

Impact Investing Course Module

Course Modules help instructors select and sequence material for use as part of a course. Each module represents the thinking of subject matter experts about the best materials to assign and how to organize them to facilitate learning.

Each module recommends four to six items. Whenever possible at least one alternative item for each main recommendation is included, as well as suggested supplemental readings that may provide a broader conceptual context. Cases form the core of many modules but we also include readings from *Harvard Business Review*, background notes, and other course materials.

1. Overview of suggested content (HBS case unless otherwise noted)

| <i>Title</i> | <i>Author</i> | <i>Product Number</i> | <i>Publication Year</i> | <i>Pages</i> | <i>Teaching Note</i> |
|---|------------------------|-----------------------|-------------------------|--------------|----------------------|
| 1. The Impact Investing Landscape | | | | | |
| Root Capital | Rangan & Lee | 510035 | 2009 | 28p | 510090 |
| Banco Compartamos: Life after the IPO | Chu & Cuellar | 308094 | 2008 | 34p | 311089 |
| Supplement: The Promise of Impact Investing (HBS note) | Rangan, Appleby & Moon | 512045 | 2012 | 19p | -- |
| 2. Impact Investing Intermediaries | | | | | |
| Omidyar Network: Pioneering Impact Investment | Chu | 313090 | 2013 | 26p | No |
| Bridges Ventures | Rangan & Appleby | 514001 | 2013 | 25p | forthcoming |
| <i>Alternative:</i> Aspada: In Search of the Right Structure for Impact Investing | Chu & Tahilyani | 314099 | 2014 | 28p | No |
| Supplement: Frameworks for Dialogue and Research about Social Impact Investing (HBS note) | Leonard | 312091 | 2012 | 13p | -- |
| 3. Impact Investing Implementers | | | | | |
| ApproTEC Kenya: Technologies to Fight Poverty and Create Wealth | Rangan | 503007 | 2002 | 19p | Yes |
| CFW Clinics in Kenya: To Profit or Not for Profit | Rangan & Lee | 512006 | 2011 | 22p | forthcoming |

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|---|-------------------|---|-------------|-----|-------------|
| <i>Alternative: Bridge International Academies: A School in a Box</i> | Rangan & Lee | 511064 | 2010 | 25p | No |
| Supplement: The Many Colors of Impact Investing | Rangan & Appleby | | Forthcoming | | -- |
| 4. Impact Measurement | | | | | |
| The Robin Hood Foundation | Ebrahim & Ross | 310031 | 2010 | 24p | 311066 |
| Acumen Fund: Measurement in Impact Investing (A) | Ebrahim & Rangan | 310011 | 2009 | 24p | 311056 |
| Supplement: What Impact? A Framework for Measuring the Scale and Scope of Social Performance | Ebrahim & Rangan | CMR570 | 2014 | 24p | -- |
| 5. Pay-For-Success / Social Impact Bonds | | | | | |
| Social Finance, Inc. | Cole et al | 212055 | 2012 | 25p | 213090 |
| Massachusetts Pay-for-Success Contracts: Reducing Juvenile and Young Adult Recidivism | Rangan & Chase | 514061 | 2013 | 19p | forthcoming |
| <i>Alternative: Betting Private Capital on Fixing Public Ills: Instiglio Brings Social Impact Bonds to Colombia</i> | Levy & Varley | KS1003 | 2014 | 21p | KS1004 |
| Supplement: Social Impact Bonds: A Guide for State and Local Governments (HKS) | Liebman & Sellman | http://hks-siblab.org/publications/ | 2013 | 32p | -- |

II. Rationale for selecting and sequencing the items in this module

Impact investing is a new and growing field of investments that aims to generate both financial returns and social and environmental benefits. Materials on impact investing look at different financial models for achieving returns within this context, how to measure social and environmental impact, and the role of supporting intermediaries in this emerging industry, including the nonprofit sector and public-private partnerships.

Section 1 focuses on the background of the field by opening with the note *The Promise of Impact Investing*. The main purpose of the note is for students to see the full spectrum of capital aimed at impact, from impact-first charitable grants with no return of capital all the way to finance-first investments seeking risk-adjusted market returns. The note also provides an overview of the impact investing industry (its history, the major players, and the estimated market size). Following the background provided by the note, students should be ready to tackle the two suggested cases. The first, *Root Capital*, concerns a

fund which accesses both donations and low-interest loans to serve small-scale farmers through their cooperatives. It uses a very interesting collection mechanism where the buyer of the agricultural produce pays Root Capital directly. This case also allows the instructor to explore the variety of funds that may be brought to play. The second case, *Banco Compartamos: Life after the IPO*, explores the strategic directions of a microfinance institution that launched the first (and highly successful) IPO in microfinance. Microfinance is often cited as the shining star of how market returns can be delivered in the service of social good. The case explores the many issues surrounding high interest rates, social value, and market return.

Section 2 looks at impact investors, the funding organizations which pool investor funds to various organizations attempting to make a social impact. The industry term for such impact investors is “intermediaries.” The first case, *Omidyar Network: Pioneering Impact Investment*, concerns a firm founded and funded by e-Bay founder Pierre Omidyar. Omidyar Network is an interesting organization because it is able to provide a range of capital (grants, debt, and/or equity) to a venture in order to nudge it along the path to sustainability. The second case, *Bridges Ventures*, concerns an intermediary which has organized itself along venture capital (VC) lines. Its £275 million fund is subdivided into three different funds, each with a different target and purpose, the first fund having already achieved some eye-popping returns. The case allows students to address near-term investment decisions as well as larger questions of how to measure success. The alternate case, *Aspada: In Search of the Right Structure for Impact Investing*, explores the launch of an impact investing firm utilizing a shareholding company structure, as opposed to the fund structure that is currently more commonplace in impact investing (as discussed in *Bridges Ventures*). The reading supplement provides a framework for better understanding the leverage points in the eco-system as the field continues to develop and evolve.

Section 3 moves to the broader topic of implementers (i.e., those using the funds to achieve social impact). Here the cases recommended are a contrasting pair. The first one, an older case, *ApproTEC Kenya*, concerns a company (now called Kickstart) that was one of the earliest proponents of using a mixed model of grants and earned revenues from operations to sustain its business. The products it sells significantly increase the user’s income, and one might wonder why it should not structure itself as a straightforward for-profit. The company in the second case, *CFW Clinics in Kenya*, faces the same dilemma, but unlike Kickstart, it sells healthcare and medicines to poor Kenyans, making the for-profit conversion more challenging. The alternate, *Bridge International Academies*, concerns an entrepreneurial attempt to build and run K-8 schools in the slums of Kenya. In contrast to the first two cases, Bridge International Academies is structured as a business with equity investments and a clear plan to break even and return profits to investors. The supplement, *Many Colors of Impact Investing*, provides a nuanced view of the role of different kinds of impact investing for the different situations which the implementing organization is attempting to address. All three cases included in this section are discussed in the suggested article, and as such the article could also serve as a stimulus for discussion at the end of the section.

Section 4 looks at the crucial question of how to measure social impact. The first case, *The Robin Hood Foundation*, examines how a philanthropic foundation founded by hedge fund managers measures the return on investment of its grants. The measurement tool is quite sophisticated and detailed, but also raises questions regarding social impact measurement. The second case, *Acumen Fund: Measurement in Impact Investing*, explores how this non-profit determines its funding priorities and what performance metrics it uses when assessing its investments and the investment portfolio. More importantly, the case grapples with the question of how fund managers weigh potential tradeoffs between financial performance and social impact. The accompanying article, *What Impact? A Framework for Measuring the Scale and Scope of Social Performance*, draws on several cases to provide a performance assessment framework and proposes that funders may be better positioned than implementers to measure systemic impacts.

Section 5 explores a recent form of innovation in the impact investing arena, known as Social Impact Bond (SIB) or Pay for Success (PFS), which aims to attract private money in the service of the public good. Interestingly, even though the upfront investment is from private sources, the end pay-off after ascertaining success is from public capital. The first suggested case is *Social Finance, Inc.*, and it concerns an intermediary set up to replicate the success of its sister organization from the U.K. The second case, *Massachusetts Pay-for-Success Contracts*, walks the reader through a fully structured contract, including all details of investments, pay-offs, and success measurement. The case is used to go beyond one specific contract's goal of reducing prison recidivism to judge the broader applicability of the PFS concept. The alternative case, *Betting Private Capital on Fixing Public Ills: Instiglio Brings Social Impact Bonds to Colombia*, considers a social impact bond in Colombia and the challenges to the application and extension of the idea to the developing world. The reading supplement, *Social Impact Bonds: A Guide for State and Local Governments*, will give students a hands-on feel for dealing with SIBs and provides a useful framework for the cases.