

INNOVATIVE FINANCING MECHANISMS AND BUSINESS MODELS FOR INCLUSIVE DIGITAL CONNECTIVITY

ITU-D STUDY GROUP 1 ANNUAL MEETING

MONDAY, 17 FEBRUARY 2020
14:30 to 17:30, Popov Room

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FINANCING SUSTAINABLE DEVELOPMENT

International Telecommunication Union (ITU)
Geneva, Switzerland
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Global Financing for Sustainable Development Agenda

Growing movement within the context of:

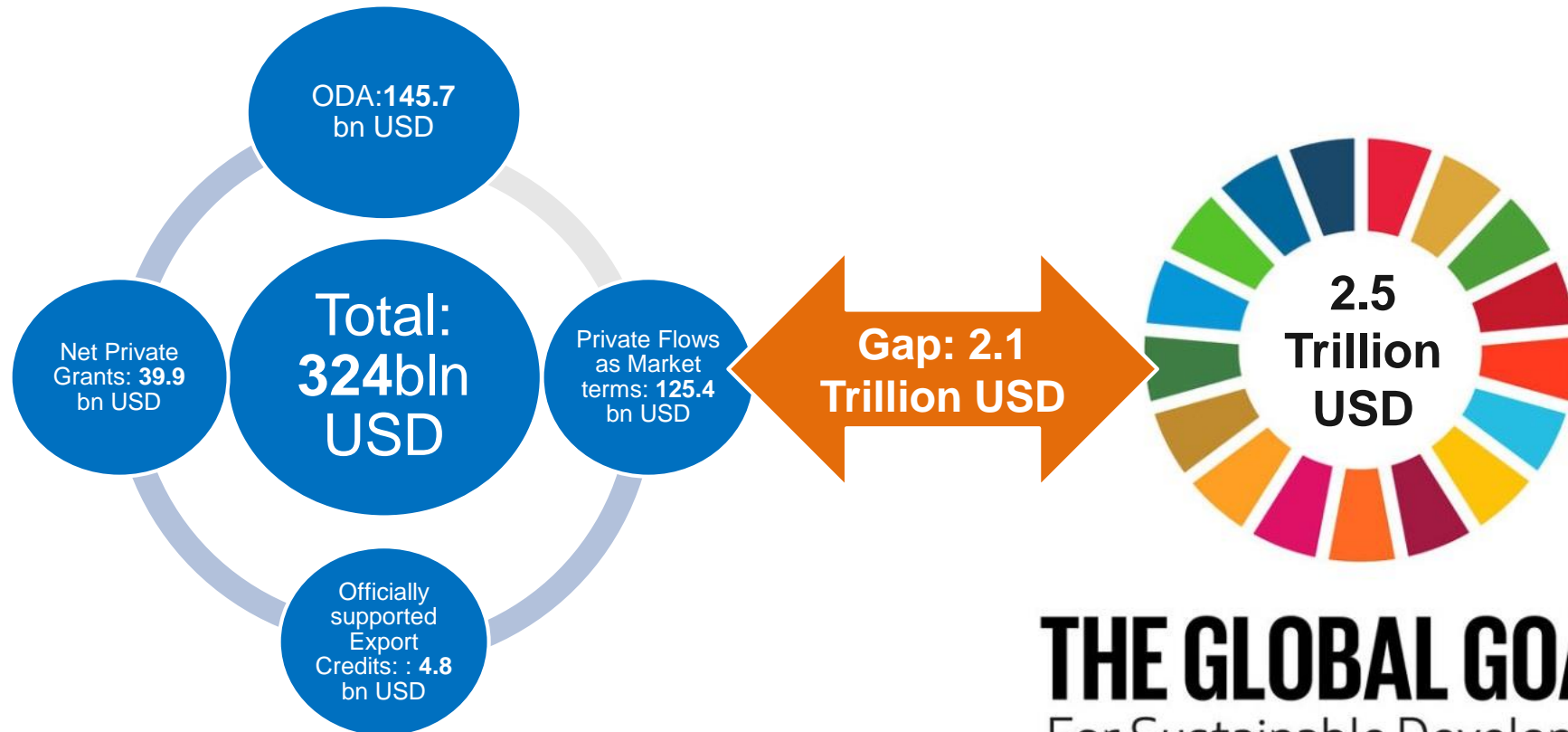


- In addition, global processes such as those surrounding the **G7/G20**, **UNGA** and **World Bank/IMF** meetings, etc. are increasingly focusing on these issues.



SDG Financing Gap

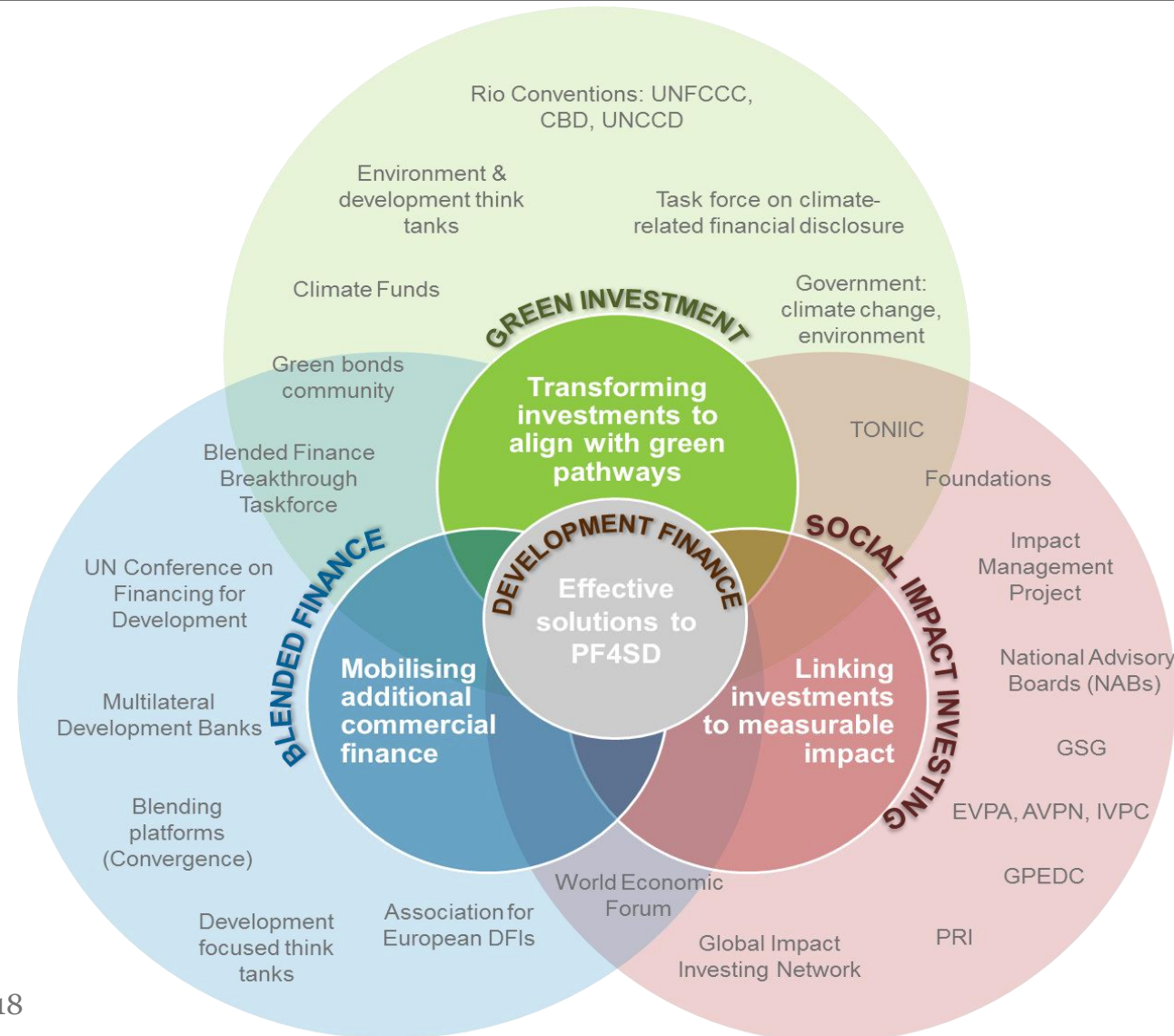
Net resources flow to developing countries are insufficient to address the **SDG financing gap**.



THE GLOBAL GOALS
For Sustainable Development



The financing for sustainable development landscape



Source: Adapted from OECD 2018



Blended Finance and Impact Investing

Context:

- Capacity of donors and ODA is limited, need to access other pools of capital both in order to move from billions to trillions.
- Private sector not only brings scale but also innovation, employment and taxes.

Objectives of Blended Finance and Social Impact Investing:

- For BF to target risks that the private sector are currently not prepared to adopt, in order to crowd in further private sector finance.
- For SII to achieve social impact as well as financial return.

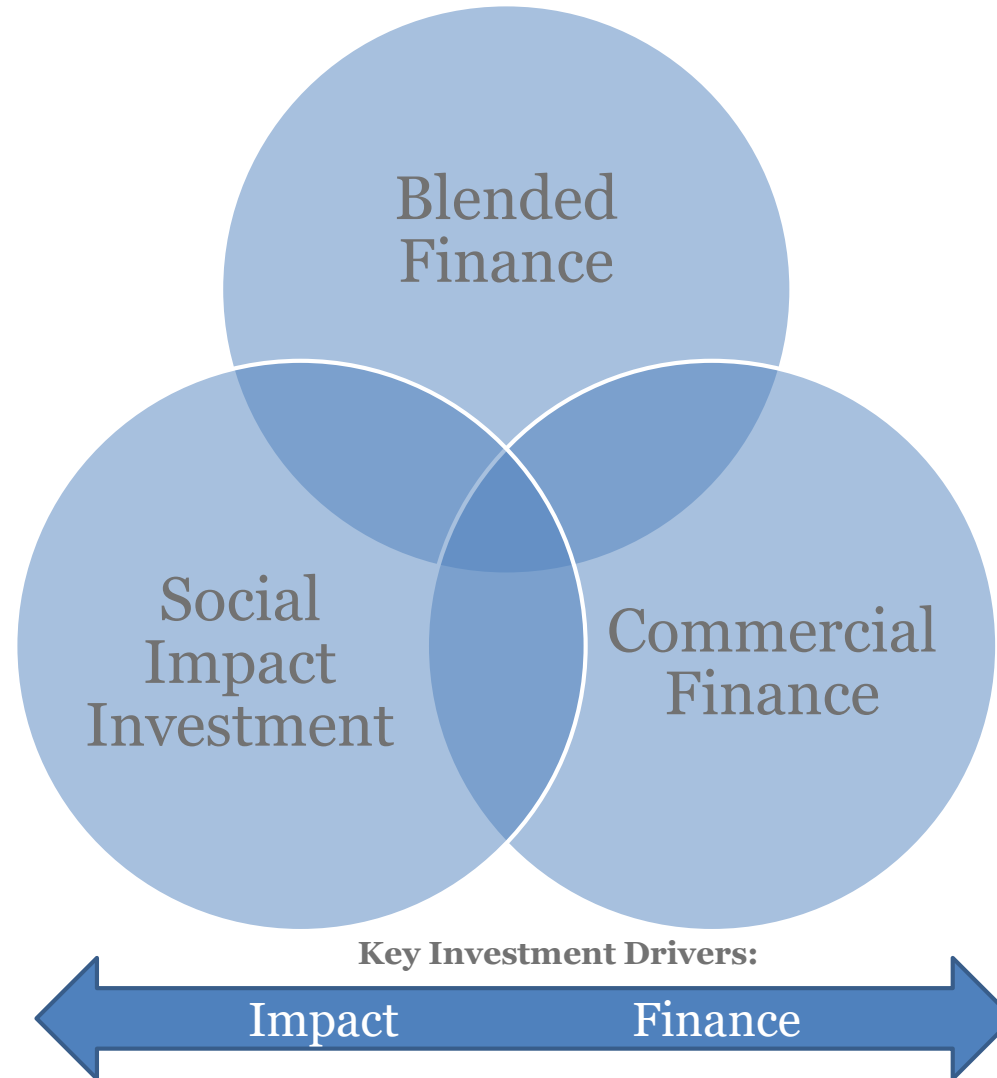
Impact: Providing developing countries with access to much needed finance and investors with access to opportunities in the context of the SDGs.

Partners: Development Finance Community, including DAC Donors, MDBs, CSOs, Southern Partners. The necessary buy in and inclusiveness is critical.





Blended Finance and Impact Investment in the Investment Spectrum



Note: Circles not drawn to market scale!

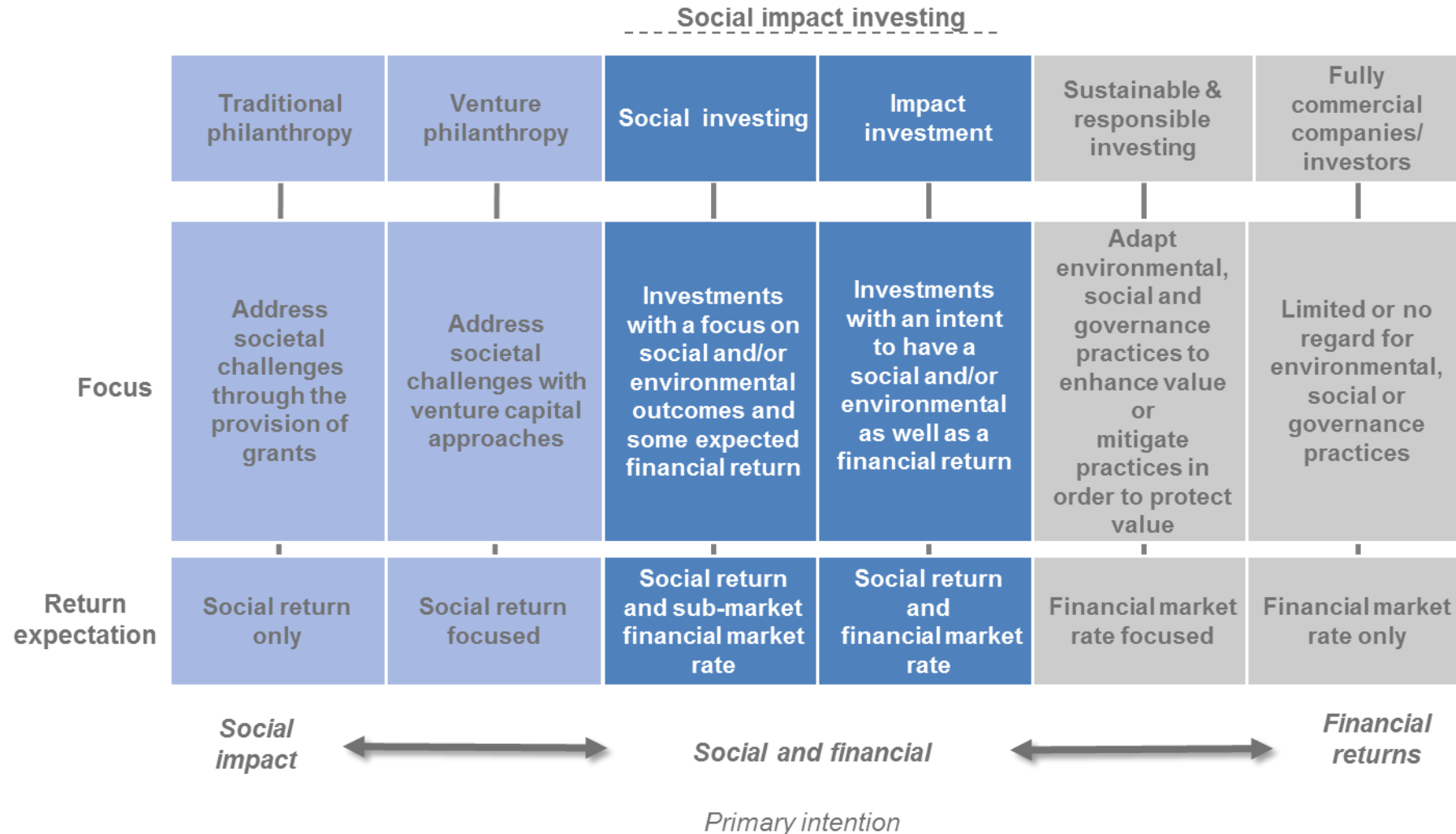


Social/Impact Investment Definition (GIIN)

- Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.
 - ***Intentionality***
 - The intent of the investor to generate social and/or environmental impact through investments is an essential component of impact investing.
 - ***Investment with return expectations***
 - Impact investments are expected to generate a financial return on capital and, at a minimum, a return of capital.
 - ***Range of return expectations and asset classes***
 - Impact investments generate returns that range from below market (sometimes called concessionary) to risk-adjusted market rate.
 - ***Impact measurement***
 - A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance and progress of underlying investments.



The spectrum of capital: Moving towards greater impact





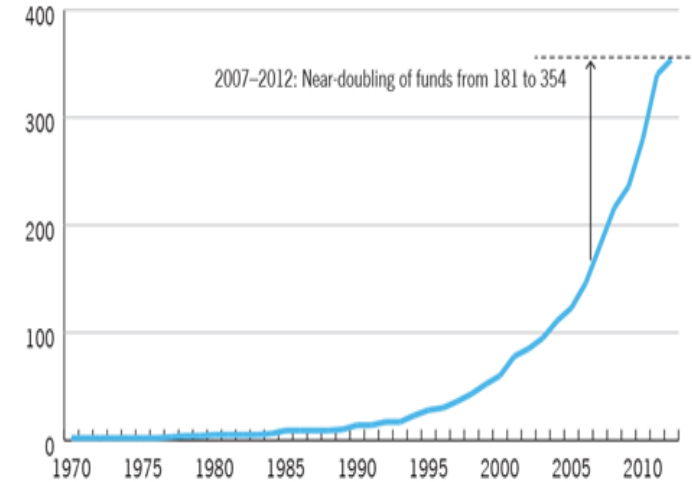
What is the role of Social Impact Investment?

- New models are needed to fund, deliver and scale innovative solutions to social, environmental and economic challenges.
 - public funds in many countries have become depleted
 - social challenges have mounted
- Social impact investment - the provision of finance with the explicit expectation, and measurement, of a **social** as well as **financial** return.
 - Spurs social **innovation**
 - Increases **accountability** (measurement of social outcomes)
 - Enables **sustainability** of organizations addressing SDGs
- New financing models are developing at multiple levels and in parallel to traditional markets.
 - A growing range of social investment instruments have been developed, all with a different financial/social return profile.



The Impact Investment Market is Evolving Rapidly

- A number of factors are driving growth in the social impact investment market
 - The emergence over the past decades of an increased number of socially focused entrepreneurs and businesses.
 - The increasing interest of private capital providers in investing for both measurable social and financial returns.
- While these new approaches will not replace the core role of the public sector or the need for philanthropy...
 - ...SII can provide innovative models for leveraging capital using market-based approaches with potential to have greater impact.



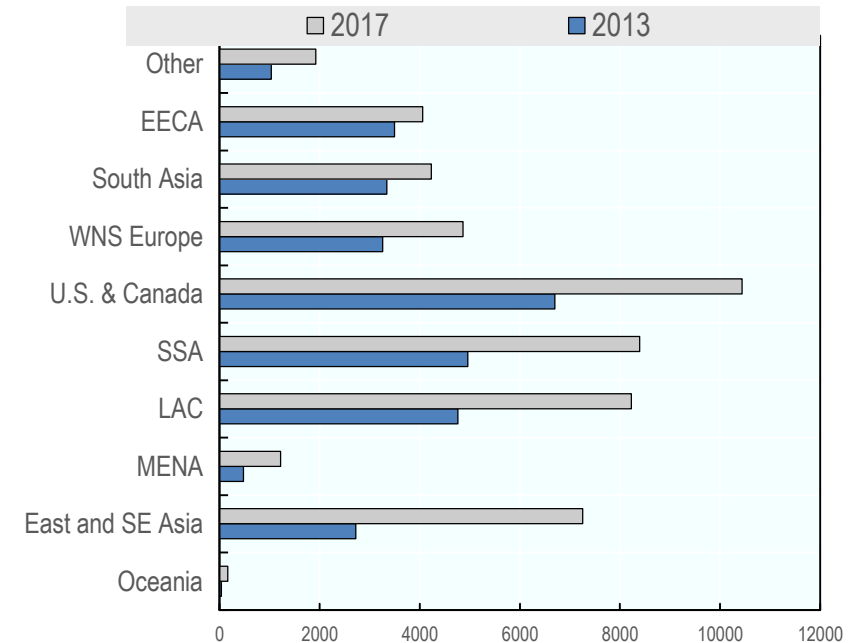
350 impact investment funds with total capital of approximately USD 40 billion

Source: Clark et al, 2012.



Global social impact investment market

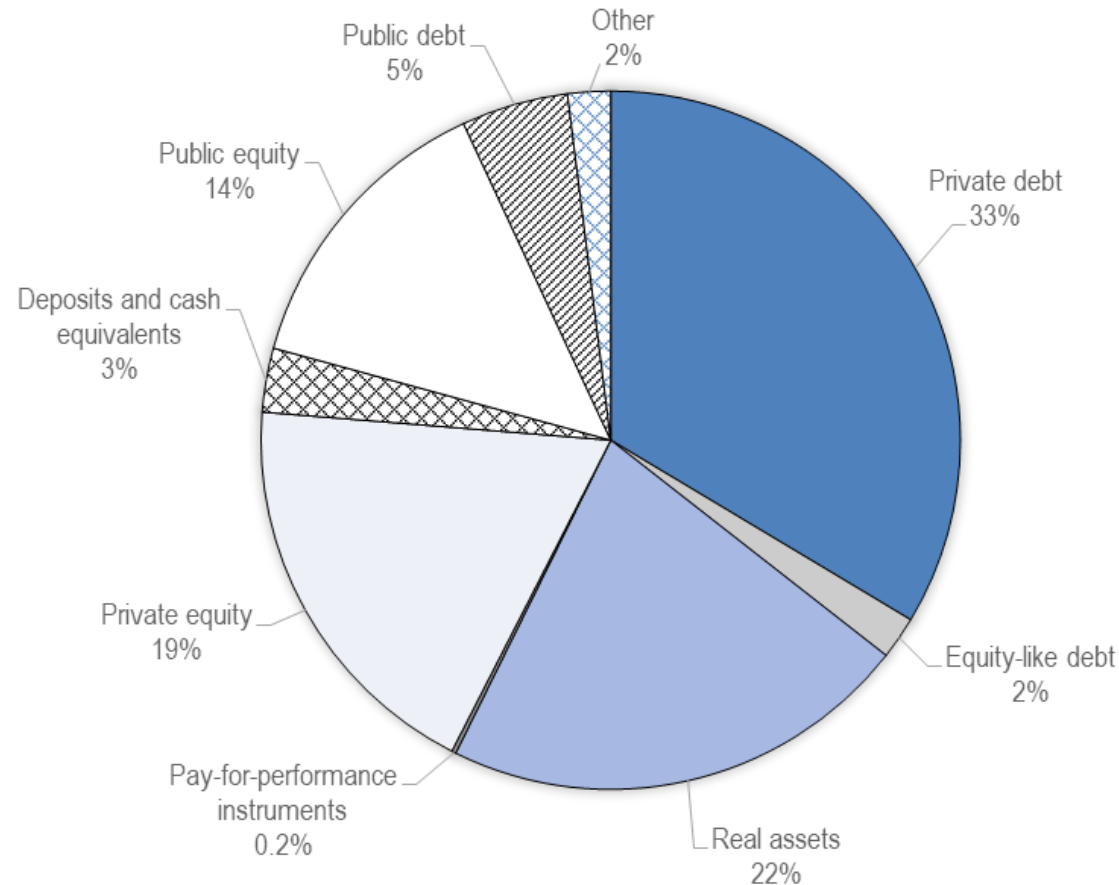
- According to the annual GIIN survey the market in 2017 had **USD 228.1 billion in AUM**.
 - Currently, the majority of asset allocations are in:
 - North America (20%)
 - Latin America (16%)
 - SSA (12%)
 - SSA (12%)
 - Western Europe (11%).
 - The main investment sectors:
 - financial services (19%)
 - energy (14%)
 - microfinance (9%)
 - housing (8%)
- A survey sub-sample showed an increase in impact investment allocations across every region from 2013 to 2017.
 - Substantial **growth in allocations to developing countries** in Africa, South East Asia and Latin America.





Range of financing instruments being used from private to public, debt to equity

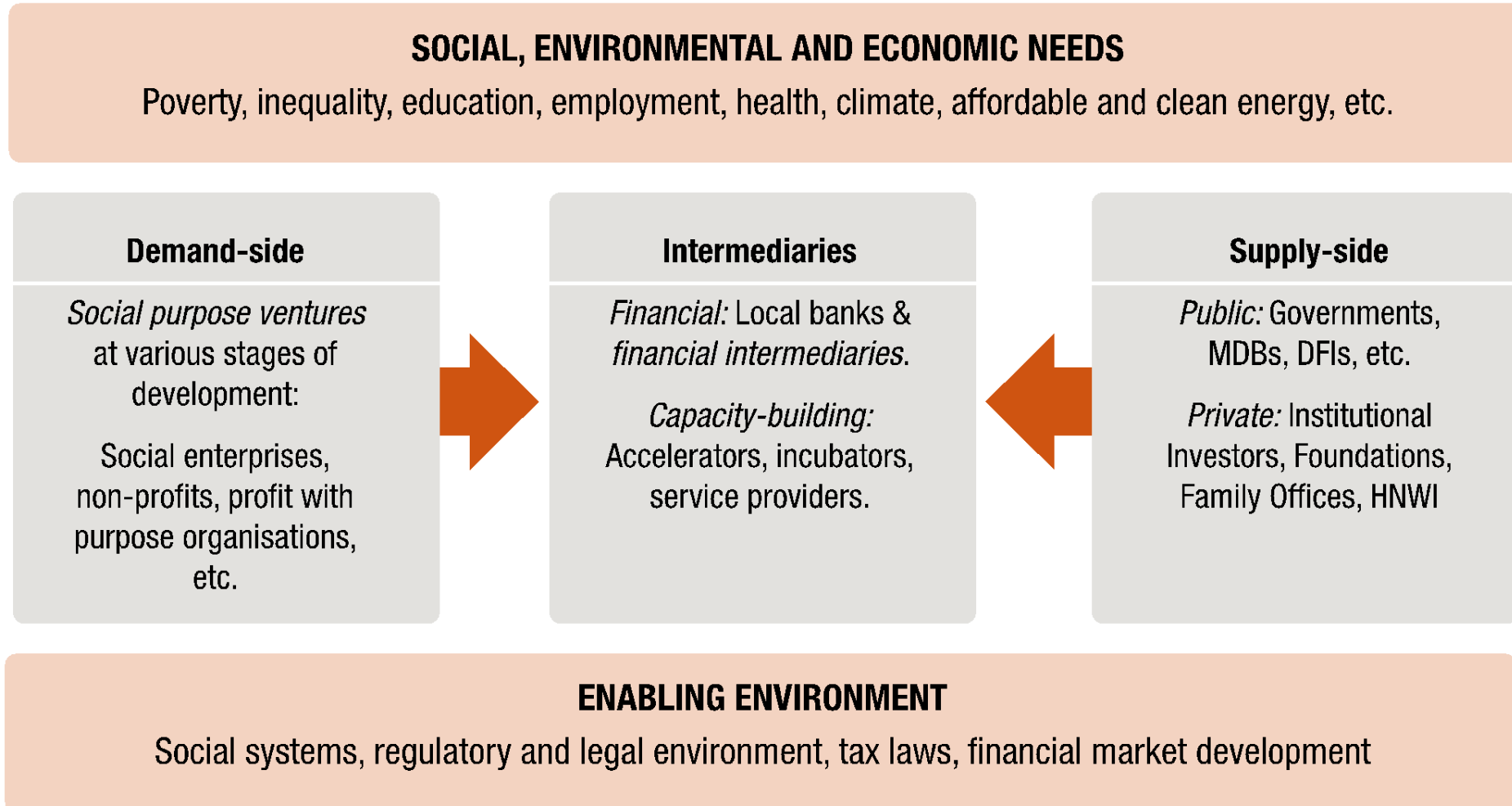
Asset Allocations by Instrument 2016



Note: n = 208; AUM = USD 113.7 billion
Source: GIIN 2017



OECD Social Impact Investment Market Framework





Demand side: Small Growing Businesses (SGBs)

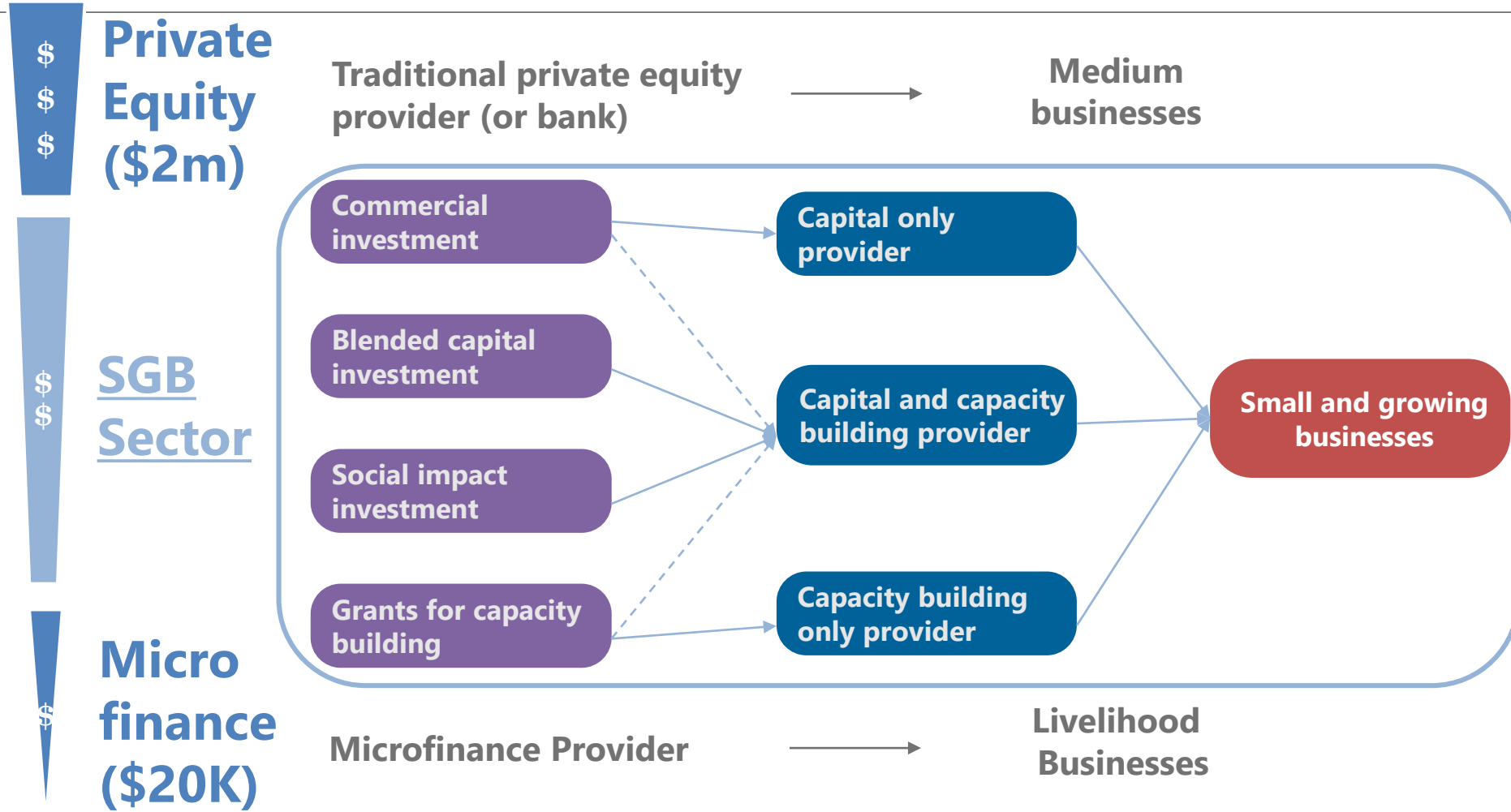
5 – 250 employees
Seek growth capital from \$20,000 - \$2 million



Too large for microfinance,
too small for traditional commercial capital



Financial Flow Schematic of SGB Sector





Learning from practice - selected case studies

Social Purpose Organizations	Number of Investment Rounds	Instruments	Sector	Country
Siembra Viva	1	Equity	Agriculture	Columbia
Tóhe	2	Grants and a convertible note	Culture/education	Vietnam
bKash	2	Grants and Equity	Mobile access to finance and financial services	Bangladesh
Waterlife	2	Equity	Water	India
DripTech	2	Convertible Note and Equity	Agriculture	India and China
Clinicas del Azucar	2	Grants and equity	Healthcare	Mexico
Golden Lane Housing	3	Public debt, bank loans, concessional loan (from parent company)	Housing	England and Wales
Vaatsalya Healthcare	4	Equity	Healthcare	India
M-KOPA	4	Grants, Equity and Debt	Energy	Kenya, Tanzania and Uganda
Kinderzentren Kunterbunt	4	Grants, Debt, Equity	Education	Germany

Note: These case studies were conducted at different times over the past few years and show the financing at those points in time



M-KOPA (Solar energy– Africa)

M-KOPA	
Social challenge addressed	Over 60% of Africa’s rural population has only limited access to stable and sustainable energy
Service	Providing “pay-as-you-go” solar energy for off-grid customers
Geographic scope	Africa operating in Kenya, Tanzania and Uganda
Type of financing instrument(s)	Grants, Equity and Loans The variety of instruments M-KOPA has been using clearly signals advanced status of maturity.
Total amount raised to date	USD 41.45 million
Funding rounds further details	In total, M-KOPA managed to conclude six rounds of funding, with its Series A round being closed in October 2011. In the fifth round, which closed in December 2015, M-KOPA raised USD 19 million.
Impact so far	As of January 2018, the company has connected more than 600,000 homes in Kenya, Tanzania and Uganda to solar power and is now adding over 500 new homes each day.



BKash

(Financial Services – Bangladesh)

BKash	
Social challenge addressed	Lack of access to formal banking system
Service	Mobile banking services and financial inclusion for the poor
Geographic scope	Bangladesh
Type of financing instrument(s)	Grants and Equity
Total amount raised to date	USD 21 million
Funding rounds further details	<p>bKash has closed two funding rounds so far, with Series A investments of USD 10 million raised in 2012 and the second round of funding in 2014. In both rounds bKash increased its equity base. IFC and the Gates foundation were key actors.</p> <p>The 2014 round raised USD 11 million of funds and the Gates Foundation was the exclusive investor</p>
Potential for impact	More than 70% of the population of Bangladesh lives in rural areas without access to formal financial services. Less than 15% of Bangladeshis are included into the formal banking system, but over 68% have mobile phones. In light of this, bKash offers mobile banking to the poor, using mobile devices for their financial services..



Some lessons learned from case studies

- Many social enterprises require **some initial grant funding** and/or **technical assistance** to help them develop and be able to later attract investment capital.
- A **mix of investors** are engaging in social impact investing, including foundations, angel investors, venture philanthropists, social venture funds.
- **Financing instruments** cover a broad range of debt and equity, reflecting both the needs of social enterprises at various stages of development as well as the preferences of investors.
- The **timeframe** for these firms to reach sustainability and scale are often longer than the investors first expected and this needs to be taken into account in thinking about follow-on financing rounds.
- Social impact **measurement** remains a key challenge.
- More standardized ways of collecting social impact investment **data** is needed to capture information at a transaction level and contribute to building the evidence base about activity and approaches.
- **Investment climate** and **regulatory environment** are key factors

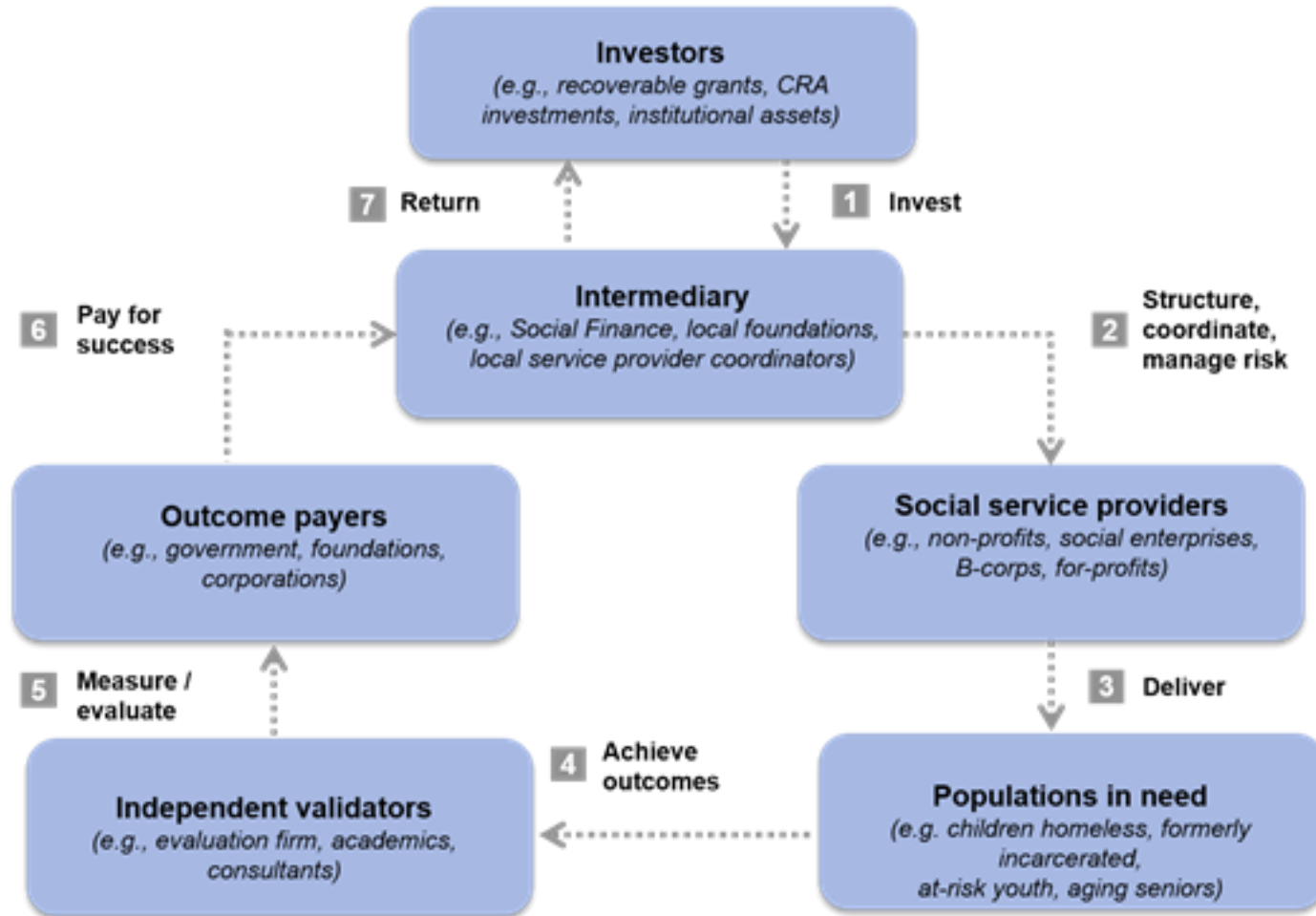


Innovative Finance: Growth of outcomes funding (pay for success) approaches

- Embedding impact measurement in the financing instrument
- Focus on increasing cost-efficiency and/or effectiveness of delivery outcomes
- Engagement of private sector (funding and innovation)
- Transfer of risk to facilitate testing/piloting of new approaches



Social Impact Bond (SIB) Model

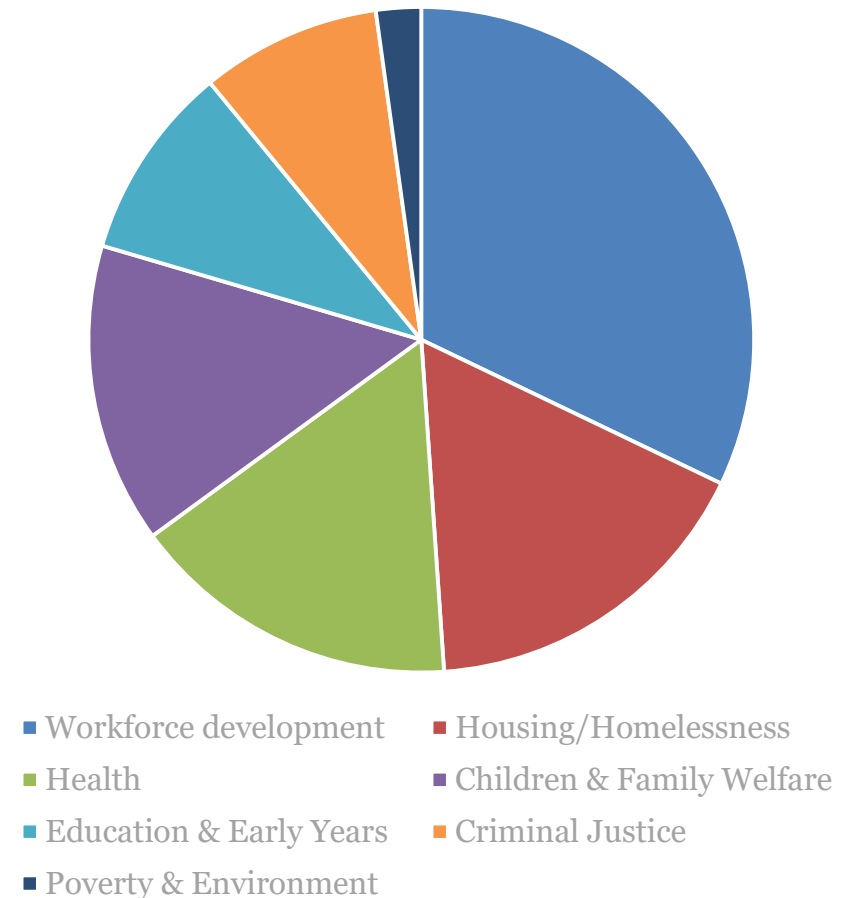




Global Impact Bond Market (as of January 2020)

- 138 impact bonds launched to date:
 - USD 441 million capital raised
 - Over 1.7 million lives touched
- Countries with impact bonds:
 - U.K. (47), US (26), Netherlands (11), Australia (10), France (5), Canada, Portugal (4)
 - Germany, India, Israel, Japan (3), Belgium, Finland, New Zealand, South Korea (2)
 - Argentina, Austria, Cameroon, Columbia, Congo, Norway, Peru, South Africa, Sweden, Switzerland, Uganda (1)
- 67+ impact bonds in process of being developed

Launched Impact Bonds (by issue area)





OECD Social Impact Investment Initiative



OECD Phase I Publication (2015)
**Social Impact Investment:
Building the Evidence Base**

- Social Impact Investment definition
- Characteristics and Attributes of Social Impact Investment
- Social Impact Investment Market Framework
- Social Impact Investment Market Data



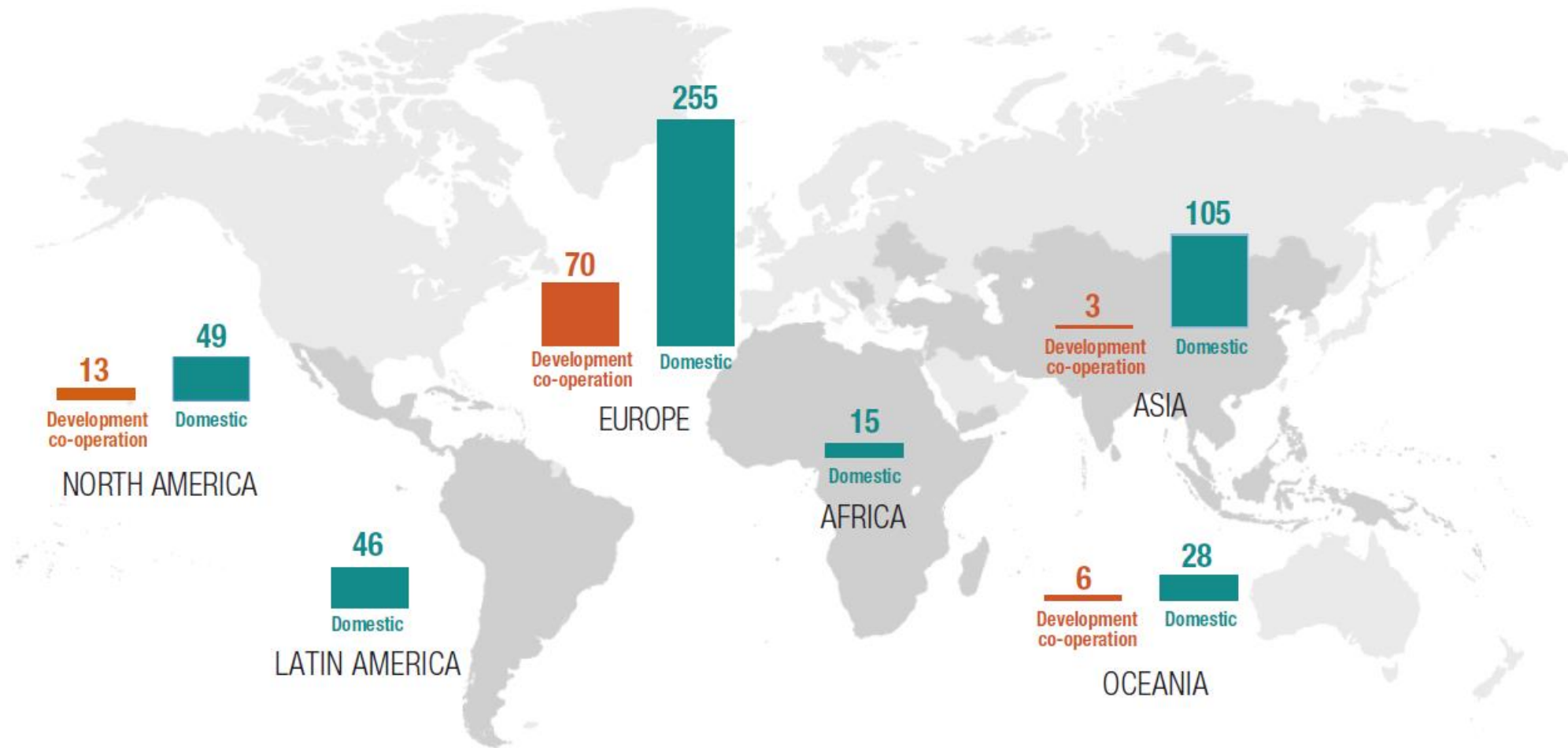
OECD Phase II Publication (2019)
**Social Impact Investment 2019:
The Impact Imperative for
sustainable development**

- Global state of the Social Impact Investment Market and regional perspectives
- Social Impact Investment Policy Framework and mapping of policy levers
- Data and measurement: Transparency principles
- The Impact Imperative and policy recommendations



Policy instruments to facilitate SII market

(OECD mapping of 590 policies in 45 countries)





The Impact Imperative for Sustainable Development





THANK YOU!

For further information and to access the 2019 report
visit:

<https://oe.cd/SII2019>

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