation, design, structuring, capital raising, implementation, and M&E.
3. Internal challenges and constraints to the adoption of innovative finance mechanisms.

Please contact [Luisa Cordoba](#) should you want to see the complete survey.

Table 2: Summary of Mechanisms and Examples – Guidance provided to respondents

Mechanism	Description	Examples
Advance Market Commitments	Donors commit funds to guarantee the price of a product once it has been developed, providing manufacturers with the incentive to invest in product research and development. It tackles a long-standing development problem of persistent market failure to develop and produce products needed in poor countries due to perceptions of insufficient demand and market uncertainty.	AMC for pneumococcal, AgResults
Awards and prizes	A type of results-based approach – provide a financial reward for the delivery of a development solution in a competitive selection process. They are designed to pay for innovations that solve specific, well-defined problems without prescribing the solution in advance or limiting the nature or number of participants.	Haiti Mobile Money; Nestle Prize
Bonds (to fund development projects)	A debt investment in which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate. Bonds can be used by companies, municipalities, states and sovereign governments to raise money and finance a variety of projects and activities. However, in this context, we use the term “bond” to refer to debt financing raised specifically to fund development projects.	World Bank Green Bonds; IFFIm Bond; India Diaspora Bond
Concessionary Loans	Loans extended on terms substantially more generous than market loans. The concessionality is achieved either through interest rates below those available on the market or by grace periods, or a combination of these. Concessional loans typically have long grace periods.	MyC4.com
Conditional Cash Transfers	Programs that aim to reduce poverty and transfer cash, generally to poor households, on the condition that those households make pre-specified investments in the human capital of their children.	Bolsa Familia (Brazil)
Crowdfunding	The practice of funding a project or venture by raising monetary contributions from a large number of people and leveraging their networks for greater reach and exposure. Crowdfunding can be donation-based, rewards-based or equity-based and helps finance projects that are too innovative or risky for traditional financing.	Kickstarter; Kiva
Debt Swaps/ Buy-Downs	Involves financing part of a development project through the exchange of a foreign-currency-denominated debt for local currency, typically at a substantial discount. The process normally involves a foreign nongovernmental organization (NGO) that purchases the debt from the original creditor at a substantial discount using its own foreign currency resources, and then resells it to the debtor country government for the local currency equivalent (resulting in a further discount). The NGO in turn spends the money on a development project, previously agreed upon with the debtor country government.	Debt2Health; World Bank’s IDA buy-down
Development/Social Impact Bonds	Impact Bonds provide upfront funding for social programs by private investors, who are remunerated by donors (as in the case of Development Impact Bonds) or host-country governments (as in the case of Social Impact Bonds) and earn a return if -- and only if -- evidence shows that programs achieve pre-agreed outcomes. It is a way to shift incentives and accountability to results, transfer performance risk to the private sector, and increase efficiency in program implementation.	Educate Girls DIB
Direct Equity	Generally refers to taking an ownership interest or stake in a separate for-profit entity. In this context, we take it one step further to mean taking an interest or stake in a socially driven business, or social enterprise. We do not include indirect equity investments, or investments made through an externally managed fund where the NGO may be engaged as a limited partner (LP). For the latter, please refer to “Third party-managed impact investment funds.”	Mercy Corp’s Social Venture Fund

Mechanism	Description	Examples
Guarantees	A guarantee is a promise of indemnification up to a specified amount in the case of default or non-performance of an asset, e.g. a failure to meet loan repayments or to redeem bonds, or expropriation of an equity stake. Guarantees typically cover political and/or commercial (e.g. credit, regulatory/contractual) risks that investors are unwilling or unable to bear. In the development context, guarantees are typically used to promote the development and welfare of developing countries, and can provide the measure of security needed to bring on board more private risk capital.	Pledge Guarantee for Health
Insurance schemes	A form of risk management primarily used to reduce any substantial losses or gains suffered by an individual or an organization. The insurance transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate the insured in the event of a covered loss.	HUGInsure, index-based weather insurance (for smallholder farmers)
Impact Investment Funds (external)	Impact Investment Funds are investment vehicles that are structured and funded to target a specific social challenge, often blending investors with different risk and return profiles. In this context, we refer only to externally managed funds where the NGO may be engaged as a limited partner (LP). If your NGO has an in-house impact investment fund that it manages and uses to make direct investments in social enterprises please refer to the specific instrument type (i.e. catalytic grant, debt or equity).	Acumen Fund
Innovative Taxes	Specific taxes imposed by governments to raise funding for a specific development challenge. This includes initiatives such as the airline ticket tax which is levied at the national level but within a framework of international coordination. Proposals for a financial transactions tax and carbon taxes are also examples which fit into this category. These initiatives generate new public revenue streams for development from the private sector.	Costa Rica tax on carbon pollution to pay indigenous communities to protect forests
Microfinance Investment Funds	These take on various legal forms but serve the same main purpose of channeling an increasing source of funding to micro-entrepreneurs via Microfinance Institutions (MFIs) established in developing countries. They are also seen as a convenient tool to invest collectively in a wide and diversified range of MFIs. Providers of funding are able to reach a larger number of local institutions and in a more diversified way through such vehicles.	Triodos Microfinance Fund, Accion Venture Lab
Performance-Based Contracts	Results-oriented contracts that tie at least a portion of a contractor's payment to the achievement of specific, measurable indicators linked to outputs, quality or outcomes. Some payers describe themselves as using performance-based contracts because they set targets and indicators but actually reimburse recipients for budgeted costs. Such mechanisms, while potentially useful for managing performance, are not performance-based.	Health Results Innovation Trust Fund, Global Partnership on Output-Based Aid (GPOBA)
Voluntary Contributions	These usually take the form of donations made as part of consumer purchases.	PRODUCT(RE)D, Massivegood

The survey began with members' selecting their organization from a drop-down menu, on to more detailed questions in 8 categories:

- **Current Engagement:** The survey sought to identify members' level of engagement with IF4D going back 10 years where possible, their interest in expanding beyond their current engagement(s), if they were exploring any specific instrument(s). Depending on their engagement, throughout the analysis we refer to organizations that are either currently or have previously implemented any IF4D activities as 'implementing organizations' and organizations that have never implemented any IF4D activities (but are interested in entering this market) as 'non-implementing organizations.'
- **Instruments:** Implementing and non-implementing organizations were asked to select instruments from a drop-down menu of 17 options. The respondents were required to identify, for each instrument, its stage of development, their organization's primary role in the scheme, and whether each instrument achieved its expected results.
- **Primary Motivations:** Implementing and non-implementing organizations were asked to rank their top 3 motivations from a list of 6 available options.
- **Primary Assets:** Implementing and non-implementing organizations were asked to rank their top 3 motivations from a list of 8 available options.
- **Sectors:** Respondents were asked to select their sectors of IF4D activity from a list of 29 options. We complemented InterAction's sectors for member classification with GIIN sectors.
- **Geography:** Respondents were asked to select their sub-regions of IF4D activity. We used a version of the United Nations geoscheme.
- **Primary Challenges and Constraints:** We asked respondents to compare how their IF4D engagement(s) compared with traditional grants in 10 dimensions.
- **Learning Resources and Needs, and Training:** respondents were asked to identify their top 3 from a set of 9 learning needs, and which learning tools and vehicles they would prefer to strengthen their capacity. We allowed for open-ended suggestions and sharing of any training material they felt was particularly valuable.

## Key Findings Regarding the Survey at the Methodology Level

The survey has at least three important characteristics:

1. While the response rate was strong (nearly 30%), the sample is not random; thus, some self-selection bias is to be expected. In the survey findings, we highlight areas where we think self-selection bias had a higher likelihood of skewing the results one way or another. Member staff ability and motivations to participate in InterAction activities varies for reasons both outside and inside our sphere of influence. It is likely members with more available staff or with staff dedicated to IF4D had an advantage in responding.
2. The reliability of the respondents' answers is dependent at least to some degree on an organization's ability to (1) know who within the organization is doing what and (2) collect this information in a relatively short amount of time (2 weeks). We know anecdotally (both during qualitative interviews and in the process of administering the structured survey itself) that this is rarely the case, particularly among the larger, more decentralized organizations. This is a challenge the IA team anticipated and tried to mitigate by conducting targeted outreach prior to

implementing the survey, for instance, by engaging CFOs directly and asking them to identify the relevant teams/departments across the organization that might be implementing IF4D activities.

3. Many of the survey questions required respondents to qualitatively “tally” responses across multiple instrument types and teams/departments, which may have been difficult not just from a coordination standpoint but also if an organization happened to be implementing a wide range of IF4D activities each with vastly different experiences. This was unavoidable given limited time and resources (both on IA’s side and NGOs’ competing priorities at the time).

The survey provides an important snapshot of where NGOs currently stand with regard to IF4D, even if it is on average. We realize this is just a first step in a longer journey.

### Phase IV: Follow-up Interviews

From the outset, the team planned to conduct follow-up interviews with a group of member organizations --a representative sample of those already practicing IF4D at various stages-- as well as with some who were not yet practitioners, to understand their motivations for IF4D, and training needs if they were considering entering into IF4D. The Phase II team designing the training and accompanying materials also reached out to a few experts outside of the membership who have experience either in training for impact investing more specifically have also assessed INGO needs in this issue, or conducted somewhat similar research.

After surveying those in the InterAction network, the team worked to learn more about each organization's specific approach to innovative finance for development, and any organizational challenges they face on a regular basis. By conducting hour-long interviews, the team identified four areas of insights: challenges, solutions, approach, and case study.

Challenges included any problems that the organization's current business model couldn't properly address, and the organization's general motivations/intentions for moving into the innovative finance for development space. Solutions centered on the organization's strengths, and how the organizations tackled any obstacles they faced. The approach section asked the organizations to highlight various business lines and tools they operate with. Finally, the case study section simply asked the organizations to provide their own input on the specific initiatives described in the case studies.

Complementing the survey findings, the team conducted 12 member and 2 non-member interviews (two more member interviews are being scheduled). These 1:1 phone interviews with the CEO and/or the head of innovative finance at the respective organization have revealed the following top motivations for exploring IF4D:

- Sustainability of current programs
- Scaling or replicating impact of effective interventions
- Revenue: diversifying or replacing funding streams, especially most recently
- Peer pressure: many of their industry peers/competitors are moving into this work, so they feel they should explore it
- An investor/donor approached them

### Key Findings Regarding New Entrants’ Motivations during Follow-up Interviews

When asked next what kind of stakeholder within their organization drove the earliest conversations for their organization to explore IF4D, and specifically asked to consider whether it was a Board member, Donor, CEO/member of the leadership team, staff member, or other stakeholder, many respondents shared that the ask often came from an outside donor or funder who suggested it or asked if their funding could be used in a certain way. Several shared that a Board member or Advisory council member

suggested the approach, or at least exploring it as a sustainability strategy; others that leadership pursued it as a revenue diversification strategy, off the backs of a private sector diversification strategy. Asked about where these organizations first turned to learn about IF4D after those early conversations, interviewees shared the following responses, but most asked that they not be attributed. The information source is therefore kept confidential:

- Some hired a consultant to scope the opportunity for them and teach them how to do it in-house; some then hired that person full-time if they were able to get CEO and Board-level approval for the strategy and approach.
- Engaged a professional consulting firm (“if you can afford them”) to design it for them;
- Created a Board subcommittee or Advisory committee specifically to learn and explore this strategy – including those with expertise in finance and legal structures – also ensures Board-and leadership-level buy-in for end-result.

## Definitions

### Innovative Finance for Development

#### What is our working definition?

There are different definitions for IF4D and connected concepts, depending on the author. For the purposes of this research, and taking into consideration the different levels of understanding amongst INGOs, *we took the broadest definition of IF4D to mean any mechanism beyond a traditional grant that mobilizes new capital and/or improves the efficiency or effectiveness of existing capital to tackle social and environmental problems.* In survey guidance provided to respondents, we also noted that innovative finance is not necessarily financial innovation. The ‘innovation’ can come from introducing a new financing product, repurposing an existing product, or crowding in new players.

Our working definition is a pithy combination of definitions provided by different multilateral institutions and the private sector, especially of UNDP, the World Bank, OECD, The Rockefeller Foundation, Dalberg, and author Georgia Levinson Koahane, a renowned author who presents an inspiring view of the leadership, organizations, and innovation needed to overcome the enormous challenges we face.

According to the **UNDP**, “there is no internationally agreed definition of ‘innovative financing for development’. In reality, the term encompasses a heterogeneous mix of innovations in fundraising and innovations in spending, i.e. innovative financing for development comprises both innovations in the way funds are raised as well as innovations in the ways funds are spent on international development.”<sup>1</sup>

The **OECD** considers innovative financing “to comprise mechanisms of raising funds or stimulating actions in support of international development that go beyond traditional spending approaches by either the official or private sectors, such as:

- New approaches for pooling private and public revenue streams to scale up or develop activities for the benefit of partner countries;
- New revenue streams (e.g. a new tax, charge, fee, bond raising, sale proceed or voluntary contribution scheme) earmarked to developmental activities on a multi-year basis; and
- New incentives (financial guarantees, corporate social responsibility or other rewards or recognition) to address market failures or scale up ongoing developmental activities.”<sup>2</sup>

The **World Bank** includes under innovative finance “any financing approach that helps to:

- Generate additional development funds by tapping new funding sources (that is, by looking beyond conventional mechanisms such as budget outlays from established donors and bonds from traditional international financial institutions) or by engaging new partners (such as emerging donors and actors in the private sector).
- Enhance the efficiency of financial flows, by reducing delivery time and/or costs, especially for emergency needs and in crisis situations.

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<sup>1</sup> UNDP. Innovative Financing for Development: A New Model for Development Finance? 2012. Page 7. Retrieved March 20, 2017, from [http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Development%20Cooperation%20and%20Finance/Innovative\\_Financing\\_Web%20ver.pdf](http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Development%20Cooperation%20and%20Finance/Innovative_Financing_Web%20ver.pdf)

<sup>2</sup> OECD. Innovative Finance to Fund Development: Progress and Prospects. 2009. Page 3. Retrieved March 20, 2017 from <http://www.oecd.org/development/effectiveness/44087344.pdf>

- Make financial flows more results-oriented, by explicitly linking funding flows to measurable performance on the ground.

Most Innovative Finance involves combining available financial instruments into a new package or using them in a new context or setting, such as a new sector, country, or region. In some cases, the driving force behind the new financial mechanism is twofold: to raise new resources and to make the use of those resources more effective.”<sup>3</sup>

The **Rockefeller Foundation** defines innovative finance solutions as “the use of financing mechanisms to mobilize private sector capital in new and more efficient ways for projects to create a more resilient and inclusive world.”<sup>4</sup>

**Dalberg** says it is “a range of approaches to mobilize resources and to increase the effectiveness and efficiency of financial flows that address social and environmental challenges.”<sup>5</sup>

Finally, in her book *Capital and the Common Good: How Innovative Finance is Tackling the World’s Most Urgent Problems*, **Keohane** defines innovative finance as follows: “Innovative finance is about more and better: attracting additional resources for investment in solutions to [social] problems...and improving the efficiency of the funds we already have. In fact...innovative finance is as much about the incentives that encourage sound decision making as it is about money. Innovative finance is not the same as financial innovation; innovative finance intentionally looks to solve problems, to overcome market failure, and to meet the needs of the poor and underserved. What is new is not the engineering, but the application.”<sup>6</sup>

## Other Definitions

In the survey, members were asked to choose their mechanisms and two dimensions for each: their organization’s primary role in the transaction(s), and the transaction’s stage of development. Provided in drop-down menus, the options were:

### *INGOs’ primary role in the transaction*

- Investor: Their organization put in its own money.
- Recipient: Their organization was on the receiving end of someone else’s money.
- Intermediary: Their organization helped to facilitate or manage capital flows but was not the direct investor or recipient.
- Provider of technical assistance: The organization provided specialized services or expertise (sometimes under contract), i.e. M&E.
- Advocate: The organization played a convening role and/or helping to generate support.
- Various different roles

### *Current stage of development*

By “stages of development,” we meant of the instrument or mechanism (or portfolio of instruments/mechanisms, if the organization was involved in more than one), not their organization’s

<sup>3</sup> World Bank. Innovative Finance for Development Solutions: Initiatives of the World Bank Group. 2009. Page 1. Retrieved March 20, 2017 from <http://siteresources.worldbank.org/CFPEXT/Resources/IF-for-Development-Solutions.pdf>

<sup>4</sup> Rockefeller Foundation. Innovative Finance. Retrieved March 20, 2017 from <https://www.rockefellerfoundation.org/our-work/initiatives/innovative-finance/>

<sup>5</sup> Dalberg. Innovative Financing for Development. 2014. Page 1. Retrieved March 20, 2017 from [http://www.citifoundation.com/citi/foundation/pdf/innovative\\_financing\\_for\\_development.pdf](http://www.citifoundation.com/citi/foundation/pdf/innovative_financing_for_development.pdf)

<sup>6</sup> Georgia Keohane. Capital and the Common Good: How Innovative Finance is Tackling the World’s Most Urgent Problems.” 2016. Page 2. Columbia University Press.

involvement in developing that specific instrument. For instance, if the INGO is a limited partner in an impact investment fund, we were referring to the stage of development of the fund itself, even if the organization was not involved in developing it.

If the INGO is involved in multiple impact investment funds, they would indicate “various stages of development.” Provided in drop-down menus, the options were:

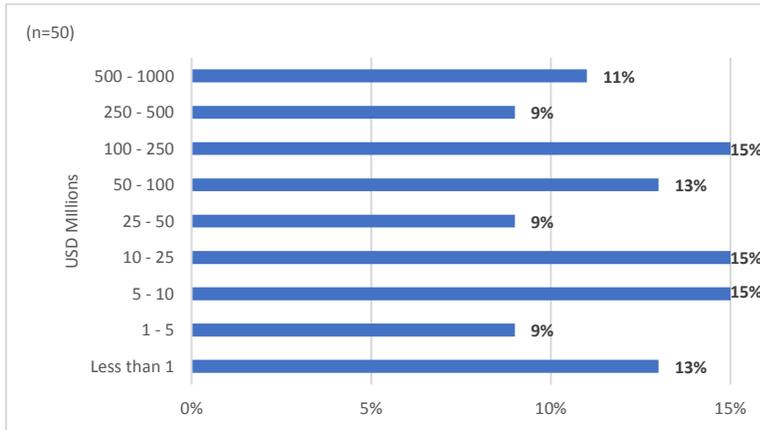
- Design
- Structuring
- Implementation
- Completed/Spun out
- Various stages of development

## Survey Findings

### Respondents

A total of 50 organizations completed the survey. These 50 members' aggregated 2015 revenue is \$5,636,177,982.

Figure 1: Distribution of respondents by revenue

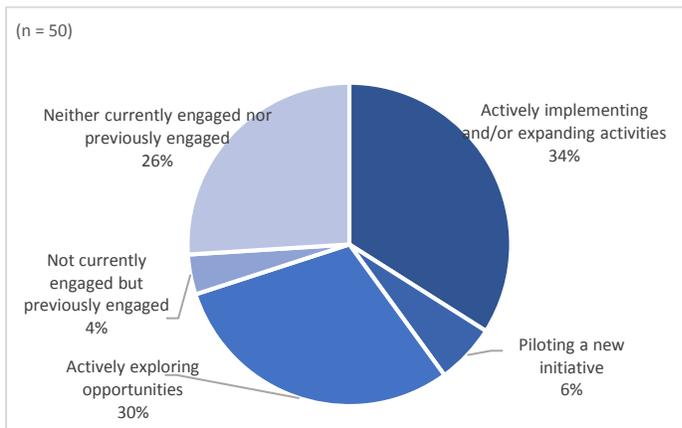


### Current Engagement

The majority of respondents are not currently implementing IF4D activities.

- The majority (30 count, or 60%) of respondents are not currently implementing any IF4D activities
- 40% (20 count) are either actively implementing/expanding activities (34%) or piloting an initiative for the first time (6%) (Figure 2).

Figure 2: Organizations' current engagement with IF4D



However, demand for IF4D is strong. Of those that are not currently implementing IF4D activities (30 count):

- A handful (2 count) has implemented IF4D activities at some point in the past,
- Exactly half (15 count) are actively exploring opportunities, and
- 43% (13 count) are partnering with the private sector in some way to advance their social change objectives, including working with local private actors to strengthen supply chains, engaging corporations in CSR-related activities and providing direct technical assistance and support.

Overall, 44 of the 50 respondents (88%) are interested in expanding beyond their current engagement (whether entering for the first time, re-engaging after a pause, or expanding their existing portfolio), indicating strong demand for IF4D. Only 5 respondents (10%) had no interest in engaging in IF4D. We recognize that this result may be influenced at least in part by self-selection bias, as organizations with no interest in engaging in IF4D were probably less likely to take the survey.

*From this point on, we refer to organizations that are either currently or have previously implemented any IF4D activities as “implementing organizations” and organizations that have never implemented any IF4D activities (but are interested in entering this market) as “non-implementing organizations.”*

## Instruments

There are important differences between instruments ever used by implementing organizations and instruments of most interest to non-implementing organizations.

Among implementing organizations, with the exception of performance-based contracts (32%), the most commonly used were those traditionally associated with impact investing:

- Impact investment funds (36%)
- Direct equity (36%)
- Microfinance investment funds (32%)
- Concessional loans (32%), and
- Catalytic grants for social enterprises (23%).

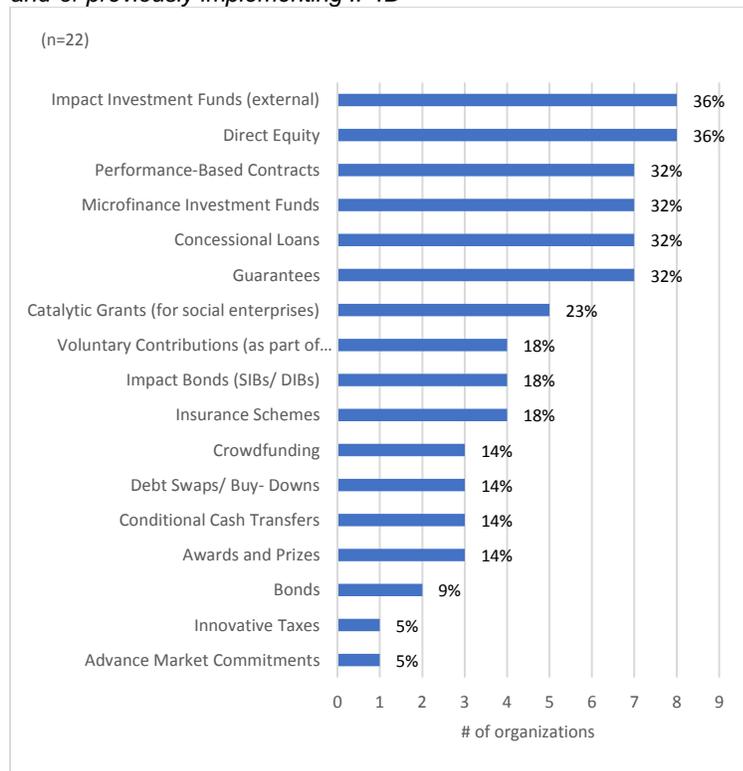
With the exception of performance-based contracts (32%), results-based approaches were among the least commonly used instruments:

- Impact bonds (18%)
- Debt swaps/buy-downs (14%)
- Conditional cash transfers (14%)
- Awards and prizes (14%), and
- Advance market commitments (5%).

Other least commonly used instruments among this group include:

- Voluntary contributions (18%)
- Insurance schemes (18%)
- Crowdfunding (14%)
- Bonds (9%),
- Innovative taxes (5%) (Figure 3).

Figure 3: Most commonly used instruments by organizations currently and/or previously implementing IF4D



Demand for IF4D is strong. 40% (20 count) are either actively implementing/expanding activities (34%) or piloting an initiative for the first time.

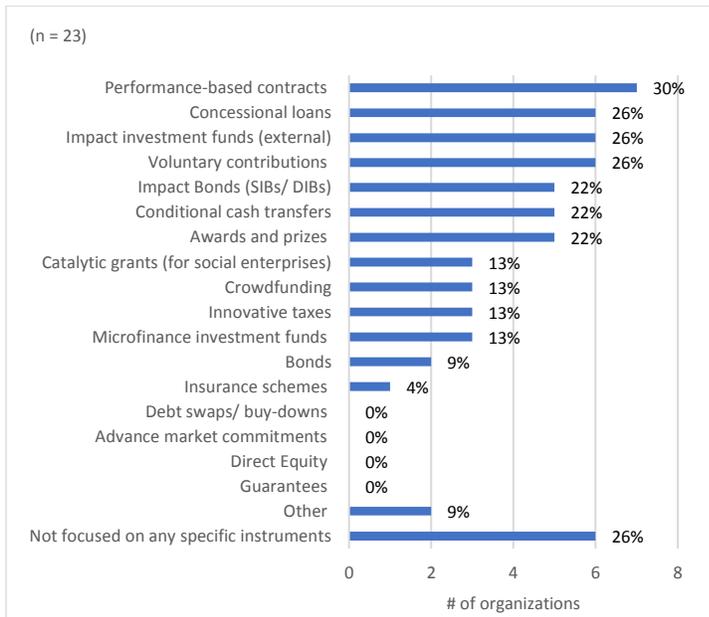
Among implementing organizations, with the exception of performance-based contracts, the most commonly used were those traditionally associated with impact investing. Results-based approaches were among the least common.

While many non-implementing organizations are undecided or unsure of which instruments they are most interested in exploring (26%), those that indicated a preference expressed more interest in results-based approaches than impact investing (nearly the opposite of what was true for implementing organizations).

- Among the top 7 instruments of interest, 4 are results-based: performance-based contracts (30%), impact bonds (22%), conditional cash transfers (22%) and awards and prizes (22%). This may in part be explained by the salience of results-based financing among the donor community in recent years.
- In addition to impact investing tools, non-implementing organizations also ranked voluntary contributions higher than implementing organizations (26% and 18% respectively), perhaps suggesting a greater focus on revenue generation among this group. (Figure 4)

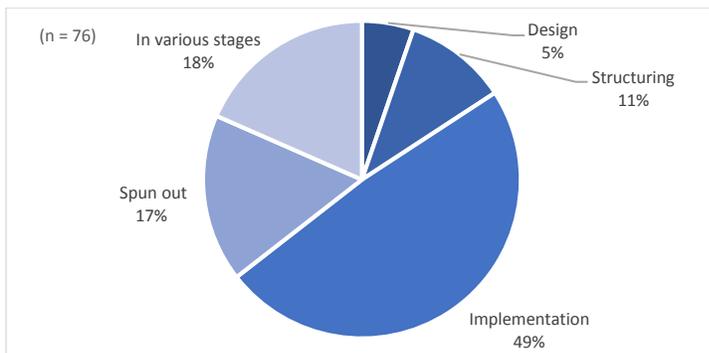
Although there are significant differences between implementing and non-implementing organizations, there is some overlap between the two. Performance-based contracts, impact investment funds and concessional loans ranked in the top 5 for both implementing and non-implementing organizations.

Figure 4: Instruments of most interest to organizations wishing to enter the IF4D market for the first time



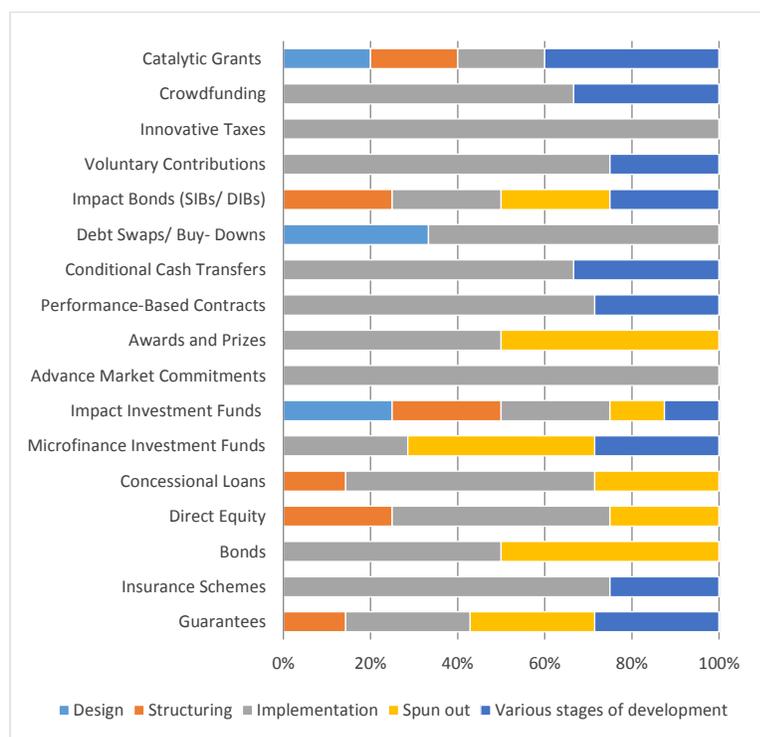
Among implementing organizations, most instruments are in implementation phase: Most instruments are currently under implementation (49%), 16% are in earlier stages of development (either design (5%) or structuring (11%)), 17% have been spun out, and 18% are in various stages of development (Figure 5).

Figure 5: Stages of development of instruments



There appears to be more of a pipeline around impact investing, i.e. a good balance between early development, implementation and spinning out, while a greater proportion of other instruments are either under implementation or have been spun out (Figure 6).

Figure 6: Stages of development by instrument type



Although impact investing instruments generally ranked lower among non-implementing organizations than implementing organizations, two impact investing tools still ranked high: concessional loans and impact investment funds.

There is a discrepancy between expectations and reality. Among implementers, the most common instruments are performance-based contracts and impact investing tools; the least common are results-based approaches. Conversely, non-implementers are most interested in results-based approaches and voluntary contributions; they are least interested in impact investing tools.

## Roles

Implementing and non-implementing organizations differ how they see their role in IF4D. (Figure 7).

Among implementing organizations:

- The most common role for an INGO was investor (35%)
- Followed by intermediary (21%)
- Recipient (13%), and
- Technical assistance (6%).
- In no transaction did NGOs play solely an advocacy role.
- In many transactions (25%), INGOs played various different roles (potentially including advocacy).

However, in direct contrast, non-implementing organizations expressed most interest in being a recipient (70%), provider of technical assistance (52%), advocate (30%), intermediary (22%), Investor (4%), or unsure (17%) (See Figure 8).

The dichotomy between implementing and non-implementing organizations reflects a clear mismatch between reality and expectations.

Figure 7: Distribution of respondent's roles

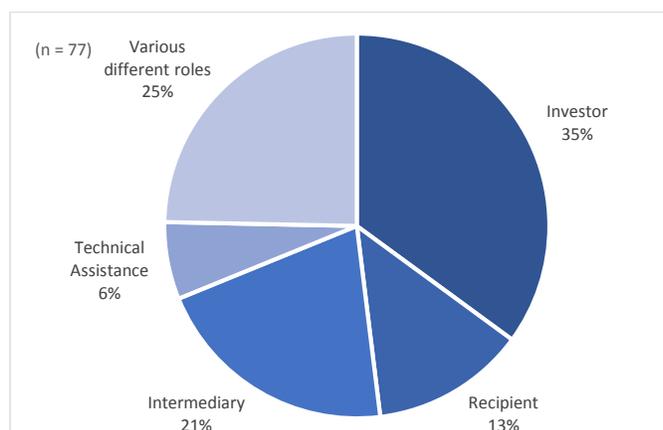
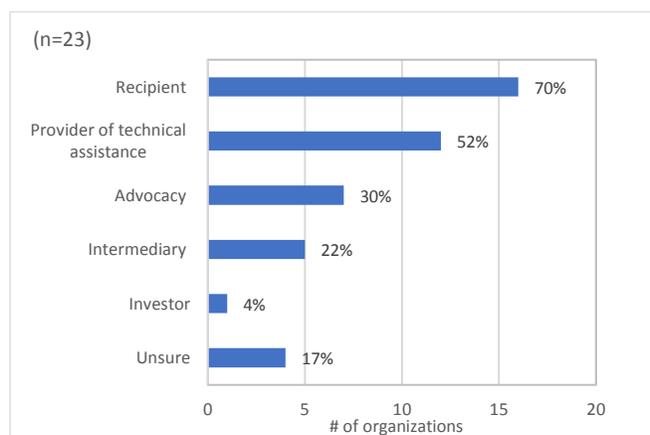


Figure 8: Roles of most interest to organizations wishing to enter the IF4D market for the first time



While part of the reason may indeed be informational (i.e. non-implementing organizations may not be as knowledgeable about the different types of instruments available to them and the different roles they can play), it may also reflect the different reality that INGOs face today compared to their more experienced peers: namely, a more constrained funding environment is pushing more INGOs to look to IF4D for its revenue-generating potential rather than its other potential benefits.

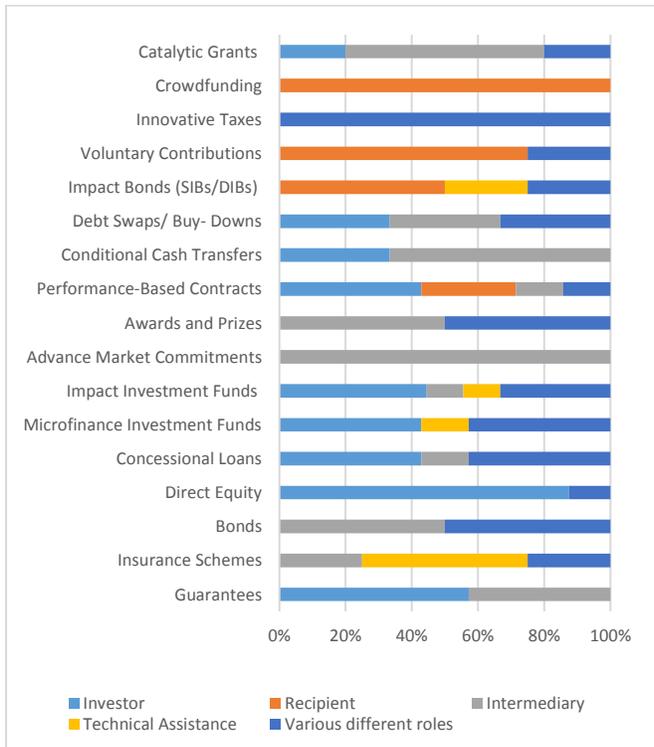
Looking at the distribution of roles by instrument (Figure 9), the only instruments where implementing organizations reported playing any kind of exclusively recipient role are crowdfunding, voluntary contributions, impact bonds and performance-based contracts (and, even then, not 100% of the time).

Implementing organizations tended to play an intermediary role in catalytic grants, conditional cash transfers, awards and prizes, advance market commitments, and bonds.

INGOs can play an investor role in most of the instruments; however, the instruments where the most number of implementing organizations reported playing an investor role were: direct equity (57%) and guarantees (88%), followed by impact investment funds (44%), concessional loans (43%) and performance-based contracts (43%), which are the last 3 among the top 5 instruments of interest to non-implementing agencies.

When asked whether instruments achieved expected outcomes, 55% of respondents indicated that they did, 32% said it was too early to tell, 8% said they don't know and 5% said results were mixed. Not a single organization indicated that the engagement did not achieve expected results. We know that these responses do not necessarily reflect reality, as 49% of engagements are still under implementation (only 17% have been spun out/completed).

Figure 9: Distribution of respondents' roles by instrument type



This may be due to a number of reasons, including: (1) the open-ended nature of the question (we did not provide guidance on what counted as success; nor did we ask for details on the rigorosity of the evaluation methodology); and (2) INGOs may be reluctant to share information about an instrument or engagement that did not go as planned.

To meet our project objectives, we need to decide on how to best frame the inquiry about 'success,' and associated M&E. Activities connected to our grant's Objectives 2 and 3 will hone in on detecting evidence-based approaches for measurement and evaluation of market-based solutions, and how INGOs can implement them.

Among implementing organizations the most common role for an INGO was as an investor. In direct contrast, non-implementing organizations expressed most interest in being a recipient.

If non-implementing organizations' primary interest is in generating additional revenue, they may need to re-think which instruments they want to explore.

## Motivation

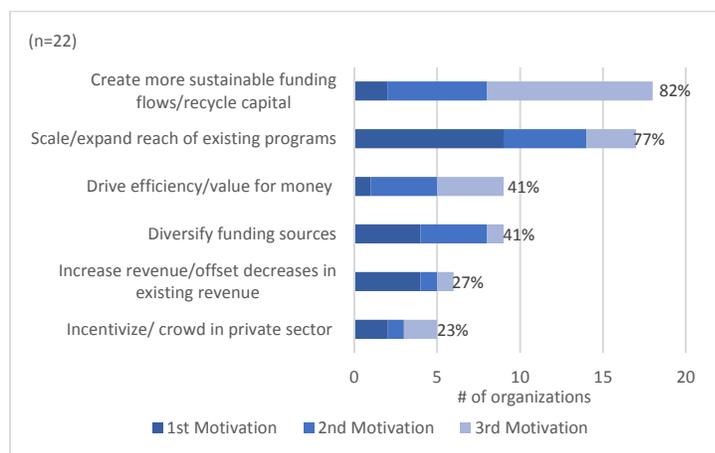
Motivations also differ between implementing and non-implementing organizations.

Among implementing organizations, the top motivations are to:

- Create more sustainable funding flows/ recycle capital (82%)
- Scale or expand reach of existing programs (77%)
- Drive efficiency/ value for money (44%).

Perhaps this ranking reflects the predominance of impact investing tools and relative share of performance-based contracts among this group. (Figure 10).

Figure 10: Top 3 motivations for entering the IF4D market among currently/previ­ously implementing organizations



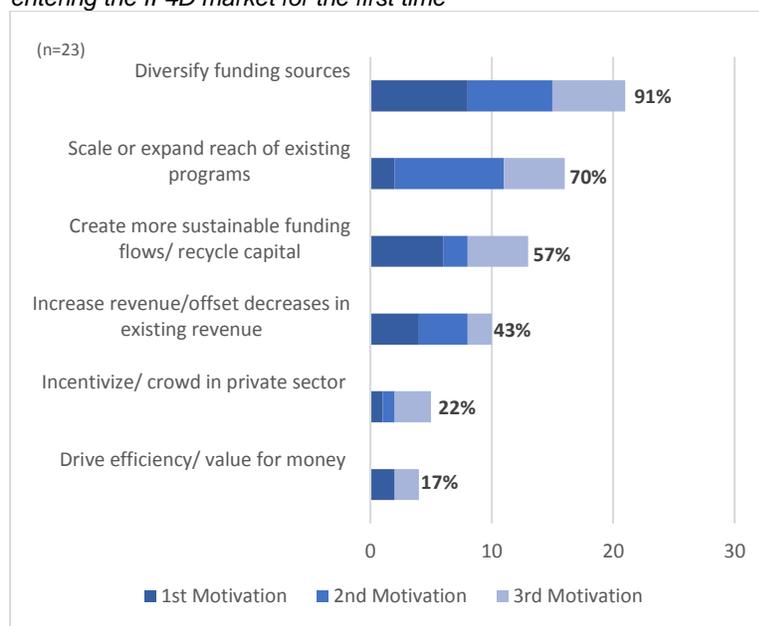
Among non-implementing organizations:

- Scale/expand reach of existing programs and creating more sustainable funding flows also ranked high (70% and 57% respectively).
- By far the most commonly cited motivation was to diversify funding sources (91% compared with 41% among implementing organizations).
- 43% of non-implementing organizations ranked “increase revenue/offset decreases in existing funding” as a top 3 priority compared to just 27% of implementing organizations. (Figure 11).

Interestingly, ‘drive efficiency/ value-for-money’ ranked lowest (17%) among non-implementing organizations despite the predominance of results-based approaches in the instrument types of most interest to them.

These three points support the finding that the majority of non-implementing organizations are interested in playing a recipient role in IF4D.

Figure 11: Top 3 motivations among organizations interested in entering the IF4D market for the first time



#### Note from Phase IV: Post Survey Research

When asked next what kind of stakeholder within their organization drove the earliest conversations for their organization to explore IF4D, and specifically asked to consider whether it was a Board member, Donor, CEO/member of the leadership team, staff member, or other stakeholder, many respondents shared that the ask often came from an outside donor or funder who suggested it or asked if their funding could be used in a certain way.

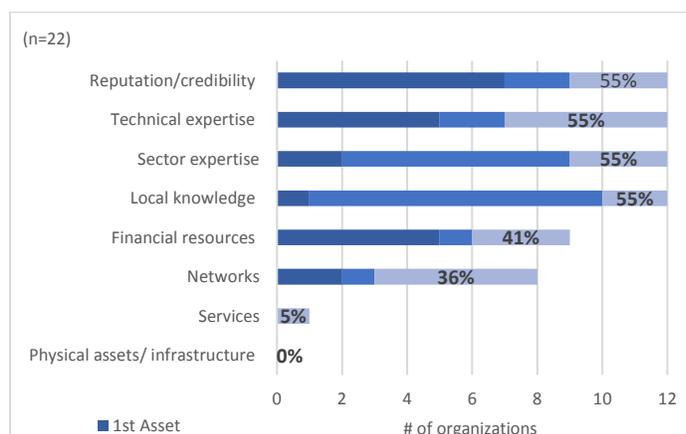
Several respondents shared that a Board member or Advisory council member suggested the approach, or at least exploring it as a sustainability strategy; others that leadership pursued it as a revenue diversification strategy, off the backs of a private sector diversification strategy.

### Assets

For the most part, there is convergence between implementing and non-implementing organizations on what they bring to the table.

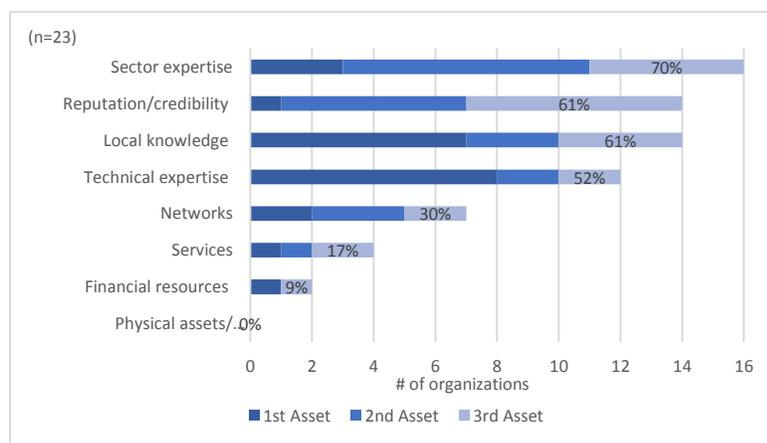
- An equal number of implementing organizations ranked reputation/credibility, technical expertise, sector expertise and local knowledge as being in their top 3 assets (55% of implementers across all 4 assets).
- While most non-implementing organizations also ranked these 4 assets as being in their top 3, they differed in their degree and order. For instance, a higher proportion of non-implementers ranked sector expertise as their top asset compared to implementers (70% vs. 55%). (Figures 12 and 13).

Figure 12: Top 3 assets among currently/previ­ously implementing organizations



Where both groups differed most is in financial resources and services. Namely, 41% of implementing organizations indicated financial resources as a top 3 asset whereas only 9% of non-implementing organizations indicated this as a top 3 asset. This is to be expected given the two groups' different roles and motivations for entering the IF4D market. In addition, only 5% of implementers rank services as in their top 3 asset compared to 17% among non-implementers. Again, this is to be expected given that most non-implementing organizations think of themselves as being on their receiving end of social investment (and thus providing services in exchange).

Figure 13: Top 3 assets among organizations entering the IF4D Market for the first time



## Sectors

Implementing and non-implementing organizations differ in the sectors where they focus (or want to focus) their IF4D activities. (Figures 14 and 15)

The highest proportion of implementing organizations ranked the following sectors as being in their top 5:

- Food and agriculture (55%)
- Microfinance (50%)

- Transportation (32%)
- Emergency response (32%)

And among non-implementing organizations, these ranked highest:

- Food and agriculture (36%)
- Healthcare (50)
- Water, Sanitation and Hygiene WASH (41)

There is some overlap with the general InterAction Top 5 sectors (full membership in all programs, not IF4D). In data collected in 2015, from highest to lowest, members self-reported running programs in: health, education, gender, economic recovery and development, and WASH.

Figure 14: Top 5 sectors among organizations currently/ previously implementing IF4D activities

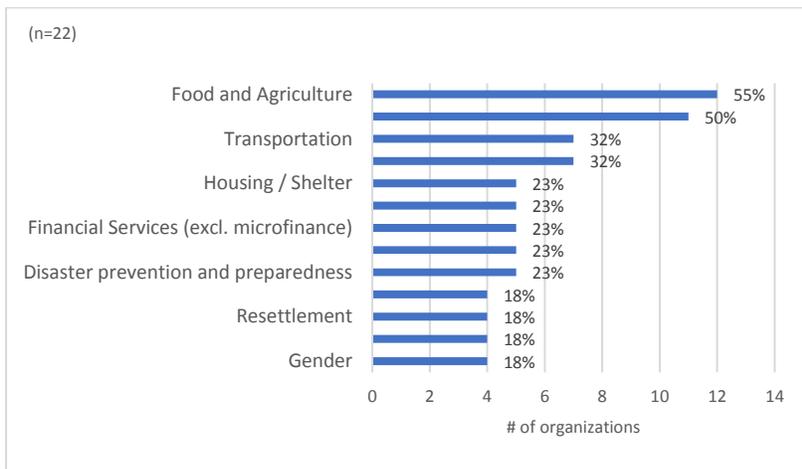
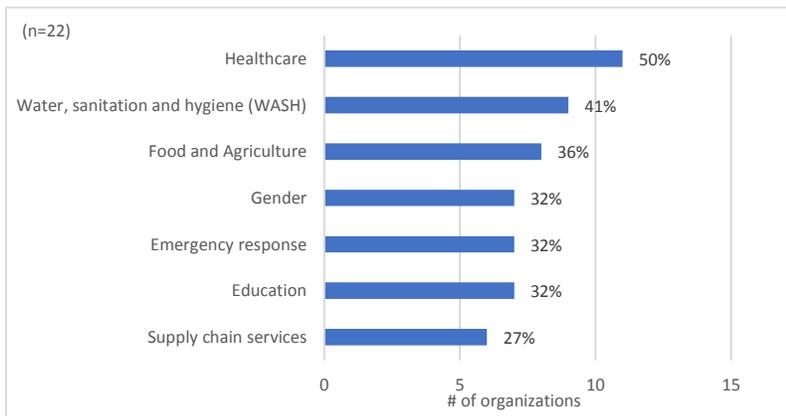


Figure 15: Top 5 sectors among organizations entering the IF4D market for the first time



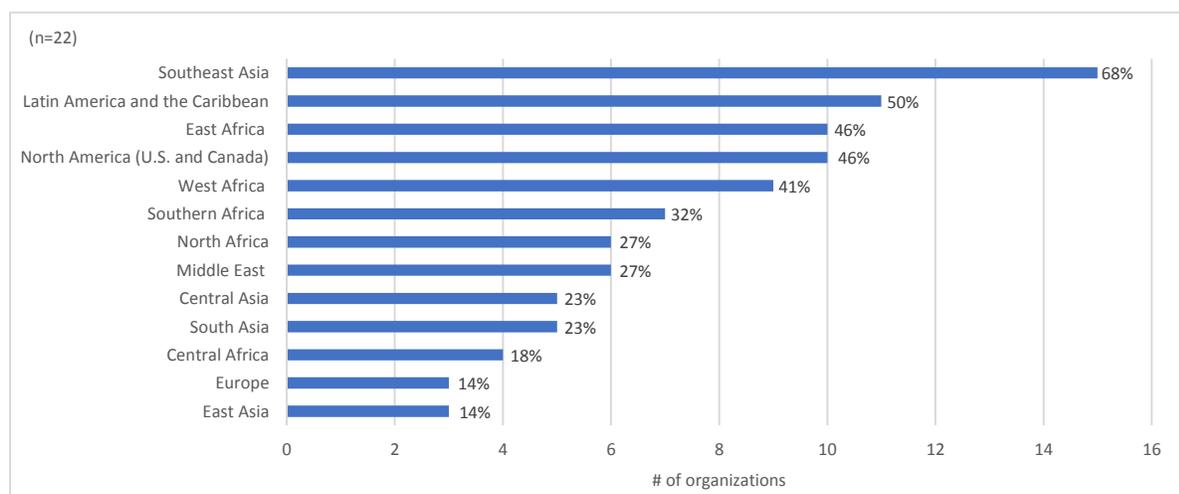
## Geography

Although members are implementing IF4D activities in all regions of the world, they tend to be concentrated in a few sub-regions (Figure 16). The highest proportion of implementing organizations conduct their IF4D activities in:

- Southeast Asia (68%)
- Latin America and the Caribbean (50%)
- East Africa (46%)
- North America (46%)

There is some overlap with the general InterAction top sub-regions (full membership in all programs, not IF4D). In data collected in 2015, from highest to lowest, members self-reported running a highest proportion of programs in Sub-Saharan Africa, Latin America and the Caribbean, and South and Southeast Asia.

Figure 16: Regional distribution of currently/previiously implemented IF4D activities



## Challenges and Constraints

IF4D activities place a bigger burden on INGOs across various dimensions compared to traditional grants:

50% or more of implementing organizations indicated that their IF4D engagement(s) require “somewhat more” or “considerably more:”

- Time to implement (73%),
- External partner engagement (64%)
- Rigor of impact measurement and evaluation (64%)
- Total staff required (59%)
- Financial resources required (59%)
- Specialized expertise required (50%), and
- Legal complexity/compliance (50%). (Figure 17).

Contrary to popular belief, IF4D are not necessarily riskier than traditional grants. Interestingly, the only dimension where the majority of implementing organizations (50% or above) indicated as “roughly the same” or less is around risk level (73%); this goes against the widespread perception among newcomers that IF4D activities are inherently more risky than traditional grants.

Figure 17: How IF4D engagements compare to traditional grants



Both implementing and non-implementing organizations face significant informational barriers to strengthening their engagement in IF4D. Among top challenges faced by INGOs in strengthening their engagement (whether expanding beyond their current portfolio or engaging for the first time), there is still a significant informational gap for both groups, although they differ in degree: 45% of implementing organizations cited “information about the instruments and how they work” as a top 3 challenge (compared to 61% of non-implementing organizations) and 41% cited “information about opportunities and partners” as a top 3 challenge (compared to 57% of non-implementing organizations). (Figures 18 and 19).

Insufficient internal capacity to engage in IF4D is also a significant barrier for both groups, although more so for implementing organizations than non-implementing organizations. “Insufficient resources and staff” and “insufficient internal skills and expertise” were cited as top challenges in both groups, although again they differ in their degree: 45% of implementing organizations cited “insufficient resources and staff” as a top 3 challenge (compared to 35% of non-implementing organizations) and 41% cited “insufficient internal skills and expertise” as a top 3 challenge (compared to 35% of non-implementing organizations).

This finding is supported by the fact that of the 5 non-implementing organizations that indicated they have no interest in engaging in IF4D, 2 cited insufficient staff as the main reason and 1 cited uncertainty about how IF4D applied to them (2 did not provide a reason). Moreover, the primary reason for disengaging in IF4D among organizations that are not currently engaged but were previously engaged was resource constraints.

Figure 18: Top 3 challenges among currently/ previously implementing organizations



Figure 19: Top 3 challenges among organizations entering the IF4D market for the first time



## Learning and Resource Needs

Compared to non-implementing organizations, a higher proportion of implementing organizations need support with the practical/operational aspects of IF4D while a higher proportion of non-implementing organizations need support understanding the basics. A higher proportion of implementing organizations need support with the practical/operational aspects of IF4D, including:

- Structuring deals (55% vs. 27% among non-implementing organizations)
- Fundraising/ sourcing investment (45% vs. 41%)
- Measuring impact (40% vs. 23%)
- Financial analysis/modeling (35% vs. 18%)
- Managing complex partnerships (25% vs. 5%)

In contrast, a higher proportion of non-implementing organizations need support understanding the basics, including: identifying the “right fit” instrument (77% vs. 50% among implementing organizations), understanding how the different instruments work (68% vs. 35%), and knowing who is doing what (36% vs. 15%). (Figures 20 and 21).

However, both implementing and non-implementing organizations need significant support in identifying the “right fit” instrument for their organization and sourcing investment:

- 50% and 77% of implementing and non-implementing organizations, respectively, need support identifying the “right fit” instrument for their organization, and
- 45% and 41% of implementing and non-implementing organizations, respectively, need support fundraising/sourcing investment.

Both experienced INGOs and new entrants express similar resource needs: connecting with funders, and developing toolkits and frameworks.

Both groups need significant support in identifying the “right fit” instrument for their organization and sourcing investment.

Figure 20: Top learning needs among organizations currently/previoursly implementing IF4D

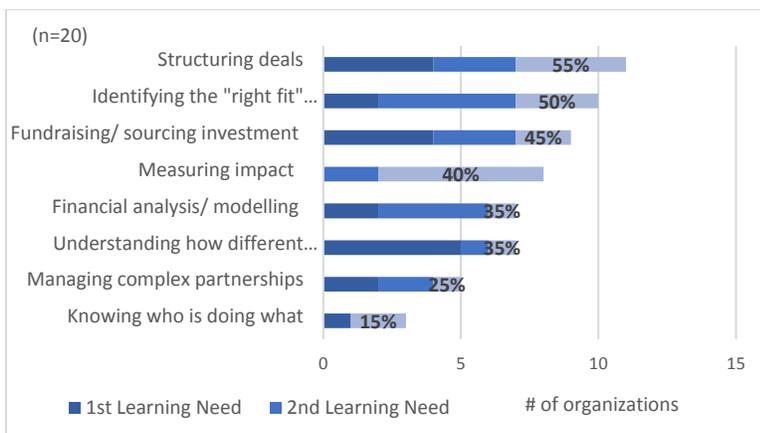
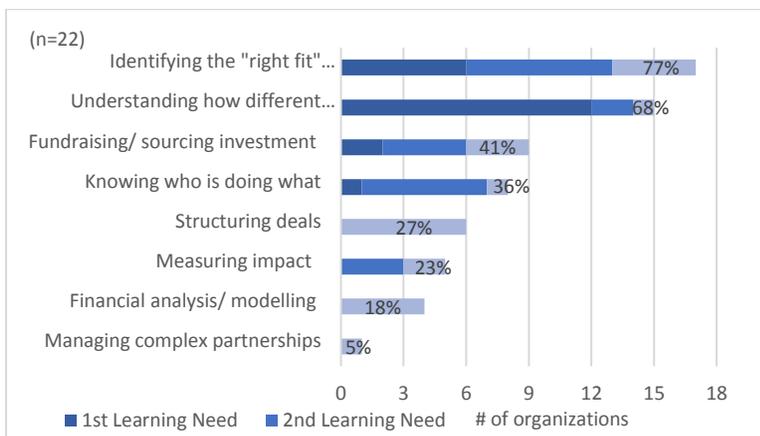


Figure 21: Top learning needs among organizations entering the IF4D market for the first time



Given that both implementing and non-implementing organizations need significant support in identifying the “right fit” instrument and sourcing investment, it is not surprising that the biggest resource needs identified by both groups are (1) connecting with funders/investors and (2) toolkits and

frameworks. (Figures 22 and 23). Also not surprisingly, a higher proportion of implementing organizations ranked case studies as a “top 3” resource need (42% vs. 9% among non-implementing organizations) whereas a higher proportion of non-implementing organizations ranked training/courses as a “top 3” resource need (50% vs. 26% among implementing organizations).

Figure 22: Top resource needs among organizations currently/previiously implementing IF4D

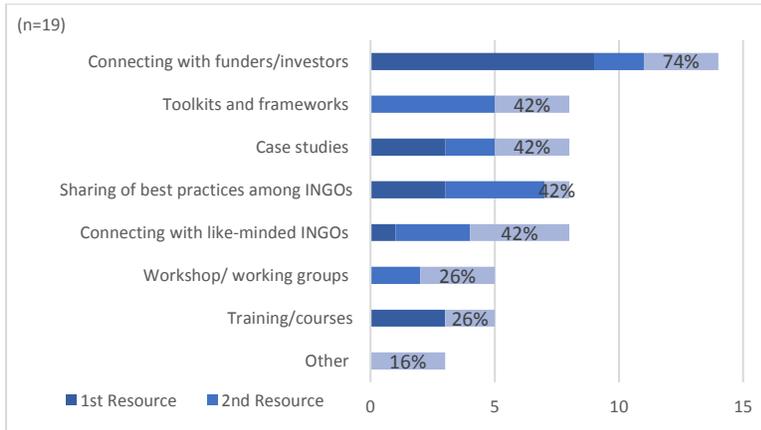
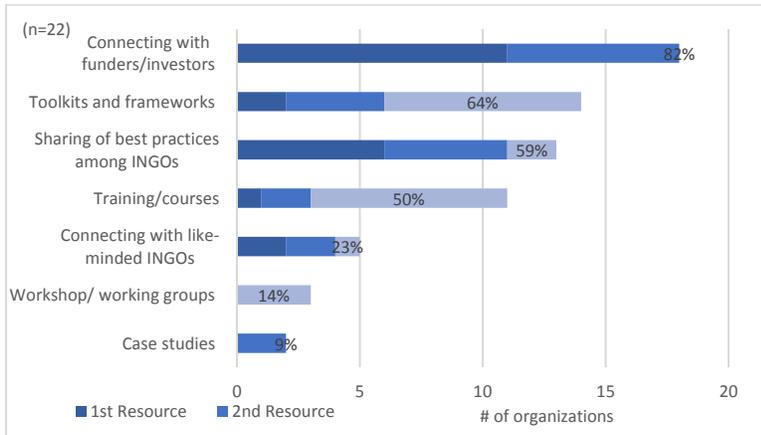


Figure 23: Top resource needs among organizations entering the IF4D market for the first time



## Recommendations and Next Steps

The findings confirmed Interaction's original instinct that there is indeed appetite for IF4D within our membership. We also confirmed members are experiencing a lack of familiarity with their IF4D options; and despite the risks and costs associated with moving into this market, they are being creative on how they approach new business models. The adoption, testing, and evaluation of innovative financing models may have remained low to date, but about 40 INGOs are considering entering the IF4D space in the short-to-medium term.

To continue to understand the state of IF4D amongst INGOs (especially InterAction members), and to contribute to strengthening the evidence base for IF4D, InterAction recommends the following initial activities involving the INGOs, the donor community, and other alliances.

### For INGOs

- **Appoint a dedicated IF4D point of contact or team.** Research showed that even among the most seasoned players in the IF4D space, IF4D-related activities are often conducted in an ad-hoc way and rarely coordinated across the organization. Moreover, very few organizations operate under a clear definition of IF4D, and are themselves unsure of what specific instruments or mechanisms would fall under such a definition. A dedicated IF4D point of contact or team, with support from senior leadership, would be an important first step towards strengthening an organization's engagement in IF4D by helping to coordinate its efforts both internally and externally.
- **Develop an IF4D strategy.** Strengthening an organization's engagement in IF4D, whether they are active players or just starting out, will require clear objectives and a roadmap. This process should include an internal review of what instruments the organizations has deployed in the past, for what purpose and with what results (for implementing organizations) or why they want to enter the market in the first place (for non-implementing organizations). They will need to understand the larger ecosystem of players, both public and private, around the social problems they are trying to solve; and determine what they bring to the table and where they need to fill gaps.
- **Dedicate resources.** For a strategy to have "teeth," it must be appropriately resourced. NGOs should devote resources to implement their IF4D strategy and to pilot new initiatives and build the evidence base. IF4D is an emerging field that is rapidly evolving with new approaches being proposed and piloted. However, there are few "baked" solutions. NGOs should test out new approaches, understand how to fail, fail quickly, adapt and learn and treat the costs as an investment.
- **Connect with peers and share lessons.** As we have learned in our survey and follow-up interviews, INGOs have the most to learn from each other, and welcome collaborative approaches. Thus, it is important to connect with peers to form partnerships and communities of practice (i.e. around specific issue areas, sectors, geographies or instruments), and to generate and share lessons from both failures and successes at every point in the project cycle, from early development to exit.

### For InterAction and Social Sector Umbrella Organizations and Coalitions

- **Convene and connect.** InterAction and other alliances can support sector development in three large areas. First, members have identified the lack of information about opportunities and partners as one of their top challenges entering the IF4D space. InterAction's working group (WG)/task force architecture can be tailored and utilized to promote the periodical convening of IF4D stakeholders. Second, they have identified connecting with funders/investors as their

biggest immediate need. Third, they identified insufficient internal capacity to engage in IF4D as a significant barrier to entry. Running an IF4D Working Group as a standalone or connected to other WG's (i.e. the Private Sector Working Group PSWG) with complementing mandates and overlapping actors may support members' needs for information and collaboration. Coordination with select alliances, where appropriate (ANDE, Inside NGO and others), would introduce new actors, and an element of simplicity to a field that is otherwise perceived as somewhat chaotic and somewhat inaccessible to newcomers or smaller organizations

- **Develop and deliver learning tools.** The research found that both implementing and non-implementing organizations face significant informational barriers to strengthening their engagement. These barriers are on the continuum of IF4D, from the basics to the complex operational aspects of IF4D implementation. Both implementing and non-implementing organizations need significant support in identifying the “right fit” instrument for their organization; and both would welcome learning around developing startups, change management, and innovation.
- **Catalogue and Disseminate Knowledge,** or share who is doing what, where. Members report that there would be value in InterAction utilizing a resource (online platform /database) to provide current catalogued information of who is using what instrument, where; the different M&E tools required for various instruments; case study development, and other. This resource could be integrated with visualization tools such as InterAction NGO Aid Map. This survey's set of questions could become the core set to be updated periodically. Additional research themes would be decided by membership and key partners, together.

### Donors (Foundations, High Net Worth Individuals)

Donors hoping to expand INGO participation and experimentation with IF4D also have a role to play in smoothing INGO entry into this market. Their role is particularly critical given the constraints INGOs face regarding staff and resources. This includes taking steps to:

- Develop NGOs' capacity to engage more deeply in this space. This is something that all INGOs should be doing more of but without dedicated resources, it will remain a luxury.
- Cover upfront costs for the design/feasibility/scoping work associated with developing a specific instrument. There are higher risks associated with innovation, and foundations are well-positioned to 'buy-down' that risk.
- Build the accessible evidence base by funding more rigorous public evaluations of IF4D activities.
- Play a connecting/convening role across sectors— i.e. connect NGOs with investors, other NGOs, etc.—. This could be particularly effective because of the foundations' pre-existing relationships, access, and active role in impact investing (through PRIs, CSR, etc.).

## Recommendations for Next Generation Learning

### IF4D Case Studies – Development & Workshops (June – September, 2017)

- There is clear demand from those we spoke to for learning through peers experience in structuring deals, identifying approach and instrument fit, building pipeline, identifying investors, etc. The response from those who have seen the draft case studies being developed for the May training – whether of themselves or as a template – and know that the training will include them or their peers was quite positive.
- There is good potential to engage case study writers for case study development with practitioners, or those developing new deals and structures. Research shows there are substantial learnings, mistakes, failures, and successes in this space to capture, that require much trust building and relationships to draw out.

### Lean Startup methodology for Change Management training for INGOs to innovate (2018)

- Many organizations seem to be undertaking some change management and internal innovation work, whether with a consulting firm professionally, a Board committee, or a new professional CEO and team.
- As INGOs move even further into innovation, new business models, measurement for profit, launching new ventures, etc., the team sees potential to apply Eric Reis' Lean Startup principles to innovating how they can launch new business models before putting great amounts of funding into them.

### Potential Future training sessions, beyond above, already under consideration for September, and beyond

- Collaborative Instruments to Scale Impact: if one of the first things investors look for is large scale for impact with return, yet few INGOs have multi-country projects with true scale given the nature of project funding from donors such as USAID and most foundations, what does results-based financing have to offer INGOs to collaborate in a consortium-like model, to innovate away from this long-running challenge?
- Pitch Practice: Understanding of Capital Markets – there is a distorted understanding of “revenue” in capital markets versus non-profit finance which is a language barrier when moving into IF4D/impact investing.

## Case Studies Methodology

The team started by collecting existing materials publicly available through expert websites, desk research, and in in-person and phone interviews (with members and non-members) asking if any had training materials, including case studies. Most expressed a clear lack of training materials, much less case studies, but a desire for such a curriculum and go-to resource hub to exist, and particularly for experiential workshops that were safe spaces for peers to learn from their “industry competitors” in a facilitated fashion.

To formulate the case studies, teams first analyzed the various tools and programs offered by organizations that participated in the survey. After identifying a diverse array of innovative finance examples and private sector partnership initiatives, analysts researched each organization's approach to a specific initiative within their portfolios. Each case study briefly summarizes the following:

- The Challenge: The specific problem the organization aims to solve
- The Solution: The organization's strategy to fix the aforementioned problem
- The Approach: The organization's funding mechanisms and general portfolio structure
- Case Study: A recent, specific initiative “deal” within the organization's portfolio
- Partnership in Practice: The organization's approach to the specific initiative, including results of the organization's support
- Questions for Discussion: Questions on the organization's approach and methodology to social impact as a whole, and towards the specific initiative outlined in the case. What would the INGO do differently if they could structure the deal knowing then what they know now? Etc.

These cases developed by ACDI/VOA, Mercy Corps, Catholic Relief Services, The Nature Conservancy, The Alliance for Peacebuilding and Habitat in Humanity were presented and workshopped at the May, 2017.

## **Annex 1: Instruments**

## Advance Market Commitments

In an Advance Market Commitment (AMC), a donor makes commitment to subsidize the future purchase of a product that is not yet available. Donors commit to fund an AMC with set specifications, including price and market size, and enter into a supply agreement with a manufacturer approved by an independent body. The AMC thus makes a product affordable to recipient countries while giving manufacturers incentives to develop and produce it.

### Example

The **Pneumococcal AMC** initiative of Gavi, The Vaccine Alliance, with a combined US\$ 1.5 billion contribution from Italy, the United Kingdom, Canada, the Russian Federation, Norway, and the Bill & Melinda Gates Foundation, makes effective and affordable pneumococcal vaccines available for children in 50 Gavi-eligible developing countries. It is estimated that the pilot can prevent more than 1.5 million childhood deaths by 2020.

### InterAction members' roles in Advance Market Commitments

AMC rated lowest in the ranking of instruments utilized by InterAction members. The INGO utilizing AMC played the role of intermediary, where they help facilitate or manage capital flows but are not the direct investor or recipient.

Snapshot	
Benefits	Addresses market failure, targets products and services with high capital costs, incentivizes private sector engagement.
Concerns / Risks	Difficulties in structuring, multiple stakeholders required, high R&D cost and lengthy development runway
Types of Investors	Governments, Foundations, Bilateral Organizations, Multilateral Organizations, Corporates
Potential Use	Result based financing, Health sector - Investments in drug development, Seeds and plant protection products.

## Awards and Prizes

Awards and prizes – a type of results-based approach – provide a financial reward for the delivery of a development solution in a competitive selection process. They are designed to pay for innovations that solve specific, well-defined problems without prescribing the solution in advance or limiting the nature or number of participants.

### Example

The **Haiti Mobile Money Initiative** was a \$10 million incentive fund created in partnership between the Bill and Melinda Gates Foundation and USAID (2010-2012) to launch mobile money services in Haiti following the 2010 earthquake. The fund provided two types of awards: a First to Market Award and a Scaling Award for providers who achieved a certain market share/penetration.

### InterAction members' roles in Advance Market Commitments

Awards and prizes are not frequently utilized by InterAction members participating in the survey. The INGOs utilizing awards and prizes reported playing mostly the role of intermediaries, where they help facilitate or manage capital flows but are not the direct investor or recipient.

Snapshot	
Benefits	Incentivizes private sector, entrepreneurs and researchers to engage in solution development, shifts risk from donor to solution developers, creates issue awareness
Concerns / Risks	Legal and non-legal issues in structuring prizes / awards
Types of Investors	Governments, Foundations, Bilateral Organizations, Multilateral Organizations, Corporations
Potential Use	Sector agnostic, suitable for a well-defined problem, validate proof of concept

## Bonds

A typical bond is a debt investment in which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate. Bonds can be used by companies, municipalities, states and sovereign governments to raise money and finance a variety of projects and activities. *However, in this context, we use the term “bond” to refer to debt financing raised specifically to fund development projects.*

### Example

The **World Bank Green Bonds** are six-year notes that raise funds for mitigation and adaptation projects financed by the World Bank. They were designed in partnership with the financial group Skandinaviska Enskilda Banken in response to investor demand for an AAA-rated fixed-income product supporting projects that address climate change. The World Bank has issued over USD 9.7 billion equivalent in Green Bonds through more than 125 transactions in 18 currencies.

### InterAction members' roles in Bonds

Bonds are not frequently utilized by InterAction members participating in the survey. The INGOs reporting utilizing bonds played various roles, especially that of intermediary where they help facilitate or manage capital flows but are not the direct investor or recipient.

Snapshot	
Benefits	Low R&D needed, quick to launch, pre-existing structure templates are available, small number of stakeholders, Repayment tied to issuer not project success
Concerns / Risks	Low yields, Lack of liquidity, Attractive to investors with ESG criteria
Types of Investors	Foundations, Multilateral Organizations, Bilateral Organizations, Impact Investors, Institutional Investors
Potential Use	Sector agnostic, Scale proven models, Develop infrastructure

## Catalytic Grants

Catalytic grants are grants intended to support early-stage companies that serve the poor; while these are not innovative financing mechanisms per se, they can serve as a critical bridge to attracting new forms of capital later on. Social enterprises trade to tackle social problems, improve communities, people's life chances, or the environment. They make their money from selling goods and services in the open market, but they reinvest their profits back into the business or the local community.

### Example

Mercy Corps **Social Venture Fund** employs a mix of financing instruments, including catalytic grants, debt and equity, to create and grow scalable, self-sustaining businesses that improve people's lives in an enduring way. Mercy Corps pairs their deep, on-the-ground insight into local customs and markets with a unique blend of capital and targeted business expertise.

### InterAction members' roles in Catalytic Grants

Catalytic grants are among the Top 5 mechanisms utilized by InterAction members participating in the survey. The INGOs reporting utilizing catalytic grants played several roles, and highlighted those of investors by providing capital, or as intermediaries where they help facilitate or manage capital flows but are not the direct investor or recipient.

Snapshot	
Benefits	Resource mobilization, Market based approach, Incentivizes private sector and entrepreneurs, innovation in product and delivery, Return on capital, Right of 1st refusal
Concerns / Risks	Moral Hazard, Loss of capital, Mission drift, Reputation risk
Types of Investors	Individual, Foundation, Corporate, Impact Investors, Government, other grant makers
Potential Use	Sector agnostic, Proof of concept, Validate models, Growth capital

## Concessional Loans

Concessional loans are extended on terms substantially more generous than market loans. This concessionality can be achieved in multiple ways such as interest rates below those available in the market, longer maturities, longer grace periods, lower collateral requirements or subordinated debt.

### Example

**MYC4** is an internet marketplace where investors from around the world can lend money directly to entrepreneurs who are doing business in Africa, triggering long-term positive social impact and creating economic growth for the investor as well as the entrepreneur.

### InterAction members' roles in Concessional Loans

Concessional Loans are the third most utilized mechanism by InterAction members participating in the survey. The INGOs reporting utilizing concessional loans played several roles, and highlighted those of investors by providing their own capital, and as intermediaries where they help facilitate or manage capital flows but are not the direct investor or recipient.

Snapshot	
Benefits	Mobilizes capital, Long term financing, Low cost capital
Concerns / Risks	Loss of capital, Loss of profit, Repayment risk, Misallocation of funds, Limited ability to influence management practices
Types of Investors	Individual, Impact Investors, Foundations, Multilateral Organizations, Bilateral Organizations
Potential Use	Sector agnostic, infrastructure projects, small business lending, scale proven models

## Conditional Cash Transfers

A donor makes a conditional cash transfer (CCT) when the beneficiaries fulfill certain conditions. Such cash transfers aim to reduce poverty and transfer cash, generally to poor households, on the condition that those households make pre-specified investments in the human capital of their children.

### Example

**Bolsa Família** is a social welfare program of the Brazilian government that provides financial aid to poor Brazilian families; if they have children, families must ensure that the children attend school and are vaccinated. The program attempts to both reduce short-term poverty by direct cash transfers and fight long-term poverty by increasing human capital among the poor through conditional cash transfers. It reaches 11 million families, more than 46 million people, and a major portion of the country's low-income population.

### InterAction members' roles in Conditional Cash Transfers

CCTs are one of the less frequently utilized mechanisms by members participating in the survey. The INGOs reporting utilizing CCTs played several roles, and highlighted those of investors by providing their own capital, and as intermediaries where they help facilitate or manage capital flows but are not the direct investor or recipient.

Snapshot	
Benefits	Improved management of resources, productive inclusion
Concerns / Risks	Potential for corruption, Design and program implementation require coordination with multiple stakeholders, Support services development needed / Development of social infrastructure
Types of Investors	Governments, Multilateral Organizations//Impact Investor, Individual
Potential Use	Health and education sector, scale proven models

## Crowdfunding

Crowdfunding is the practice of funding a project or venture by raising monetary contributions from a large number of people and leveraging their networks for greater reach and exposure. Crowdfunding can be donation-based, rewards-based or equity-based and helps finance projects that are too innovative or risky for traditional financing.

### Types of Crowdfunding

- Rewards-based: investors may get to participate in the launch of a new product or receive a gift for their investment. Predicated on donations, funders do not obtain any ownership or rights to the project, nor do they become creditors to the project.
- Equity-based: allows startup companies to raise money without giving up control to venture capital investors and it offers investors the opportunity to earn an equity position in the venture. Investments in equity-based crowdfunding ventures are regulated by the Securities and Exchange Commission (SEC). Equity-based crowdfunding is growing in popularity because it allows startup companies to raise money without giving up control to venture capital investors, and it offers investors the opportunity to earn an equity position in the venture.

### Example

**Kickstarter** is an American public-benefit corporation that maintains a global online crowdfunding platform that helps to bring creative projects to life. Project creators choose a deadline and a minimum funding goal. No funds are collected if the goal is not met by the deadline. As of March 13, 2017, there were 343,036 launched projects (4,701 live projects), with a success rate of 35.74 per cent. The total amount pledged to Kickstarter projects was \$2,913,574,090.

### InterAction members' roles in Crowdfunding

Crowdfunding is not a frequently used mechanism by members participating in the survey. The INGOs reporting utilizing crowdfunding played the recipient role—they are on the receiving end of someone else's money.

Snapshot	
Benefits	Resource mobilization, Diversify funding, Issue awareness, New Donors, Low fund raising costs
Concerns / Risks	Commission costs of crowd funding, Effective campaigning needed, Unpredictable flows, Intensive competition for funding
Types of Investors	Individuals - as donors, or as retail investors – from debt to equity
Potential Use	Sector agnostic, Proof of concept, Validate models, Suitable for well-defined issues / outcomes

## Debt swaps / buy-downs

Debt-for-development swaps or buy-downs occur when a developing country's debt repayment obligations are transferred or reduced based on meeting development goals. The process involves a foreign nongovernmental organization (NGO) that purchases the debt from the original creditor at a substantial discount using its own foreign currency resources, and then resells it to the debtor country government for the local currency equivalent (resulting in a further discount). The NGO in turn spends the money on a development project, previously agreed upon with the debtor country government.

### Types of Debt swaps

- Commercial debt-for-nature swap or three-party debt-for-nature swap, a non-governmental organization (NGO) acts as the funder/donor and purchases debt titles from commercial banks on the secondary market. The NGO transfers the debt title to the debtor country, and in exchange the country agrees to either enact certain environmental policies or endow a government bond in the name of a conservation organization, with the aim of funding conservation programs.
- Bilateral debt-for-nature swaps take place between two governments. In a bilateral swap, a creditor country forgives a portion of the public bilateral debt of a debtor nation in exchange for environmental commitments from that country.
- Multilateral debt-for-nature swaps are similar to bilateral swaps but involve international transactions of more than two national governments.

### Example

**Debt2Health** is a bilateral debt swap involving a three-way partnership between creditors, grant-recipient countries, and a multilateral institution, currently the Global Fund to Fight AIDS, Tuberculosis, and Malaria. Creditors forgo repayment of a portion of their loan to a poor country on the condition that that country, in return, invests an agreed amount in health. The investment is made through the Global Fund according to the systems and principles it regularly uses to disburse grants.

### InterAction members' roles in Debt swaps/buy-downs

Debt swaps and buy-downs are not frequently used mechanisms by members participating in the survey. The INGOs reporting utilizing debt swaps and buy-downs played various roles, highlighting those of investor by providing their own capital or as intermediaries where they help facilitate or manage capital flows but are not the direct investor or recipient.

Snapshot	
Benefits	Resource mobilization
Concerns / Risks	Local currency risk, Effective monitoring mechanisms needed, High administrative costs, Availability of eligible debt
Types of Investors	Foundations, Bilateral Organizations, Multilateral Organizations
Potential Use	Sector applicability – environment, health & education , Scale proven models

## Direct Equity investment

A direct equity investment is taking an ownership interest or stake in a separate for-profit entity. In this context, we take it one step further to mean taking an interest or stake in a socially driven business, or social enterprise. We do not include indirect equity investments, or investments made through an externally managed fund where the NGO may be engaged as a limited partner (LP). For the latter, please refer to “Third party-managed impact investment funds.”

### Example

Mercy Corps **Social Venture Fund** employs a mix of financing instruments, including catalytic grants, debt and equity, to create and grow scalable, self-sustaining businesses that improve people’s lives in an enduring way. Mercy Corps pairs their deep, on-the-ground insight into local customs and markets with a unique blend of capital and targeted business expertise.

### InterAction members’ roles in Direct Equity Investment

As defined for our research, direct equity investing is the second most frequently utilized mechanism by members participating in the survey. Almost all NGOs reporting utilizing this mechanism played the role of investors by providing their own capital.

Snapshot	
Benefits	Access to capital, Mobilizes new investors, Right of 1st refusal, Ability to influence management
Concerns / Risks	Legal structuring needed, High risk, Loss of capital , Minimal return, Long investment period, Low level of covenant protection
Types of Investors	Individual, Foundation, Corporate, Impact Investors
Potential Use	Sector agnostic, Validate models, Growth capital for enterprises, Missing middle financing

## Guarantees

A guarantee is a promise of indemnification up to a specified amount in the case of default or non-performance of an asset, e.g. a failure to meet loan repayments or to redeem bonds, or expropriation of an equity stake. Guarantees are typically used to promote development, and can provide the measure of security needed to bring on board more private risk capital.

### Example

**Pledge Guarantee for Health (PGH)** launched by the UN Health Foundation is a public-private partnership designed to increase the availability and predictability of funding from international donors for health commodities. Through a 5-year partial guarantee from the governments of the United States and Sweden, PGH is able to leverage \$100 million in credit from commercial banking partners which, in turn, extend short-term credit to traditional donor aid recipients.

### InterAction members' roles in Guarantees

Guarantees are among the Top 3 most utilized mechanisms by members participating in the survey. INGOs reported playing the investor by providing their own capital, or as intermediaries where they help facilitate or manage capital flows but are not the direct investor or recipient.

Snapshot	
Benefits	Mobilize private capital, Political risk insurance, Risk sharing, Pre-existing templates available, Low R&D, Lower cost of capital
Concerns / Risks	Moral hazard, Difficulty in structuring guarantees, Challenges aligning the expectations and interests of various stakeholders
Types of Investors	Foundations, Bilateral Organizations, Multilateral Organizations, Institutional Investors Governments
Potential Use	Sector agnostic, infrastructure projects, growth financing for enterprises, scale proven models, PPPs

## Impact investment funds

(EXTERNAL/THIRD PARTY MANAGED)

Impact Investment Funds are investment vehicles that are structured and funded to target a specific social challenge, often blending investors with different risk and return profiles. Impact investment funds consist of investments that deliver financial as well as social or environmental benefits. For these investments, the rate of return ranges from below-market to above-market rates. In this context, we refer only to externally managed funds where the NGO may be engaged as a limited partner (LP). If your NGO has an in-house impact investment fund that it manages and uses to make direct investments in social enterprises please refer to the specific instrument type (i.e. catalytic grant, debt swap, or direct equity).

### Example

**Acumen**, a non-profit global impact investment fund, raises and invests charitable money to take bigger risks supporting small innovative companies, thereby transforming the way by which the world tackles poverty. Acumen has invested US \$101 million in breakthrough innovations impacting 189 million lives and, creating and supporting 58,000 jobs.

### InterAction members' roles in Impact investment Funds (external/third party-managed)

Impact Investing Funds are the most frequently utilized mechanism by members participating in the survey. The INGOs reporting utilizing Impact Investment funds played the roles of investors by providing their own capital; intermediaries where they help providing their own capital, and as providers of technical assistance, where they provide specialized services or expertise (sometimes under contract), i.e. M&E.

Snapshot	
Benefits	Mobilizes capital and new investors, Targeted returns, Risk diversification, Ability to invest in larger size transactions due to pooling of investments
Concerns / Risks	No control over actual investments made, Low returns, Inadequate impact measurement practice, Key person risk, Limited ability to influence management of portfolio companies
Types of Investors	Foundation, Corporates, Impact Investors, Governments, Bi/Multilaterals
Potential Use	Sector agnostic, Scale proven business models

## Innovative taxes

Innovative taxes are specific taxes imposed by governments to raise funding for a specific development challenge. These initiatives generate new public revenue streams for development from the private sector.

### Example

In 1997, Costa Rica enacted a tax on carbon pollution, set at 3.5 per cent of the market value of fossil fuels. The revenue raised from this goes into a national forest fund which pays indigenous communities for protecting the forests around them.

### InterAction members' roles in Innovative Taxes

Innovative Taxes rated lowest in the ranking of instruments utilized by InterAction members. The INGO utilizing AMC played various roles.

Snapshot	
Benefits	Mobilize resources, Issue awareness, Predictable revenue source
Concerns / Risks	Extensive collaboration with governments needed for development
Types of Investors	Governments, Foundations, Multilateral Organizations, Bilateral Organizations
Potential Use	Sector Agnostic, Supplement existing capital flows

## Insurance Schemes

Insurance scheme transactions involve the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate the insured in the event of a covered loss. An insurance scheme provides funding for projects that have extremely high or unknown risk.

### Example

**HUGinsure**, the world's first social impact insurance firm, is a joint venture between D. Capital Partners and Hollard Insurance South Africa. HUGinsure harnesses risk management and mitigation principles to increase funders' ability to fund projects where risk is unknown or exceptionally high. At the same time, social enterprises can insure themselves against shocks, such as delayed government payments.

### InterAction members' roles in Insurance Schemes

Insurance schemes are Top 5 mechanisms utilized by InterAction members participating in the survey. The INGOs reporting utilizing these played several roles, and highlighted those intermediaries where they provide specialized services or expertise (sometimes under contract), i.e. M&E, or as providers of technical assistance, where they provide specialized services or expertise (sometimes under contract), i.e. M&E.

Snapshot	
Benefits	Risk management, Mobilize capital, Improve credit worthiness of enterprises
Concerns / Risks	Costs in evaluating and structuring schemes
Types of Investors	Foundations, Corporates, Institutional Investors
Potential Use	Sector agnostic, Validate models, Enterprise funding

## Microfinance Investment Funds

A microfinance investment fund channels an increasing source of funding to micro-entrepreneurs via Microfinance Institutions (MFIs) established in developing countries. Investment funds finance microcredit lenders that provide low income and marginalized borrowers with access to finance. They are also seen as a convenient tool to invest collectively in a wide and diversified range of MFIs. Providers of funding are able to reach a larger number of local institutions and in a more diversified way through such vehicles.

### Example

**Accion Venture Lab** is an investment initiative that provides patient seed capital and support to innovative financial inclusion start-ups, fostering experimentation and promoting business models that improve financial access for people living in poverty worldwide. Venture Lab provides flexible financial and non-financial support to suit the needs of each investee enterprise.

### InterAction members' roles in Microfinance Investment Funds

Microfinance Investment Funds are among the Top 3 mechanisms utilized by InterAction members participating in the survey. The INGOs reporting utilizing MFIs played several roles, and highlighted those of investors by providing their own capital, and/or as providers of technical assistance by providing specialized services or expertise (sometimes under contract), i.e. M&E.

Snapshot	
Benefits	Market rate returns, Low risk, Mobilizes capital and new investors
Concerns / Risks	Once investment made, minimal control over lending practices among portfolio companies
Types of Investors	Institutional Investors, Individuals, Foundations
Potential Use	Sector specific, Scale proven models

## Performance-Based Contracts

Performance-Based Contracts are results-oriented contracts that tie at least a portion of a contractor’s payment to the achievement of specific, measurable indicators linked to outputs, quality or outcomes. Some payers describe themselves as using performance-based contracts because they set targets and indicators but actually reimburse recipients for budgeted costs. Such mechanisms, while potentially useful for managing performance, are not performance-based.

### Example

The **Health Results Innovation Trust Fund (HRITF)** supports results/performance-based financing approaches in the health sector to improve maternal and child health around the world. The HRITF is administered by the World Bank and supported by the Governments of Norway through NORAD and the United Kingdom through the Department for International Development (DFID). To date, HRITF has committed US\$385.6 million for 35 results-based financing programs in 29 countries, linked to US\$2.0 billion in financing from IDA—the World Bank’s fund for the poorest.

### InterAction members’ roles in Performance-based Contracts

PBCs are among the Top 3 mechanisms utilized by InterAction members participating in the survey. The INGOs reporting utilizing PBCs played several roles, and highlighted those of investors, recipients, and intermediaries. They are providing their own capital, receiving someone else’s, and/or help facilitate or manage capital flows but are not the direct investor or recipient, respectively.

Snapshot	
Benefits	Templates available, Results based financing, Moderate R&D cost and development runway, Improved management of resources
Concerns / Risks	Multiple stakeholders required, Complex structures
Types of Investors	Multilateral Organizations, Bilateral Organizations, Foundations, Governments, Corporates
Potential Use	Suitable for projects with clear measurable outputs / outcomes, Scale proven models

## Social/Development Impact Bonds

A social/development impact bond is contract between private investors and donors or governments who have agreed upon a shared development goal. Investors advance fund development programs with financial returns linked to verified development goals. Impact Bonds provide upfront funding for social programs by private investors, who are remunerated by donors (as in the case of Development Impact Bonds) or host-country governments (as in the case of Social Impact Bonds) and earn a return if – and only if – evidence shows that programs achieve pre-agreed outcomes. It is a way to shift incentives and accountability to results, transfer performance risk to the private sector, and increase efficiency in program implementation.

### Example

The **Educate Girls Development Impact Bond (DIB)** is a joint project between Educate Girls, the Children’s Investment Fund Foundation (CIFF), the UBS Optimus Foundation, Instiglio, and IDinsight that encourages private investors to fund international development projects that are 100 per cent focused on the outcomes achieved. It aims to help improve education for 18,000 children in Rajasthan, India. But more than this, this first-ever development impact bond aims to create a ‘proof of concept’, showing potential donors and investors how DIBs could contribute to societal gains while also offering financial returns. It runs for three years from mid- 2015 until mid-2018.

### InterAction members’ roles in SIBs and DIBs

Impact Bonds are somewhat utilized by members responding to the survey. The INGOs reporting utilizing SIBs/DIBs played several roles, and highlighted those of recipient and providers of technical assistance – they are receiving someone else’s money, and/or providing specialized services or expertise (sometimes under contract), i.e. M&E, respectively.

Snapshot	
Benefits	Leverages private investments, measurable results,
Concerns / Risks	Structuring, Legal requirements may vary with country, High startup costs, extensive coordination needed between partners and service providers, Requires a financial gain for the outcome funder
Types of Investors	Foundations, Bilateral Organizations, Multilateral Organizations, Governments, Impact Investors
Potential Use	Sectors – Education, Health, Agriculture, Livelihoods, Scale proven models