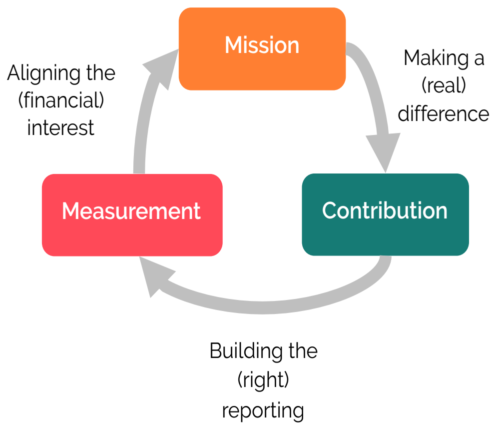
PRIVATE CAPITAL FOR IMPACT

AND THE IMPORTANCE OF INVESTOR CONTRIBUTION

Three European private capital associations — France Invest (France), ActiveOwner (Denmark), and SpainCap (Spain) — have contributed examples in this practitioners' paper to illustrate the role of investors in impact investing within private capital. These real-life examples are shared for informational purposes, to support others in their journey toward impactful investment.

What is "Investor Contribution"? Beyond just intention, impact investors actively contribute to achieving of net positive impacts. Not only their capital, but also their non-financial support serve as catalysts, driving change and accelerating solutions to pressing challenges, which differentiates impact investors from conventional and ESG ones. Investor contribution encompasses the broad spectrum of resources an investor provides to their investees to foster additional impact . "Investor contribution" refers to the additionality of the investor, to its own impact. It needs to be differentiated from the "asset additionality" which refers to the unique benefit that a company provides, that would not have occurred without that specific company.

There are strong links between Mission (intentionality), Contribution (additionality) and Measurement; these links are summarized in this chart:



Investor's contribution — referring to the unique value investors bring beyond traditional financial investment — plays a pivotal role in shaping both impact measurement and the overarching mission of the investor. Whether in the form of financial strategies or non-financial support, it establishes a benchmark for assessing the genuine impact of investors. It pushes for more rigorous and nuanced impact measurement criteria, ensuring that outcomes are not just tangible but also exceed what would have materialized without the investor's intervention. This contribution influences the investor's mission by underscoring their commitment to instigate real net positive change. It reinforces the premise that impact investors are not passive financial contributors; they are proactive agents of transformation. The strength of the investor's contribution influences the quality of the reporting as well as the mission one investor sets for themselves.

CURRENT APPROACH

The specific goals of impact investing will vary depending on the investment opportunity and the values and beliefs of the investor. However, to maximize the impact of their investments, impact investors strive to make an additional contribution compared to other investors.
Investor's contribution refers to the idea that impact investors should add value beyond what would have been achieved by traditional financial investors. This can come in both financial and non-financial forms. The investee's impact and theory of change should be strengthened by the investor's impact. Below are illustrations of how an investor's contribution adds to an investee's impact to create greater impact.

EXAMPLES OF FINANCIAL CONTRIBUTION

- Provide capital to under-served or under-funded communities or entrepreneurs (markets gaps),
- Patient capital: provide longer financial support to allow for impact companies to find and stabilize business models and reduced interest rates (less aggressive return expectations)
- Catalytic capital: take extra risk by investing in impactful young or innovative companies which activities are yet too risky for traditional investors.
- Blended finance: combine development finance and philanthropic funds with private capital
- Impact indexed loans / debt / impact contract: more favorable financial terms based on impact achievements
- Financing tranches or disbursements conditioned on impact milestones

EXAMPLES OF NON-FINANCIAL CONTRIBUTION

Impact Measurement and Management

- Enhancing management's awareness and capabilities in impact management and measurement for improved decision-making and performance
- Leveraging impact metrics for marketing and reputation building, influencing client consumption
- Ensuring impact preservation during and after an investor's exit
- Participating in advisory committees to provide unique perspectives on critical impact issues
- Ongoing support in impact and sustainability through a dedicated team member, encompassing everything from defining impact KPIs to implementing sustainability policies
- Incorporating impact-focused business plans in term sheets, aligning remuneration with concrete impact KPIs and milestones
- Embedding impact KPIs in shareholders' agreements, including timelines, ESG action plans, and compliance clauses
- Executives remuneration tied to impact or ESG objectives.

Growth and Strategy

- Guiding in strategy development and implementation
- Providing access to networks, markets, experts, and international opportunities
- Offering sector-specific insights to understand challenges and opportunities
- Assisting in creating robust financial plans and refining investor pitches
- Supporting in M&A activities and integration

Legal and Compliance

- Educating managers on legal frameworks and exclusion policies
- Advising on legal and regulatory compliance.

Internal Process Optimization

- Implementing best practices in ESG and value sharing.
- Enhancing workforce planning, recruitment strategies, and talent management.
- Promoting operational excellence and quality assurance through improved quality control and supply chain management.

Lobbying and Public Affairs

- Contributing to ecosystem development via peer learning and best practice sharing
- Engaging and promoting impact-driven public policy

REAL-LIFE EXAMPLES OF CONTRIBUTIONS

IMPLEMENTE BY IMPACT FUNDS

IMPACT BONDS

An impact investor using convertible bonds as a financing mechanism can adjust the coupon payment (upward or downward) by linking part of the interest rate to specific extra-financial criteria. For instance, provided a base rate reduced by 20 to 50 bps if a company achieves targeted reductions in GHG emissions. Those mechanisms nudge companies to improve their production processes and to abandon highly emissive products.

UNDERFUNDED EARLY-STAGE ENTERPRISES

An impact investor finances social enterprises via bullet subordinated loans, relieving the startups to deliver quarterly interest payments only. In an undersupplied market with a very low supply of subordinated loans for early-stage social enterprises, this investor offers more favorable financing costs than are available on the market, thus financing more social enterprises, that would have not be financed otherwise.

UNDERFUNDED ENTREPRENEURS

An impact investor managing a fund investing small quasi-equity tickets allowing entrepreneurs to open a franchised or independent shop in an underprivileged urban area. This fund allows the financial inclusion of underserved entrepreneurs and the creation of local jobs. The fund also supports these entrepreneurs with coaching sessions among others.

STRATEGIC AND OPERATIONAL SUPPORT

A corporate venture capital fund provides dedicated technical skills and expertise to investee companies through volunteering program involving its employees as part of a skill sponsorship program. The CVC impact investing team has often a board seat and leverages the group’s global ecosystem to provide advice to the entrepreneurs on topics like governance, ESOP, founder incentives, HR, E&S, quality control, supply chain, fundraising and connection to other investors and lenders. Mentoring actions allow impact enterprises to succeed in finding their route toward more financial resilience and more impact.

An impact fund has hired technical experts. The presence of an in-house tech expert supports investees in bridging the gap between digital strategy and practical implementation, ensuring digital solutions align with business and impact needs. This hands-on support gives investees a digital edge while preserving their social mission, adding unique value in the market and more impact for beneficiaries.

M&A AND INTEGRATION SUPPORT

An impact investor actively supports its portfolio companies in identifying acquisition targets, structuring transactions, and managing the integration of acquired businesses. This hands-on approach helps portfolio companies navigate the complexities of M&A processes, reducing the risk of deal failure and enhancing synergies. By improving operational efficiency, this approach ultimately increases the positive impact on beneficiaries.

PROVIDING SECTOR-SPECIFIC INSIGHTS

As part of its value creation strategy, an impact investor collaborates with its investees to conduct market analyses aimed at identifying and prioritizing development strategies, such as target geographies or customer segments. These analyses are conducted with impact in mind. For example, one investee planning geographic expansion prioritized acquisitions in French overseas territories, where they could best address underserved populations, thanks to the integrated market and impact analyses.

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CREATING ECOSYSTEM SYNERGIES

An investor developed a significant network of disruptive start-ups and large corporate thanks to its philanthropic arm, an innovatiovn lab and its investors. This network is then leveraged for portfolio companies' benefit. For instance, a company providing distribution fountains for dispensing liquid products in bulk was introduced to a leading cosmetics group. The unfolding partnership allowed the cosmetics' clients to refill their beauty products thus decreasing use of plastic and packaging.

A public investor has launched a €400 million budget dedicated to impact investing, marking a game-changer for the national impact ecosystem. Beyond the significant financial contribution, this initiative has set new standards for measuring and reporting impact, while also enhancing the quality of investors by providing non-financial support to the funds they invest in.

Access to purpose-driven ecosystems: As part of the initial investment and support package, each startup is matched with relevant domain-specific (e.g., AgriFood, Energy) experts, mentors, potential investors, and customers from the fund's purpose-driven ecosystem. Initial matching and one-to-one interactions with mentors and advisors are supplemented with ecosystem development activities and gatherings, integrating portfolio companies into the broader impact network.

TRANSFORMATIVE IMPACT INVESTING IN SMEs

A transformative impact investor, part of a family office, invests in majority stakes of SMEs who do have the potential to become lighthouse companies of tomorrow.

The transformative investor strategically develops the SMEs in the long term into ecologically, economically, and socially positive companies.

INVESTING IN EMERGING MARKETS AND UNDERFUNDED POPULATIONS' NEEDS

An emerging market impact fund conducted an impact audit in the initial due diligence, identifying weaknesses in the impact system and making recommendations to increase the company's reach to additional beneficiaries. It also recommended that the company be certified in GIIRS and Client Protection Principles. Through a seat on the board of directors, it helped management by bringing experience in other countries, recommending the creation of a social performance committee, and attracting new investors to capital.

GRANT BASED TECHNICAL ASSISTANCE TO INCREASE IMPACT

An impact investor, expert in financial inclusion institutions provides grant-based technical assistance to enhance how institutions integrate their social missions into products and processes. Active support of end-client surveys brings customer voices to the forefront, focusing on Net Promoter Scores (NPS), customer protection and perceived impact.

MOBILIZING JOINT EFFORTS TO ENHANCE IMPACT INVESTING AT GLOBAL LEVEL

The Global Steering Group for Impact Investment (GSG Impact) is an independent organization that catalyzes impact investment and entrepreneurship to benefit people and the planet. Active in over 50 countries, GSG Impact aims to transform global financial systems so that every investment, business, and government spending decision considers impact alongside risk and return. In France, the GSG France for Impact Finance serves as the National Advisory Board (NAB) for impact investment. Since June 2023, it has been co-led by a tripartite committee comprising the Forum pour l'Investissement Responsable (FIR), France Invest, and FAIR.

GSG Impact has recently undertaken several initiatives to advance impact investing:
1. **Proposal to the UN:** submitted a proposal, endorsed by over 50 organizations, to mobilize private capital towards the Sustainable Development Goals (SDGs).
2. **Establishment of Sustainability Hubs:** partnered with UNDP, GRI, IFRS Foundation, and ISO to create Sustainability Disclosure and Management Hubs in 14 developing and emerging economies, aiming to enhance sustainability disclosures.
With GSG France, three working groups have been established in 2023 and 2024 :
3. **Measuring the Impact Finance Market:** this group aims to define methodologies and scope to assess the impact finance market. Their work is detailed in the «Panorama de la Finance à Impact 2024.»
4. **Social Indicators :** this group seeks to establish best practices in defining social indicators, contributing to the development of a comprehensive social taxonomy.
5. **Impact Strategy for '90/10' Funds:** this group focuses on creating a framework to ensure that these funds align with their impact commitments, ensuring coherence between the 90 % listed and 10 % unlisted segments.

These contributions play a vital role in enhancing an organization's impact, growth, legal standing, internal efficiency, and public engagement. Measuring these contributions presents a significant challenge. It involves assessing the unique contributions impact investors make that wouldn't have occurred without their involvement. Determining to whom and how the additional impact should be attributed involves navigating complex interdependencies within an organization and its ecosystems, determining which specific outcomes can be directly linked to the investor's contributions amidst various influencing factors.

This complexity might raise important questions about the metrics and methodologies used to assess the true value added by impact investors.

However, there is no doubt that the investor's impact is an important pillar of impact investing in private capital, as it acts as a powerful catalyst that accelerates a company's impact.

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