# EMERGING MARKETS IMPACT INVESTMENT FUND (EMIIF)

AUSTRALIAN DEPARTMENT OF FOREIGN AFFAIRS AND TRADE (DFAT)

***Draft design for likely procurement (updated)***

*12 October 2017*

Australian Government

Department of Foreign Affairs and Trade

# Acronyms

| | |
|---|---|
| AIC | DFAT Aid Investment Committee |
| AuM | Assets under management |
| ADB | Asian Development Bank |
| AECF | Africa Enterprise Challenge Fund |
| AGRA | Alliance for a Green Revolution in Africa |
| ASEAN | The Association of Southeast Asian Nations |
| BPP | Business Partnership Platform |
| CDC | Commonwealth Development Corporation (UK development finance institution) |
| CIDA | Canadian International Development Agency |
| DAC | OECD Development Assistance Committee |
| DEG | Deutsche Investitions- und Entwicklungsgesellschaft (German Investment and Development Corporation, subsidiary of KfW) |
| DFAT | Australian Department of Foreign Affairs and Trade |
| DFI | Development finance institution |
| DFS | DFAT Development Finance Section |
| DFID | Department for International Development |
| DGGF | Dutch Good Growth Fund |
| EMIIF | Emerging Markets Impact Investment Fund |
| ESG | Environmental, social and governance |
| FAS | First Assistant Secretary |
| FMO | Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (Dutch development finance institution) |
| GDP | Gross domestic product |
| GIIRS | Global Impact Investing Rating System |
| IC | Investment committee |
| IFC | International Finance Corporation |
| IIAG | Impact Investing Advisory Group |
| IIX | Impact Investment Exchange |
| IM | Investment manager |
| IMA | Investment management agreement (in the context of EMIIF the IMA will be between DFAT and the appointed IM) |
| iXc | innovationXchange |
| IRIS | Impact Reporting & Investment Standards |
| IWI | Investing in Women Initiative |

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|---|---|
| KfW | Kreditanstalt für Wiederaufbau (German development finance institution) |
| LGT | Liechtenstein Global Trust |
| MDB | Multilateral development bank |
| MDD | Multilateral Development & Finance Division |
| M&E | Monitoring and evaluation |
| MFI | Microfinance institution |
| ODA | Official development assistance |
| OECD | Organisation for Economic Co-operation and Development |
| OPIC | Overseas Private Investment Corporation |
| PRI | Program-related investment |
| PEF | Private equity funds |
| PEP | Politically-exposed persons |
| PSD | Private sector development |
| PSE | Private sector engagement |
| SEAF | Small Enterprise Assistance Funds |
| SES | Senior Executive Service |
| SIFEM | Swiss Investment Fund for Emerging Markets |
| SME | Small and medium-sized enterprise |
| SROI | Social returns on investment |
| TA | Technical assistance |
| TAG | Technical advisory group |
| ToC | Theory of change |
| ToR | Terms of reference |
| USAID | United States Agency for International Development |

# GLOSSARY

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| Anchor investment | An anchor investment consists of a substantial contribution towards the overall capital requirements of an investee at an early stage of its capitalisation. It plays an important role in the capitalisation process and is often intended to provide a positive market signal, as well as to assist in de-risking the investment for other investors. An anchor investment may or may not be made on concessional terms in favour of other investors. |
| Anchor investor | An investor that provides anchor investment (see above) to an investee. |
| Business life cycle | Businesses tend to mature through a typified life cycle that consists of four primary stages of growth—the *start-up* or *seed* stage, which consists of the early incubation, establishment and refinement of the business proposition; *early stage*, in which the business commences entering and building a market; *growth stage*, during which the business turns profitable and scales; and *mature stage*, at which point a business is well established within its industry. |
| Catalyse | Capital that is catalysed refers to additional investment capital that becomes available to an investee (fund or SME) as a follow-on to an initial investment through the establishment and demonstration of track record (e.g., local bank debt, series B investment). See related definitions on *crowd-in* and *leverage* below. |
| Crowd-in | Crowd-in refers to the promotion and acceleration of investments into a specific market, includes both *catalysed* and *leveraged* capital (see definitions in this glossary). 'Crowding in private investment' relates to the intention of donors to promote private investments into a specific market through participating directly in transactions or through private sector development programs. |
| ESG | The environmental, social and governance (ESG) criteria is a set of standards for a company's operations that can be used to screen investments. Environmental criteria consider how a company performs as a steward of the natural environment, while social criteria examine how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance deals with a company's leadership, executive pay, audits and internal controls, as well as shareholder right[1]s. |
| Excluded activities | Excluded activities consist of sectors/economies that are focused on or founded upon goods or practices that are illegal or considered harmful. This includes gambling, the sex trade, alcohol (to the potential exclusion of wine and beer), tobacco and other narcotics, as well as arms trading. Many DFIs (e.g., IFC) apply a negative screen on these economies as they contribute negatively towards social and environmental outcomes. Similarly, EMIIF will apply a negative screen on these economies as part of its investment selection process. |

[1] "Environmental, Social and Governance criteria", Investopedia, 2016.

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| Financial intermediary | A financial intermediary is a provider of financial services (as one of its core functions) that relies on the pooling or raising of capital from other capital providers. Banks, microfinance institutions (MFIs), funds and other lenders are all examples of financial intermediaries. |
| Gender lens investing | Gender lens investing consists of a set of principles that builds the consideration of gender (e.g., gender biases, gender patterns, risks related to gendered behaviour) into the investment process. At its core, it incorporates a gender analysis into financial analysis in order to achieve better outcomes. |
| Hard currency | A hard currency is a currency that is deemed more stable and reliable in its value (influenced by the policies of its central bank, the economic outlook and the long-term proven stability thereof) and therefore more widely used as a reference currency outside of its own borders. The US dollar represents the most widely used hard currency, followed by the Euro and British Pound Sterling. The Japanese Yen, Swiss Franc, Canadian Dollar, and Australian Dollar are also considered hard currencies, but are not as widely used. |
| Impact | The use of the term "impact" in the development finance industry refers to any social outcomes that can be linked or attributed to an investment. |
| Impact investing | Impact investing refers to the act of investing into companies, organisations, and funds with the intention of generating social and environmental impact alongside a financial return. Impact investing requires (i) an intention to have a positive social or environmental impact, (ii) expectations to generate financial returns and (iii) a commitment to measure impact in order to track progress against the investors' objectives. |
| Inclusive growth | Inclusive growth refers to economic growth that promotes equitable access to economic opportunities, especially for disadvantaged communities. EMIIF will specifically take into consideration women and men's access to economic opportunities. |
| Investee funds | Investee funds are the financial intermediaries in which EMIIF invests. |
| Investment committee | The investment committee (IC) is a key governance body responsible for making the final investment decision. It may consist of any combination of investment executives, independent professionals and/or appointees by key funders. |
| Investment manager | The investment manager, for the purposes of this document, refers to the management company/entity that will be appointed by DFAT to manage EMIIF. |
| Leverage | Leveraged capital refers to the additional investment capital that becomes available to an investee (fund or SME) at the time of investing (e.g., through co-investment). |
| Pari-passu | Pari-passu refers to loans, bonds or classes of shares that have equal rights of payment or equal seniority. |
| Risk/return | The risk/return spectrum (also called the risk/return trade-off) is the relationship between the amount of return gained on an investment and |

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| | the amount of risk undertaken in that investment. When making a decision about an investment, finance professionals typically weigh the possibility of losing some (or all) of the original investment against the expected returns that the investment offers. Low levels of uncertainty (low risk) are associated with low potential returns. High levels of uncertainty (high risk) are associated with high potential returns. The risk/return trade-off is the balance between the desire for the lowest possible risk and the highest possible return. |
| SME | A small and medium-sized enterprise (SME) refers to a business that incorporates a for-profit motive and is smaller than a specific threshold in terms of staff size, value of assets and/or revenue levels. For the purpose of this document, an SME is defined as a business that has 100 employees or fewer[2]. This includes "micro enterprises," as well. As a guideline, micro enterprises refer to businesses with fewer than 10 employees, small enterprises employ between 11 to 50 employees and medium enterprises employ between 51 to 100 employees. |
| SME fund | An SME fund is a financial intermediary (including but not limited to fund structures) that is focused on investing in SMEs. |
| Social enterprise | A social enterprise (sometimes referred to as impact enterprise) is a type of SME primarily motivated by providing goods or services that have a positive social impact. Social enterprises adopt a for-profit approach towards ensuring sustainability and scalability. They differ from solely "impact-focused" enterprises, which do not focus on profit-making as a goal. While impact is a core focus of EMIIF's investment strategy, its investments are not limited to social enterprises, but will also include "regular" SMEs that have the ability to deliver social impact but may not explicitly focus on impact. |
| Target countries | For the purpose of EMIIF, DFAT's target countries are Bangladesh, Cambodia, Indonesia, Laos, Myanmar, Sri Lanka, the Philippines and Vietnam. |

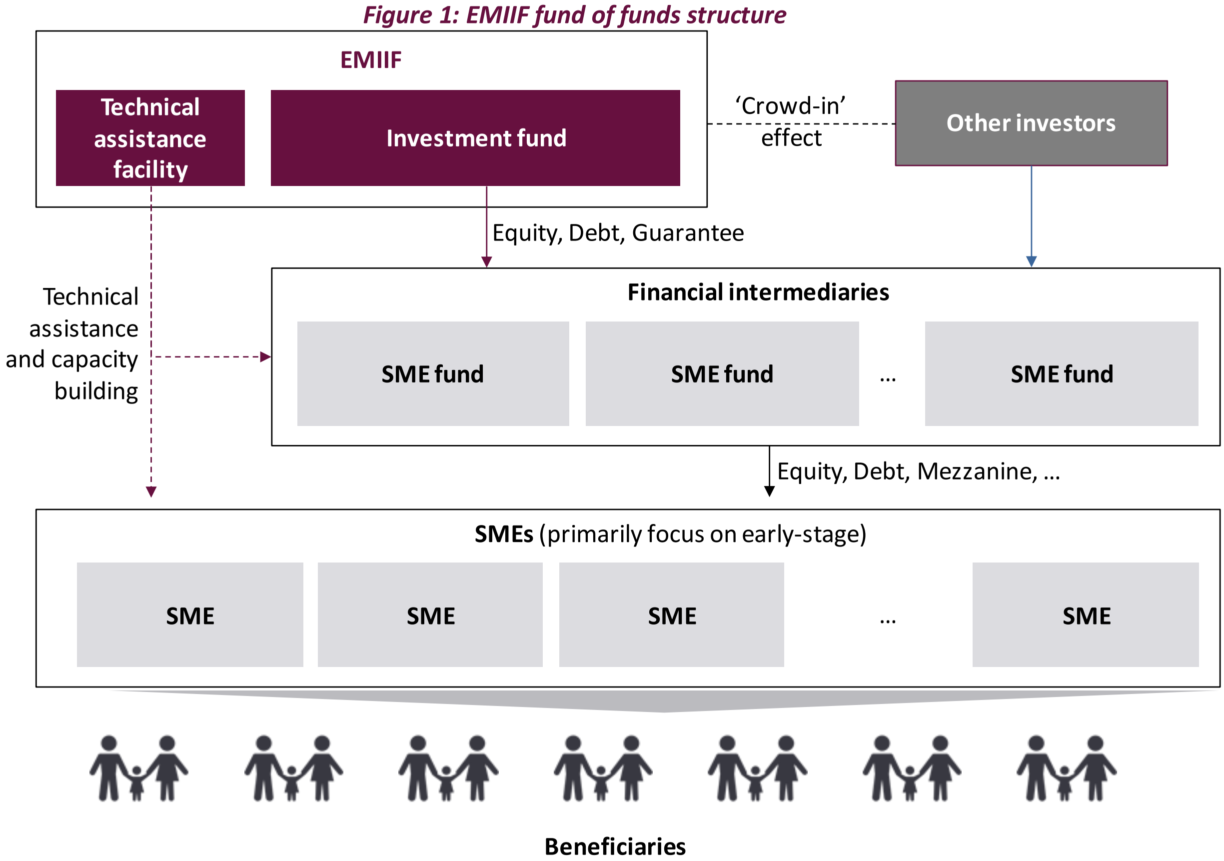
[2] With certain exceptions for businesses in labour-intensive sectors.

# EXECUTIVE SUMMARY

The goal of the proposed **Emerging Markets Impact Investment Fund (EMIIF)** is to help address access to finance challenges for SMEs in South and South East Asia. It will particularly focus on SMEs that improve the lives of the poor through their products and services, supply chains or employment practices.

To achieve this, EMIIF will build the impact investment market in South and South East Asia by investing in SME funds that have a significant focus on early-stage SMEs, including stable growth SMEs that have been constrained in their ability to access growth capital, as illustrated below.

*Figure 1: EMIIF fund of funds structure*




## OBJECTIVES

**EMIIF will provide DFAT with a bilateral investment capability,** allowing to engage more directly with private investors, while also providing greater control over the ultimate deployment and impact of investments made in line with DFAT's development priorities and bilateral relationships in the Indo-Pacific region.

**EMIIF presents a complementary approach to DFAT's existing private sector development and private sector engagement grant-based approaches**. These approaches work with partner governments to improve business enabling environments; by improving the functioning of key markets or sectors, such as agriculture or infrastructure; or by building business capacity and improving enterprise investment-readiness; in addition to more indirect initiatives funding multilateral development bank partners such as the International Finance Corporation and the Asian Development Bank.

EMIIF offers **strong linkages and complementarity with existing programs and partners**, as set out below. Current DFAT programs support SMEs in a range of ways, including providing technical assistance to assist them in becoming 'investment ready', providing grant support to individual businesses and investing through MDB partner programs. EMIIF provides many opportunities for linkages—both internally within DFAT's existing programs and externally with other DFIs, donors and partner governments—to foster the growth of an inclusive and sustainable SME financing market in the region.

As EMIIF is implemented, it will **allow DFAT to test the strategic value of a bilateral investment capability** and its ability to enhance DFAT's bilateral relationships, particularly in countries that are transitioning from a development relationship to a trade/economic partnership.

EMIIF also **increases DFAT's ability to influence private investment behaviour**, especially in support of existing PSD/PSE priorities, including through strong linkages with existing programs and partners. At the same time, DFAT programs with an interest in taking an investment approach will be able to utilise EMIIF's skills and capabilities to implement specific investment mandates.

EMIIF is being **positioned to maximise its market-building role in the SME finance space** across South and South East Asia. It will explicitly invest in first-time fund managers and funds investing in early-stage SMEs to support the growth of the financial intermediary market and address the largest SME financing gap in this region.

At the same time, it will **adopt a deliberate impact management and gender lens investing approach**, thereby promoting such approaches as industry best practices.

Furthermore, **EMIIF seeks to leverage additional investment** by investing with the express intention to crowd in other investors with risk-reducing and return-enhancing instruments, while also creating opportunities to re-invest its initial capital, thereby multiplying EMIIF's development outcomes. Given its focus on the part of the market where the SME finance gap is the greatest, it is expected that co-investments will likely come from donor impact funds, foundations or high net worth individuals. Investing at this stage of the market is expected to catalyse follow-on investments by DFIs and more commercial private investors including superannuation funds and insurance companies.

At the investee fund level, **EMIIF will embed DFAT's development objectives through the activities undertaken by its investee funds and their portfolio SMEs.** These will be measured and managed in line with the theory of change and industry best practice.

## INVESTMENT STRATEGY / DESIGN

Set within these objectives, EMIIF is designed around six key components: (1) legal structure and governance, (2) investment strategy, (3) technical assistance strategy, (4) fund economics, (5) impact processes and (6) risk management processes.

**Both development impact and risk management are fully embedded within the design of EMIIF** and will be managed across the investment process. The approach to *manage* rather than only *measure* impact and risk incorporates current best practices within development programming and the impact investment space.

An impact management approach goes well beyond the practice of defining impact goals and outcomes and measuring progress against them. As EMIIF will adopt an impact management approach throughout its implementation, it will need to fully incorporate key considerations for social (including gender), cultural and environmental contexts when selecting, making, managing and exiting investments.

Informed by DFAT's focus areas, the **key attributes that define the EMIIF investment focus and strategy** can be summarised as follows:

*Figure 2: Summary of proposed investment approach for the EMIIF*

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|---|---|---|
| **Investment eligibility criteria** | • **Geography:** >50% target portfolio in DFAT target countries (with a preference for >80%)<br>• **Sector:** No sectoral focus requirement, outside of excluded activities<br>• **Market focus:** Explicit strategy to invest in early-stage SMEs<br>• **Impact focus:** Explicit or implicit impact focus, with the ability to adopt impact management approach<br>• **Ethical standards:** Compliance with environmental and social performance standards (IFC or other equivalent)<br>• **Intermediary legal structure:** Flexible (open to considering innovative financing structures)<br>• **Investment size:** >AUD 2 million per investee fund<br>• **Team strength:** Relevant investment track record / experience<br>• **Long-term sustainability:** Clear path to financial sustainability identified | |
| **Portfolio allocation thresholds** | • <25% committed to any one investee fund<br>• <33% expected to flow into any one country<br>• <33% expected to flow into any one sector | • >50% committed to early-stage SME funds (e.g., funds that invest >50% in early-stage SMEs) |
| **Investment instruments** | • Flexible **investment instruments** (debt, mezzanine, equity) | • **TA support**<br>• **Risk-mitigation solutions** (guarantees, hedging solutions) |
| **Investment terms** | • Target **returns** ranging between **5-10%**<br>• **Pari-passu or subordinated terms** to other investors<br>• **TA** of up to 20% of investment value | |

**Given EMIIF's deliberate focus on deploying capital to SME funds that represent a significant gap in the market, it will re-enforce its market-building role by offering:**

i. **An anchor investor role in its investee funds**, many of which would otherwise be unlikely to raise the requisite capital. This will provide an opportunity to shape the funds' investment approaches —for example, regarding the adoption of impact management and gender lens investing practice and thereby promote such as best practices within the region.

ii. **Risk-mitigation solutions that will de-risk co-investment from other investors.** This can take the form of subordinating EMIIF's funding position, or else specific solutions such as guarantees, political insurance or currency hedging in order to allow for or support the provision of increased levels of local currency financing to investee funds.

iii. **TA support alongside its investments.** Investee funds will receive either bespoke TA in the form of support from the IM or else TA funding to cover their capacity-building efforts with underlying SMEs.

**An initial anticipated funding allocation for EMIIF of AUD 40 million in total is proposed for its 2017-2020 pilot phase.** This funding will be split between the AUD 30 million main window and the 10 million 'Innovation Window' (outlined in 4.2.5 Extension of EMIIF's investment scope). This allows for 5-6 fund investments, the minimum number required for diversification geographically, thematically and between different fund structures. This diversification is instrumental for managing reputational, commercial and impact risk. At the same time a minimum AUD 40 million allocation allows for sufficient economies of scale in fund operations and the ability to attract an experienced and high-quality fund manager. Part of this initial funding allocation - AUD 4 million (10% of total funding) will be reserved for TA. **It is anticipated that EMIIF will at a minimum recover its principal investment into the SME funds at the total portfolio level.**

## GOVERNANCE

**EMIIF should be set up as an investment trust with DFAT as the sole beneficiary**. The domicile of the EMIIF Trust will be Australia and an independent trustee will be appointed by DFAT to administer the Trust. In addition to the trustee, the day-to-day management of EMIIF will be undertaken by an investment manager who will be appointed by DFAT following an open tender process.

**EMIIF's investment decision-making will be performed by an investment committee** that will be composed of independent industry experts appointed by DFAT as well as representatives from the investment manager. The investment committee's decision-making will be informed by recommendations provided by the investment manager, based on investment analysis and due diligence processes in line with industry best practice.

**DFAT will oversee EMIIF's implementation** through:
(i) **DFAT delegate for the EMIIF** who will be responsible for making any contractual and strategic decisions required;
(ii) an SES-level **Impact Investing Advisory Group** that will provide advice, guidance and support regarding the overall direction and implementation of EMIIF and DFAT's other impact investing programs. It will advise the DFAT delegate, who will make all final decisions required; and
(iii) a **Secretariat** that will be responsible for the day-to-day management of EMIIF including interaction with counterparties to monitor ongoing performance, disseminate information and prepare relevant reporting to the strategic advisory group or relevant decision-makers.

Informed by reporting presented by the Secretariat, the Impact Investing Advisory Group will provide Senior Executive Service (SES)-level oversight to the implementation and on-going performance of EMIIF. It will provide relevant feedback to the Secretariat on operational matters, and to the DFAT delegate on any decisions requested or proposed. It will provide SES-level input to the implementation of the risk management approach in accordance with DFAT's risks management and safeguard policies, as outlined in the design and agreed with the investment manager.

**The Secretariat will be responsible for the day-to-day management of the EMIIF including coordination with EMIIF management structures and on-going monitoring of EMIIF's activities and performance.** This will include a particular focus on risk and performance management given the risk profile of the EMIIF.

**The Secretariat will represent the main point of engagement for DFAT divisions and posts to engage with EMIIF's activities throughout its implementation. At the same time, it will be the key interface for the organisational learnings across DFAT, as well as ensuring that DFAT's policy and risk management requirements are fully embedded and well implemented during EMIIF's implementation.** As a result, the Secretariat is expected to have extensive and frequent interaction with EMIIF—especially the investment manager—to foster such learning and knowledge management. Best practice observed among comparable funders suggests that having at least a part of the Secretariat team adopt an exclusive focus on the management and oversight of EMIIF will help ensure effective oversight and learning. The Secretariat is expected to build up a strong institutional knowledge and network of relationships with key partners, co-investors and organisations from the impact investing industry in Australia and across the Indo-Pacific region.

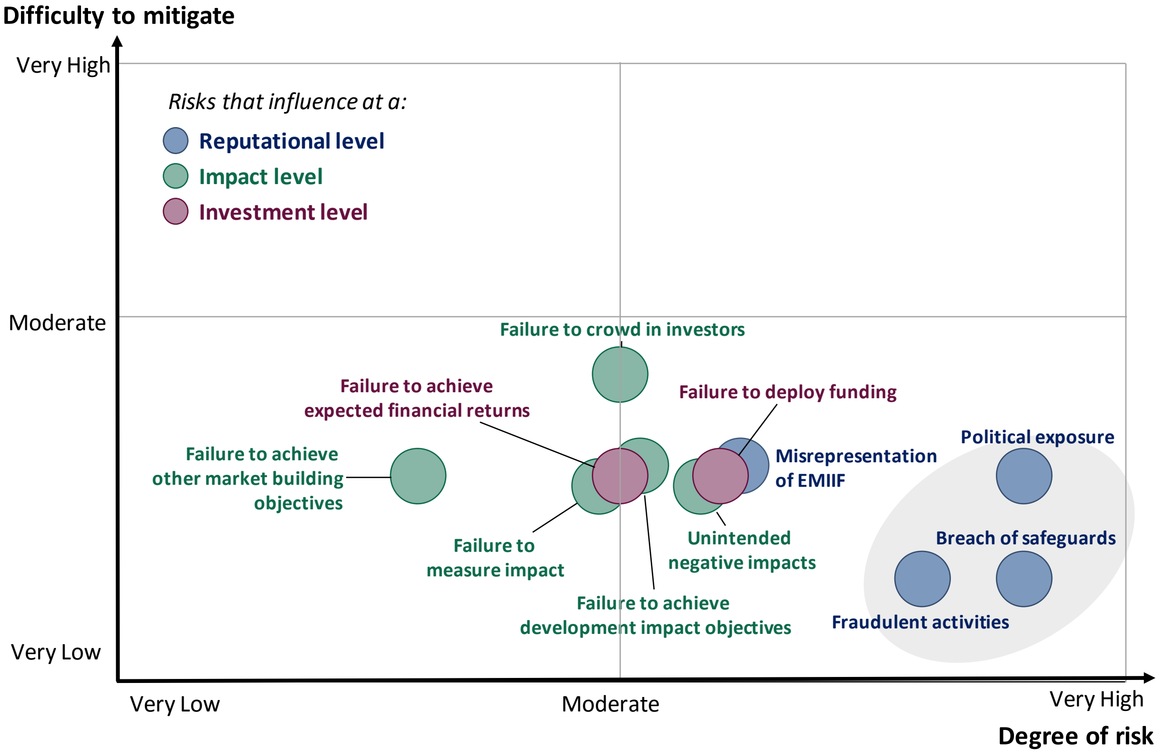
## RISK MANAGEMENT

EMIIF's design includes an upfront risk assessment to identify the key risks that could negatively affect EMIIF's implementation and/or performance, and to proactively identify and construct mitigants within the fund design. Moreover, risk management has been embedded throughout EMIIF's investment process, especially as it relates to the maintenance of fraud and anti-corruption policies as well as social and environmental safeguards.

This will be implemented throughout EMIIF's on-going operations by the investment manager and safeguarded by EMIIF's Secretariat at DFAT, as well as the EMIIF trustee. In addition, the Impact Investing Advisory Group will provide SES-level input to risk management throughout.

The upfront risk assessment (as measured by the combined likelihood of their occurrence and the severity of the consequences associated with them) has identified eleven specific risks particularly relevant to EMIIF's design and operations as well as the degree of mitigation expected. This is summarised below.

*Figure 3: Net risk assessment based on level of risk versus manageability of risk by EMIIF*




**The principal reputational risks correspond to those experienced and managed by DFAT within its aid programming.** These have been addressed in EMIIF's design by incorporating DFAT safeguards and risk management practices into the investment analysis, due diligence and management processes for EMIIF.

**The majority of the risks at an impact and/or investment level represent a more moderate degree of risk** and will be mitigated principally by the investment manager by drawing upon standard practice within the fund management industry, which include extensive legal, commercial, political due diligence. In order to mitigate these risks, it is critical to ensure sufficient flexibility in EMIIF's investment mandate, while setting clear risk exposure limits to prevent overexposure to specific investments or markets. The expertise and proficiency of the investment manager will also be instrumental in balancing the management of these risks.

In addition to the detailed description of these key design components, this Final Design Document further delineates the investment management process and lists the more comprehensive documentation to be developed at the implementation stage in collaboration with the investment manager and the trustee. It also provides an initial overview of relevant considerations regarding the roles and responsibilities, remuneration and procurement of the EMIIF investment manager.

# Part A:

## Context, opportunity and approach

# I. STRATEGIC CONTEXT

## 1.1. DFAT POLICY CONTEXT

**Australia's aid policy clearly sets out the need to "crowd in" greater private financing to contribute towards development efforts in the region**. This comes in recognition of the fact that while grant funding is invaluable in helping to catalyse growth and investment, it is not the only tool available for achieving DFAT's strategic objectives of inclusive economic growth and poverty reduction. This policy also aligns with the agenda set by the Third International Conference on Financing for Development (Addis Ababa, Ethiopia, July 2015), which urges government funders to consider the potential of official development assistance (ODA) to crowd in additional private financing, by blending it with other public and private finance.

**As a government development agency, DFAT has traditionally focused on promoting private sector development (PSD) through *grant-based approaches*** by working with partner governments to improve business enabling environments; working to improve the function of key markets or sectors, such as agriculture or infrastructure; or by building business capacity and improving enterprise investment-readiness.

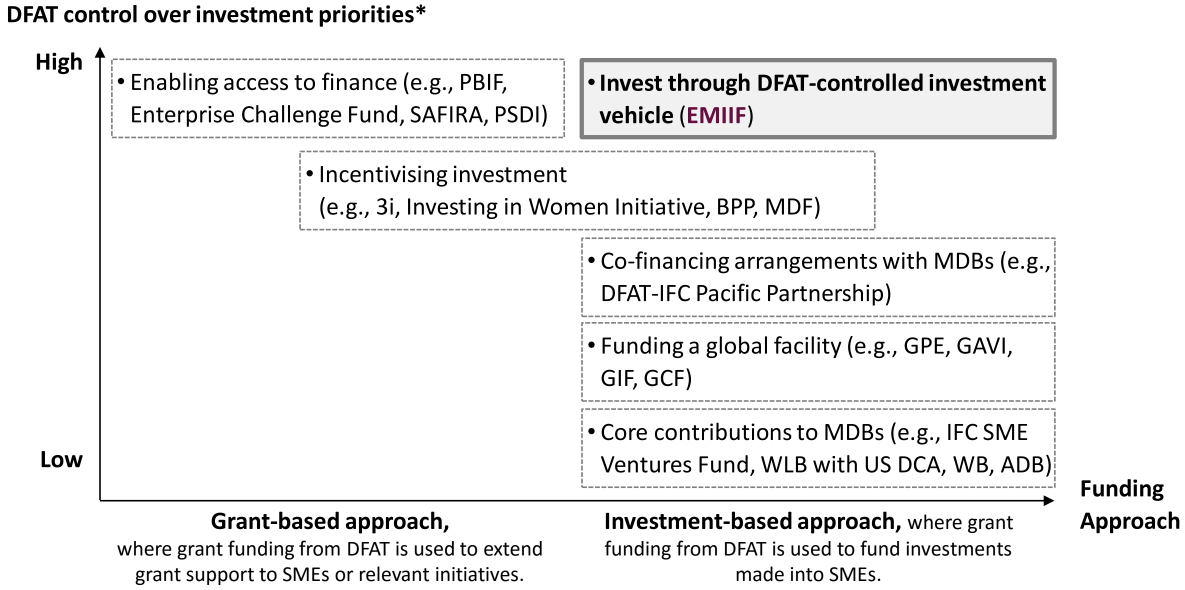
**In recent years, DFAT has increasingly been exploring how to deploy its grant funding through *investment-based approaches***. The Department has mainly pursued these efforts indirectly by funding multilateral development bank (MDB) partners such as the International Finance Corporation (IFC) and the Asian Development Bank (ADB). While this has allowed DFAT to build on the long-standing investment expertise of such partners, it has been difficult for DFAT to utilise this expertise in regions, sectors and transactions of highest strategic priority to the Government of Australia.

**The proposed Emerging Markets Impact Investment Fund (EMIIF) aims to build DFAT's bilateral investment capability,** engaging more directly with private investors, while also providing greater control over the ultimate deployment and impact of investments made in line with DFAT's development priorities and bilateral relationships in the Indo-Pacific region. The initial pilot phase will be used to test the efficiency and effectiveness of this approach.

**DFAT intends to use EMIIF to complement existing private sector development and private sector engagement approaches,** while developing DFAT's internal capabilities to manage investment-based approaches to leverage private finance for development. Establishing EMIIF to be run by an independent investment manager, managed by a Secretariat within DFAT, will allow DFAT to:

- **Increase its ability to leverage external financial resources and magnify development impact** by investing with the express intention to crowd in private financing, while also creating opportunities to re-invest return of capital, thereby multiplying potential EMIIF impact.
- **Improve its ability to influence private investment behaviour** by using risk-reducing, returns-enhancing instruments that attract private investment participation that might otherwise be absent in arenas of key policy priorities for Australia, such as gender equality.
- **Support organisations and enterprises transitioning from donor support to private sector funding,** by investing in fund managers doing this at the enterprise level.
- **Provide instruments with stronger alignment (compared to grants) with market incentives and business operations** by employing an investment lens in assessing and making funding decisions.

*Figure 4: EMIIF positioning within DFAT's current access-to-finance initiatives for SMEs[3]*




* DFAT control refers to its ability to use the program to achieve DFAT's PSD and PSE priorities in strategically important countries.

## 1.2. Rationale for EMIIF

DFAT is pursuing the design and potential implementation of EMIIF for **three key impact objectives**[4]:

1. To **build the gender lens and impact investment market in the South and South East Asian region** (as an additional source of capital for private sector development in the region), especially as it relates to the use of concessionary capital in how to grow and catalyse the market and how to disseminate the gender lens and impact management approach in the market **(*market-building objectives*)**;

2. To test how effective (from a value-for-money perspective) the **activities of the portfolio of SMEs** that will be supported by EMIIF's investee fund managers can be at **achieving DFAT's *development impact objectives*** (inclusive economic growth and poverty reduction);

3. To draw ***organisational learnings for DFAT*** on
   - when and how an investment approach is most suited to achieving DFAT's development objectives;
   - how this new **investment approach and internal capability** can best complement and support DFAT's existing PSD/PSE priorities, including through strong linkages with existing programs and partners; and
   - how it can enhance the strategic value of DFAT's bilateral relationships, particularly in countries that are transitioning from a development relationship to a trade/economic partnership.

These three objectives drive the design and implementation of EMIIF and are strongly embedded within EMIIF's theory of change (see Figure 5)[5].

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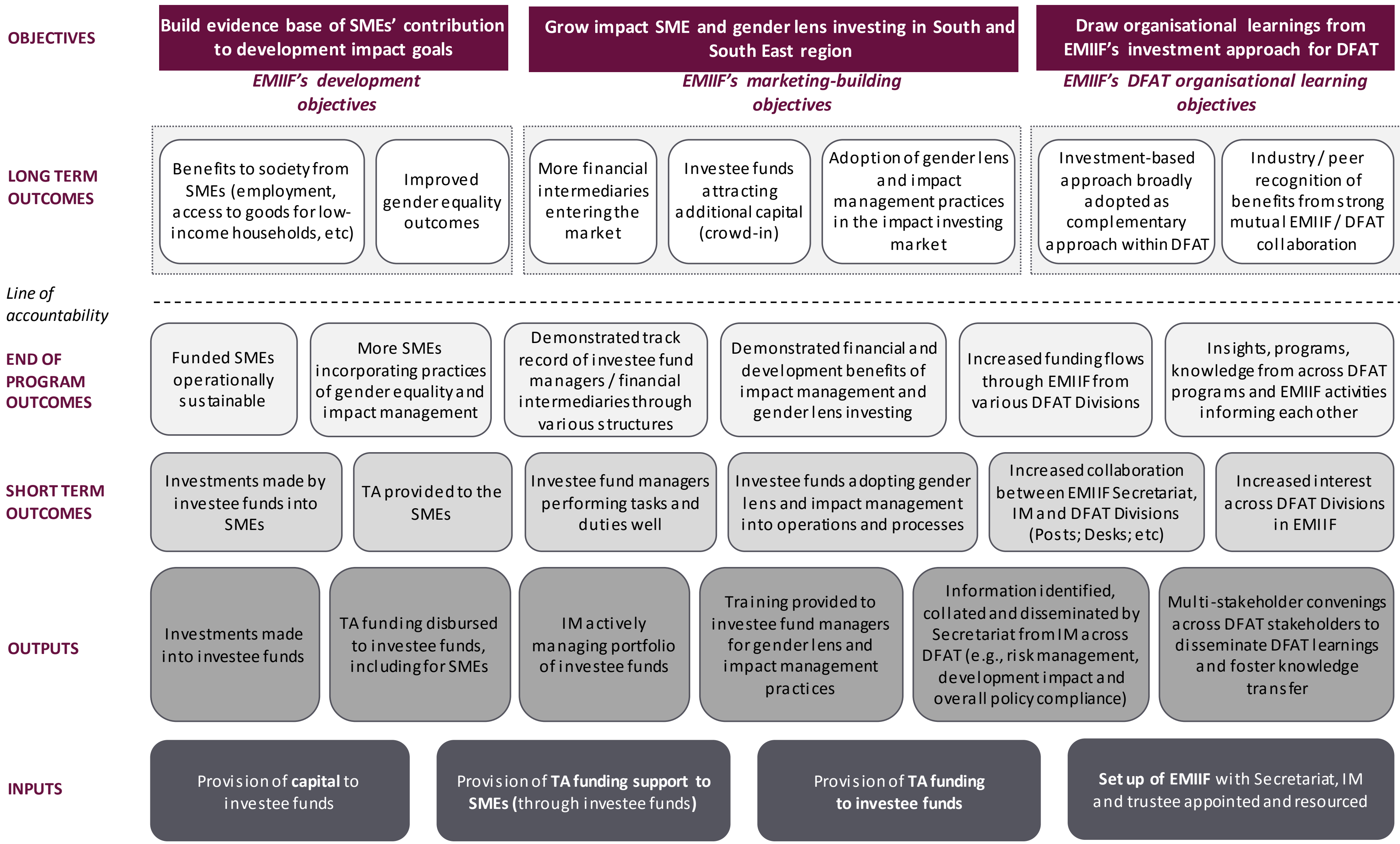
3 "EMIIF AIC Concept note", DFAT (2016).

4 Over time, opportunities may arise for EMIIF to use its investment-based capabilities to support specific DFAT programs or initiatives through specific funding windows – see *4.2.5 Extension of EMIIF's investment scope* for further details.

5 See *section VI.* Impact management for further details.

*Figure 5: EMIIF's theory of change (ToC)*



### 1.2.1. EMIIF'S MARKET-BUILDING IMPACT OBJECTIVES

EMIIF seeks to grow the impact SME and gender lens investing markets in South and SE Asia in three ways:

- **Crowd in** additional investment into SME funds in South and South East Asia actively investing in SMEs creating development impact.
- **Increase the financial intermediary** market by investing explicitly in first-time fund managers and early-stage funds. EMIIF will take on the investment risk associated with supporting a segment of the SME funds market that is currently underserved by investors, including impact investors and development financing institutions (DFIs) (see *section II. The market-building opportunity*).
- **Promote industry best practices**[6], specifically regarding impact management and gender lens investing, which contribute towards improvements in both development and financial outcomes. EMIIF will seek to broaden the industry's understanding and adoption of such approaches.

**To meet its market-building objectives, EMIIF will at times be required to play a concessionary role within the market[7].** It will act in line with the OECD Development Assistance Committee (DAC) principles[8] and in accordance with the principles as set out within DFAT's PSD strategy:

- **Additionality:** ensuring that the funding will address a specific market gap/shortfall, and does not crowd-out private-sector involvement.
- **Neutrality:** not providing any one business with an unfair advantage over its competitors.
- **Sustainability:** achieving lasting development impacts, ideally through long-term commercial viability.
- **Safeguards:** compliance with the same safeguards that apply to all DFAT aid investments, specifically regarding impact management and gender lens investing

[6] EMIIF will aim to institute best practices across the investment activities undertaken by its investee funds. Specific attention will be paid to embedding impact management and gender lens investing, acknowledging that these practices are emerging but not yet well established.

[7] EMIIF will play a concessionary role at the investee funds level only. However, investee funds are expected to target long-term commercial viability, by making investments into SMEs at commercial non-concessionary terms.

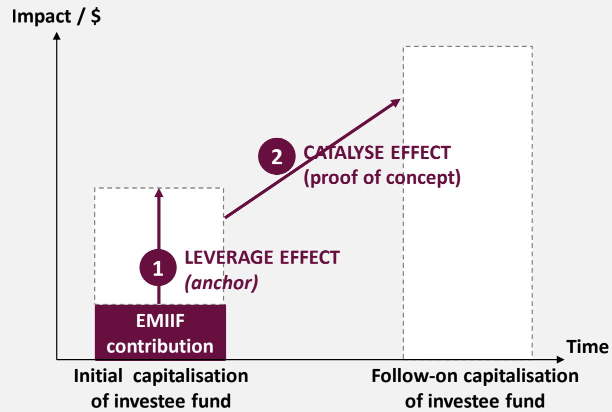
[8] "DFI Guidance for Using Investment Concessional Finance in Private Sector Operations", EBRD (2013).

***Crowd in, leverage and catalyse***

*EMIIF will seek to crowd in investment in SMEs within DFAT's target countries, which will lay the foundation for a financially sustainable SME financing sector and generate accompanying development impact. This crowd-in effect will be facilitated in two different ways.*

*First, at the time of investment, EMIIF will directly leverage additional private capital by serving as the anchor investor that supports fundraising from other investors to capitalise investee funds.*

***Figure 6: Crowd-in effect: Leverage and Catalyse***




*Second, through supporting investee funds' growth, EMIIF will catalyse their follow-on capitalisation in the medium term. Moreover, EMIIF's investments will indirectly produce a catalytic effect at the SME level, as investee funds provide initial rounds of funding to early-stage SMEs, which will mature to seek more commercial capital later on*[9]*.*

*The profile of investors that EMIIF is able to crowd in will likely vary based on expected return on capital and expected impact:*

- ***EMIIF's immediate co-investors (leverage effect) are likely to consist of international impact investors and donor impact funds****, which have an explicit mandate to build the SME financing space and have more appetite and ability to co-invest in the SME market at an early stage. EMIIF could play an important role co-investing with these investors to address a key market gap where there is a significant need for additional capital in the region.*
- ***Through investing in a nascent market, EMIIF will build the foundation for crowding in more commercially-minded investors (catalytic effect) in the long run.*** *As the market matures and fund managers demonstrate their track records, the region's SME funds will become increasingly attractive to an additional set of investors (e.g., more conservative DFIs, local investors from South Asia and South East Asia, and Australian impact investors) that are currently not willing to venture into smaller or earlier-stage investments due to their higher expected return on capital. As an early investor, EMIIF could play a critical role in building the pathway for catalysing further investments.*

**From a design perspective, it is crucial to embed EMIIF's development objectives within the processes and systems that will guide EMIIF in making its investment decisions.** This will be accomplished by:

- Selecting SME funds that are able to incorporate impact in their investment strategy and processes, including but not limited to impact investment funds and SME funds that employ environmental, social and governance (ESG) best practices;
- Observing, tracking and verifying development objectives that EMIIF contributes to;
- Embedding impact management and gender lens investing best practices within the investee funds' investment processes; and
- Allocating capital across investee SME funds that actively drive development impact.

[9] This does not exclude EMIIF from investing into second-time funds where it was not involved in the first fund. EMIIF can play a valuable market-building role in second-time funds given the nascency of the market.

### 1.2.2. EMIIF'S DEVELOPMENT IMPACT OBJECTIVES THROUGH SUPPORTED SMES

*Note: The use of the term "impact" in the development finance industry refers to any social or environmental outcomes that can be linked or attributed to the financing provided. Investors vary in how they define these outcomes depending on the objectives they aim to achieve through their development finance activities. Throughout the Design Document, we use the word "impact" as a general term to describe any intended development outcomes achieved through EMIIF's activities and the investments it is set to make.*

**At the investee fund level, EMIIF aims to achieve its development outcomes through the activities undertaken by the underlying portfolio of SMEs.** By design, EMIIF will support SMEs that are beneficial to poor communities or enhance their quality of life in a very deliberate and direct manner. These SMEs will improve the lives of the poor through their products or services, supply chains or employment practices. In addition, it will encourage investee funds to specifically target SMEs with a positive impact on gender equality —e.g., women-owned SMEs, SMEs that provide goods and services to women and girls, and those that adopt gender-friendly workplace policies. EMIIF will thereby promote the growth of these businesses and their contributions to a more inclusive economy (see more details on end of program outcomes in *section VI.* Impact management).

### 1.2.3. DFAT'S ORGANISATIONAL LEARNING OBJECTIVES

**In addition, DFAT will set a number of key learning objectives to test the strategic value of EMIIF in growing the investment market for gender lens and impact investing in South and South East Asia and determine how effective it has been at using its investment approach to achieve market-building and development outcomes.** The following questions will guide learning for EMIIF:

1. How is concessionary capital best used to achieve market-building objectives?
   *(testing the ability to bring in additional (private sector) partners to support Australia's aid effort, and the effectiveness of investing in fund structures i.e. how best to blend public and private capital to achieve development objectives)*
2. How has the market been influenced by EMIIF, including through its focus on gender lens investing?
   *(assessing the ability to shift attitudes within the SME financing space and more specifically the impact investing market by using an impact management approach)*
3. How is capacity-building assistance best delivered to support a transition from grants to commercial investment?
   *(assessing the best approach to delivering capacity building / technical assistance (TA) alongside an investment capability[10])*

A number of governments in partner countries are increasingly working with DFAT in considering how best to transition from an existing grant-based development assistance relationship to an economic partnership model. EMIIF provides a unique bilateral tool to support this transition and to explore ways in which Australian aid can strategically engage with the private sector in these countries to foster economic development. For example:

- By investing through SME funds, EMIIF will contribute to building the **diversity and depth of the financial sector** in the countries in which it works—a priority for many partner governments seeking to attract international investment to grow their economies.

[10] See *section V. Technical assistance (TA) strategy* for more details on how the transition can be supported through TA.

- By investing into SMEs that contribute towards improving the lives of the poor, EMIIF will contribute towards meeting partner governments' **social inclusion and poverty reduction** targets.

EMIIF will embed DFAT's key principles of engagement with the private sector (e.g., complementary priorities, adding value, return on investment, open and transparent and commitment to responsible business)[11].

Throughout its implementation, EMIIF's strategic value to DFAT as an investment capability that complements the existing tools such as grant-based bilateral assistance and multilateral financing will be assessed.

At the same time, building up true investment capabilities within DFAT also requires EMIIF to be designed and implemented in such a way as to allow for its operational viability and cost-effectiveness over time. This will mean:

- Ensuring that EMIIF meets a **minimum viable size** that allows the fund to rationally cover its minimum operating costs;
- Allowing for **sufficient diversification** across stages, geographies, sectors and instruments to reduce risk exposure, increase impact reach and ensure that learning objectives can be met.

While EMIIF is expected to be more cost effective than a grant-based approach, it will not seek commercial rates of return, allowing it to focus on a segment of the SME market that is currently underserved (as outlined in *section 2.3. A market-building opportunity for DFAT).*

**EMIIF will support DFAT's PSD and PSE objectives through linkages with existing programs and partners.** Current DFAT programs support SMEs in a range of ways, including providing technical assistance to assist them in becoming 'investment ready', providing grant support to individual businesses and investing through MDB partner programs. EMIIF provides many opportunities for linkages—both internally within DFAT's existing programs and externally with other DFIs, donors and partner governments—to foster the growth of an inclusive and sustainable SME financing market in the region.

Examples of linkages include:

- Providing a financing opportunity (through EMIIF investee funds) for investment-ready SMEs that currently receive grant-based support from DFAT or are incubated and/or accelerated through DFAT supported programs. For example, businesses supported by the PRISMA program in Indonesia, 3i program in Cambodia, or Scaling Local Innovators across the Indo-Pacific could be introduced to EMIIF investee funds to be considered for inclusion in their pipeline;
- Facilitating knowledge sharing between existing DFAT programs and EMIIF to further strengthen the capacity-building provided to SMEs to ensure that they meet investor criteria;
- Improving the investment climate by drawing on the experience of EMIIF investee funds to share with both DFAT staff and implementing partners managing programs. This will ensure that programs are better targeted and addressed towards the constraints faced by investors;
- Developing an investment pipeline of funds and SMEs that can transition into the growth stage, where many other investors (including MDB partner programs) are focused;
- Crowding in other investors (including DFIs) into the underserved early-stage and small-sized SME financing space; and,

[11] DFAT's key principles of engagement accessed here: http://dfat.gov.au/about-us/publications/Documents/strategy-for-australias-investments-in-private-sector-development.pdf.

- Sharing lessons learned on employing an impact management and gender lens investing approach, including sharing any relevant databases of analysis or studies that could inform better investments.

Many existing PSD programs work to improve the functioning of particular markets or value chains like for example the PRISMA program or MDF. EMIIF adds the ability to solve for financing challenges and influence investor behavior, which is often seen throughout PSD programs as a key constraint for businesses to succeed.

**DFAT Divisions will have the opportunity throughout EMIIF's implementation to engage with EMIIF and its investee fund managers**, which will be coordinated through the EMIIF Secretariat. This can take many forms, ranging from providing referrals on prospective investee funds, SME opportunities, sharing market analysis and insights from program specific experiences and/or the business enabling and policy environment in the countries where EMIIF and its investee funds will be operating.

DFAT Divisions – especially Posts in the countries where EMIIF's investee funds will be active – will also be consulted at the early stages for due diligence on investee fund managers to highlight any potential reputational risks.

EMIIF will **allow DFAT Divisions to deepen their relationships with private sector actors**, such as financial intermediaries; co-investors to EMIIF-supported investee funds (anticipated to be US and EU foundations, donor investment funds (such as the UK, Dutch, Nordic Development Fund and AFD) as well as Australian and other regional impact investors.

EMIIF will also **provide public diplomacy opportunities for DFAT Posts across its portfolio of investee funds and underlying SME businesses**. For example, early impact investors in Joma—a chain of bakeries and cafes in South East Asia that provides sustainable employment to at-risk women and victims of abuse, violence or human trafficking—have played a catalytic role by providing the initial funding for Joma to grow and subsequently secure follow-on financing to expand to 12 cafes across Vietnam, Laos and Cambodia. This kind of investment, as would be made by SME funds EMIIF invests in, provides many opportunities to engage with like-minded investors and organisations and promote DFAT's involvement and influence, with private sector and government counterparts.

Once EMIIF is operational, the Secretariat will actively engage with DFAT Divisions and Posts to promote such engagement through **regular roadshows and annual convenings** to be organized at various DFAT Posts. This will build up a close understanding and mutual learning opportunity between the DFAT Divisions and EMIIF's investment manager on the relevant programs and country specific context and reputational risks to be managed.

It is important to note, however, that EMIFF's roll out will not require any specific resourcing from the DFAT Posts in countries where EMIIF's investee funds will be active. All operating costs such as office set up, etc. will be borne by the investee fund managers themselves and EMIIF will be set up to operate independently through its investment manager, with DFAT resourcing coming from the Secretariat in MDD, rather than as a DFAT program being rolled out through a DFAT Post.

**EMIIF, and the investment manager contracted to manage EMIIF on DFAT's behalf, will provide DFAT with the technical investment capability required to effectively and efficiently use an investment approach to crowd in private finance for development in the Indo-Pacific.** DFAT programs with an interest in taking an investment approach will be able to use the structure of EMIIF and the skills and capabilities of its investment manager to implement specific investment mandates. *Section X. Investment manager considerations* includes more information on this process.

# II. THE MARKET-BUILDING OPPORTUNITY

## 2.1. BACKGROUND ON SME FINANCING

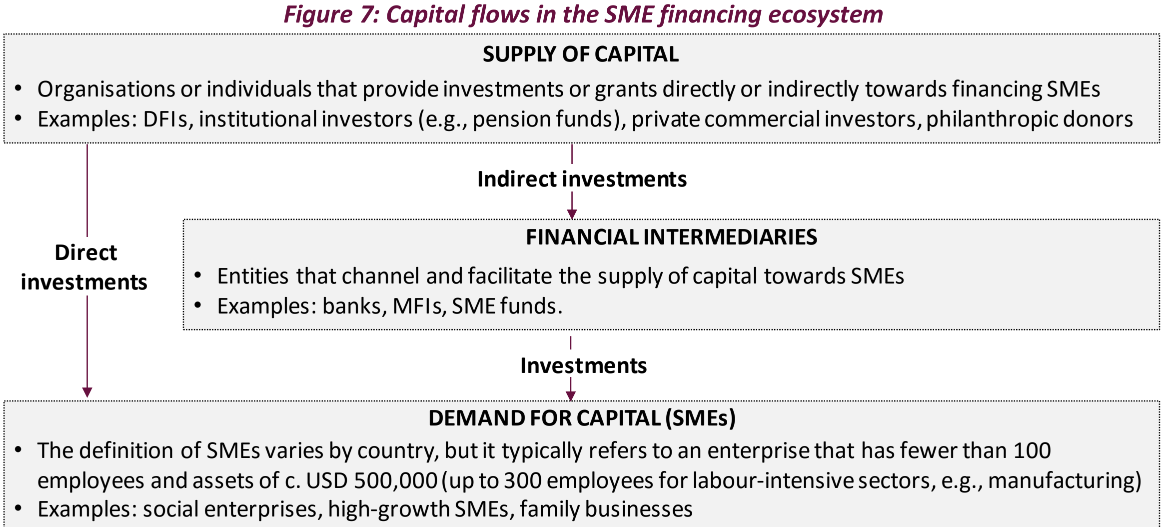
**SMEs are widely accepted as drivers of inclusive economic growth and poverty alleviation**. Formal SMEs comprise 95% of all enterprises globally and provide up to 45% of employment in emerging economies[12]. SMEs are an important source of income and self-employment for low-income households in developing countries, particularly in peri-urban and rural areas, as the majority of SMEs are owned by lower-middle and low-income households.

**Women-led SMEs make up a sizable portion of this market**. Of the approximately 40 million formal SMEs globally, about a third (roughly 12 million) are women-owned. This figure does not account for the vast majority of women-owned SMEs that operate in the informal sector. In addition to strong positive correlation with GDP per capita and the percentage of SMEs that are owned by women[13], evidence suggests that women-owned SMEs tend to employ more women, resulting in indirect benefits as women reinvest earnings into their families[14].

**Apart from stimulating the economy through job creation, SMEs play a critical role in supporting local markets and supply chains and are a key source of innovation and competition.** Many SMEs play an important role in improving livelihoods and providing goods and services to local communities, particularly for the low-income population. For example, a number of innovative energy technology enterprises operating in developing countries have introduced low-cost solar home system solutions to improve access to energy for the rural poor. In addition to job creation, SMEs enhance competition and entrepreneurship and thus boost efficiency, innovation and productivity growth in the economy.

**In order to operate and grow, SMEs require financial capital, which they raise directly from capital holders and/or indirectly through financial intermediaries.**

*Figure 7: Capital flows in the SME financing ecosystem*




[12] "Small Enterprise Impact Investing", Symbiotics (2015); "Small and Medium Enterprises Finance", World Bank (2015). These numbers are significantly higher when informal SMEs are included.

[13] "Giving credit where it is due: How closing the credit gap for women-owned SMEs can drive global growth", Goldman Sachs (2014).

[14] "IFC Jobs Study: Assessing Private Sector Contributions to Job Creation and Poverty Reduction", IFC (2014).

## 2.2. THE SME FINANCING GAP IN SOUTH AND SOUTH EAST ASIA

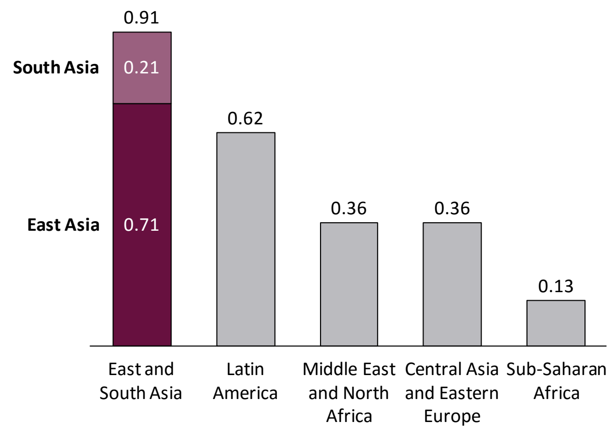
### 2.2.1 THE CHALLENGE OF ACCESS TO FINANCE FOR SMES

**South and South East Asia are poised to become the world's largest hub for SMEs**. The formal SME sector in Asia is expected to grow by 2% to 4% each year for the foreseeable future; already, it accounts for 62% of the region's total employment and 42% of GDP[15]. Specifically in ASEAN member countries, the number of SMEs as a proportion of total establishments is upwards of 88%, contributing 50 – 90% of total employment in those countries.

**However, the majority of SMEs in the region lack access to the capital required for their survival and growth.** In 2011, between 40% – 50% of SMEs in South and South East Asia were unserved or underserved in terms of access to traditional bank financing.

This translates into a total credit gap of USD 0.9 trillion in South and South East Asia, almost 40% of the total SME financing gap in developing countries globally[16]. Investment in the region is also declining: early-stage investment dropped by 40% while growth stage deals dropped by 62%[17] over the last year.

*Figure 8: Total credit gap for SME finance in developing countries[18] (USD billion)*




**The region is also host to a large number of women-owned SMEs that face greater challenges in accessing capital.** Over one-half of the 7 million women-owned SMEs in developing regions are in East Asia[19], where less than 30% of bank loans go to women-owned SMEs. Despite the growth and contribution of women-owned businesses in both the formal and informal sector, they struggle to access finance.

**The confluence of financial, technical and regulatory challenges creates a gap between capital seeking to invest in SMEs and SMEs looking to secure much-needed financing**. A number of factors contribute to the challenge of access to capital for SMEs, including limited management capacity for growing businesses in emerging markets, lack of collateral, misapplied financing at critical growth stages, policy restrictions on investment structure, and barriers to doing business—including foreign investment restrictions[20]. Cultural or religious factors that shape social interactions (e.g., exposure to knowledge and business finance) and institutions (e.g., legal rights) tend to exacerbate these challenges for women entrepreneurs and further hamper their ability to access finance.

**These challenges are particularly acute for early-stage SMEs in developing countries.** Early-stage SMEs often do not yet have stable revenue streams or assets for collateral, which restricts their access to most

[15] "SME Finance Monitor", ADB (2014).

[16] "IFC Enterprise Finance Gap Database", IFC (2011).

[17] "Emerging Asia Data Insight", Emerging Market Private Equity Association (2016).

[18] "IFC Enterprise Finance Gap Database", IFC (2011).

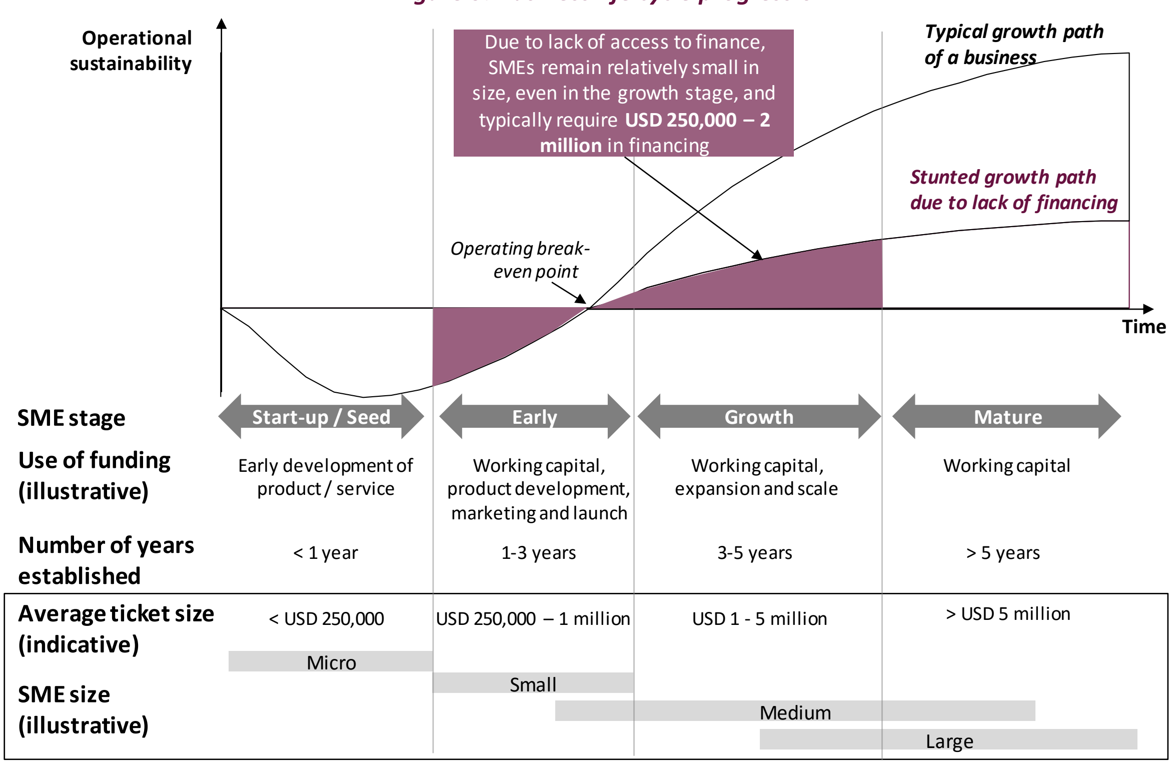
[19] Ibid.

[20] "The Landscape of Impact Investing in South Asia", GIIN & D. Capital (2015).

commercial forms of financing. At the same time, only 19% of total global impact investments goes to seed and early-stage enterprises[21]. There is no comprehensive estimate of the size of the total financing gap for early-stage SMEs in South and South East Asian markets; however, it is expected to account for a large portion of the overall SME financing gap, given the increased challenges that these SMEs face, as well as the mismatch between the risk profile of early-stage SMEs and investors that are active in the market (see Figure 13).

**Early-stage SMEs often face challenges in accessing adequate capital to grow, which can result in a stunted growth path.** Despite their progression along the business life cycle, these SMEs remain small in size as they are not able to fully realise their growth potential. Companies comprising this segment of the market are often referred to as the "missing middle" because they are too large to qualify for MFI loans yet too small to be considered by commercial private equity or debt funds; at the same time, they are too far along their business life cycle to be considered by angel investors, yet their underlying growth model is too conservative for venture capital. Furthermore, as the financing gap analysis earlier in this section explained, bank loans are challenging to obtain in these markets, and even more so for smaller-scale enterprises which have little or no collateral. Figure 9 illustrates different ways of segmenting the SME market.

*Figure 9: Business life cycle progression[22]*




**Based on typical growth path of a business**

**There is a significant need of capital for both early-stage SMEs and small-sized SMEs that experience a stunted growth path.** Based on their business life cycle and financing needs, these two SME segments typically represent a ticket size of USD 250,000 to USD 2 million.

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[21] "Annual Impact Investor Survey", GIIN, J.P. Morgan (2016).

[22] SME size is illustrative and for the purpose of relative comparison only.

### 2.2.2 THE ROLE OF FINANCIAL INTERMEDIARIES

**Financial intermediaries play an important role in the capital market by aggregating available capital across investors and facilitating access to a highly fragmented SME market.** They also hold key knowledge and information about local markets, which allows them to channel capital more effectively and at scale. Many DFIs and large financial institutions recognise the benefits of delegating hands-on investment management to financial intermediaries, and choose to invest through commercial banks, microfinance institutions (MFIs) and SME funds with the requisite local presence and specialised SME focus.

***Case study: FMO shifting from an indirect to a direct investing approach***[23]

FMO Entrepreneurial Development Bank

*The Dutch development bank FMO has invested in the private sector in developing countries and emerging markets for 47 years and currently has a €5.3 billion committed investment portfolio.*

*FMO initially made the majority of its investments in SMEs in emerging markets indirectly (fund of funds approach) through financial intermediaries such as commercial banks, SME banks, and SME funds. Over the years, FMO has built up an investment portfolio of €1.5 billion in SME financing through 150 financial intermediaries across the world. As it developed knowledge about the underlying SME markets, FMO has since shifted its investment strategy more towards direct investments, which allows the bank more control over investment decisions and the underlying portfolio, as well as delivers improved financial returns. This transition required a significant amount of internal capacity-building through almost a decade of experience in direct and indirect investments in those markets. Despite the shift, FMO continues to fund intermediaries in recognition of the important and complementary role they play in the market in financing SMEs.*

***This experience, not unique to FMO, supports the fund of funds approach taken by EMIIF—especially given the opportunity to build DFAT's internal investment approach capability through EMIIF and EMIIF's market-building objectives.***

**EMIIF can best address the early-stage SME financing gap in South and South East Asia through building the layer of financial intermediaries, specifically SME funds, which serve the underlying SME markets.** Compared to other financial intermediaries (i.e., banks and MFIs), SME funds:

- **Have the ability to address the financial needs of early-stage SMEs**. Unlike banks and MFIs, which provide fixed product offerings, SME funds are able to provide a range of instruments that can be tailored to the individual financing needs of SMEs. For example, a number of funds in the region, such as Insitor Seed Fund and Anthem Asia, provide mezzanine financing and convertible debt, which allows for more flexibility compared to traditional financing instruments. Given the diverse set of business models adopted in the region, ranging from high-growth start-ups to standard growth businesses, allowing for flexibility is important for ensuring that early-stage SMEs are able to adopt capital structures that are well suited for their business models.
- **Provide essential support to develop early-stage SMEs.** Many early-stage SMEs do not yet have sufficient capacity to grow optimally. SME funds, particularly those focused on early-stage financing, such as Unitus Impact's Livelihood Impact Fund and Unitus Seed Fund, recognise the need to provide

[23] D. Capital Interview (2017).

business support and often take a hands-on approach by supplying technical assistance to SME owners to improve the business performance of their investees.

- **Have greater flexibility and ability to integrate development impact as part of their investment process.** SME funds are able to build a pipeline of opportunities, tailor their investment approach and select investments catered to the needs of their investors. A number of SME funds in the region—such as Lotus Impact Fund, IIX Growth Fund and LGT Impact Ventures—employ a gender lens investing approach; implement impact management; and/or incorporate strong ESG standards in their investments. This allows investors working with a socially focused mandate to ensure that their capital is being placed in a way that explicitly targets both financial and impact metrics.

While the financial sector in Asia has rapidly developed over the past decades—in fact, Asia is often viewed as the leading continent in terms of MFI activities—SME funds in the region suffer from limited access to capital, especially seed and early-stage SME funds.

Within DFAT's target countries, **SME funds that focus exclusively on seed and early-stage funding manage an estimated less than 6% of total assets under management (AuM)**[24].

Across a survey of 28 SME funds currently fundraising in DFAT's target countries, over 70% of the total fundraising targets have not been met. **This amounts to a funding gap of over USD 400 million, of which 66% is needed for SME funds that provide early-stage SME financing[25].**

**Several interrelated drivers explain this funding gap.** The marketplace of early-stage SMEs has a lower proportion of investment-ready targets than more mature market segments, which likely requires SME fund managers to spend more time and resources generating a sufficient pipeline. Also, successfully investing in early-stage enterprises often requires SME fund managers to work more directly and intensively with the enterprise, which is costly and requires a skillset that not all SME fund managers possess. Currently, many early-stage-focused SME funds in the region are also first-time funds, which makes it difficult to secure investors, since they must have both the risk appetite and a willingness to make the first move. This further exacerbates the inherent fundraising challenges that SME funds face. As a result, SME fund managers cite long lead times for fundraising, which delays their ability to support many SMEs that require urgent access to capital to ensure the liquidity and functioning of their businesses[26].

[24] D. Capital analysis; "EMIIF Market Landscaping Analysis", Palladium (2016).

[25] Ibid.

[26] D. Capital interviews (2017).

### 2.2.3 The gap in supply of capital

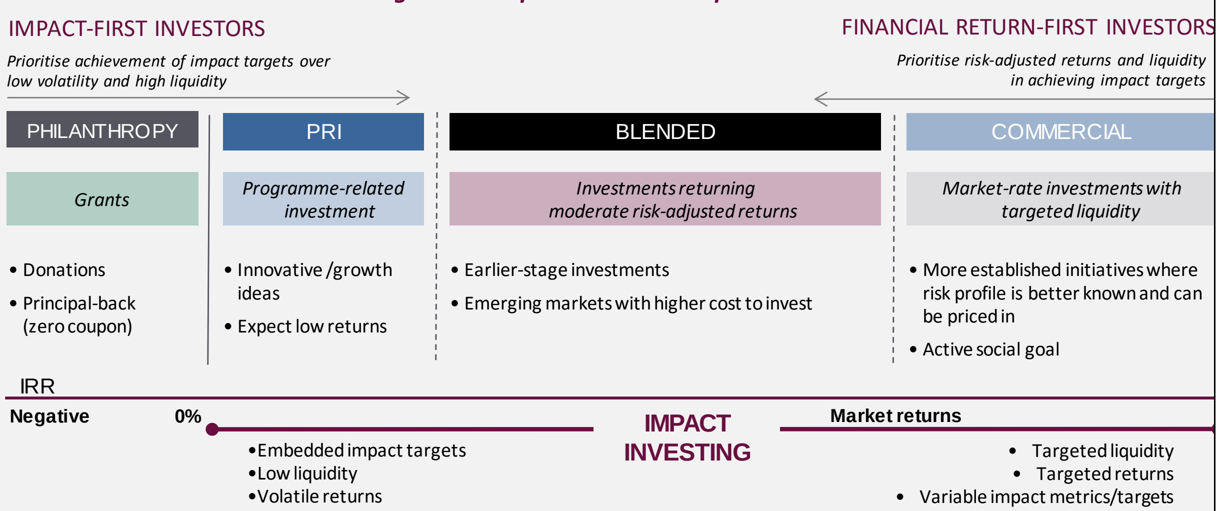
While the sources of capital in emerging markets for SME financing are wide-ranging, **impact investors play an important role in the SME financing space, due in large part to the strong linkages between SME growth and poverty reduction.**

***About impact investing***

*Impact investing refers to a wide spectrum of funding models along the risk-return-impact spectrum that are targeting both financial returns and explicit social/environmental impact objectives. At one end of the spectrum, impact investing can take the form of program-related investments (PRIs)*[27] *by foundations that would otherwise deploy grants, but are instead legally enabled to deploy funds with an objective of preservation of capital.*

*Further along the spectrum, more blended impact investment models target moderate risk-adjusted returns; these models require an appetite for supporting investments such as start-up/early-stage business models in higher-risk markets and accepting longer lockup periods. And at the other end of the spectrum, there are impact investors who have more commercial risk-adjusted return expectations and shorter liquidity horizons; these investors must still be actively targeting social/environmental impact to be considered impact investors, but will more likely seek out mature, proven instruments and business models.*

***Figure 10: Impact investment spectrum***



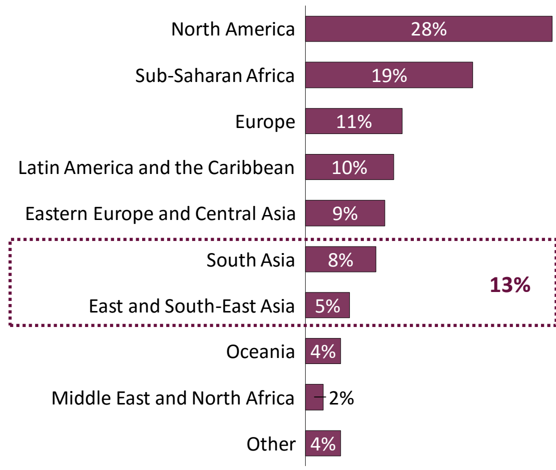

27 *Program-related investments* (PRI) is a term used primarily in the US to refer to funding provision by charitable organisations that takes the form of an investment (i.e., has the potential to generate financial returns). The concept of PRI is also used more broadly in other regions (e.g., Europe, Australia); however, charitable organisations within different jurisdictions will need to adhere to local legislation, which may be different from what is applicable in the US.

**However, despite hosting over 70% of the world's low-income population, less than 15% of global impact investments are currently made in East, South and South East Asia[28].**

**DFIs are an important source of capital for impact investment in these markets, providing up to 90% of total known capital deployment[29].** They play a key role in catalysing nascent markets by acting as an anchor investor to inspire confidence on the part of other potential investors and by shifting the risk-reward profile of investments to attract more commercial or risk-averse investors. For example, as a result of OPIC being an anchor investor in Unitus Impact's Livelihood Impact Fund, Unitus Impact was able to attract further financing from other investors such as Rockefeller Foundation and Christian Super.

***Figure 11: Total AuM by geography[30]***

*n= 153; AuM-weighted average; total AuM = USD 50 billion*




In addition, DFIs in particular play an important role in promoting gender equality through their investment approaches (e.g., the IFC has been leading this through applying an extensive gender lens focus within their strategies).

**Despite the strong demand for seed and early-stage financing, existing investments from DFIs are focused on growth-stage financing.** Across the 12 identified SME funds that received funding from DFIs, only three focused exclusively on seed and early-stage SMEs. The majority of the funds (7 out of 12) receiving funding from DFIs exclusively invest in growth-stage SMEs[31]. Many DFIs are not well positioned to invest in SME funds that focus on seed and early-stage finance, due to:

- High risk-return expectations associated with investing at the early-stage level;
- Small ticket (and/or fund) sizes leading to high fund operational costs;
- Preferences for specific instruments (e.g., debt) which may not be well suited for seed and early-stage SMEs; and/or
- Reluctance to invest in first-time fund managers lacking a sufficient track record.

Nevertheless, **a small number of DFIs are beginning to address this issue by establishing separate funding vehicles dedicated to investing in first-time fund managers and/or seed and early-stage finance**. The DFID Impact Fund[32] has demonstrated early success through funding early-stage SME funds such as Insitor Impact Asia Fund, for which it provides first-loss guarantees on the investments made by the fund manager to leverage additional capital. While the DFID Impact Fund does not have an explicit focus on seed and early-stage finance, its focus on businesses oriented towards serving the low-income population has led to an investment strategy including the early-stage segment of the market. In turn, IFC SME Ventures operates as a pioneering SME funds program in post-conflict and fragile economies and has made investments in first-time fund managers in nascent markets such as Bangladesh (SEAF Bangladesh) and Sierra Leone (West Africa Venture Fund).

[28] "Annual Impact Investor Survey", GIIN, J.P. Morgan (2016).

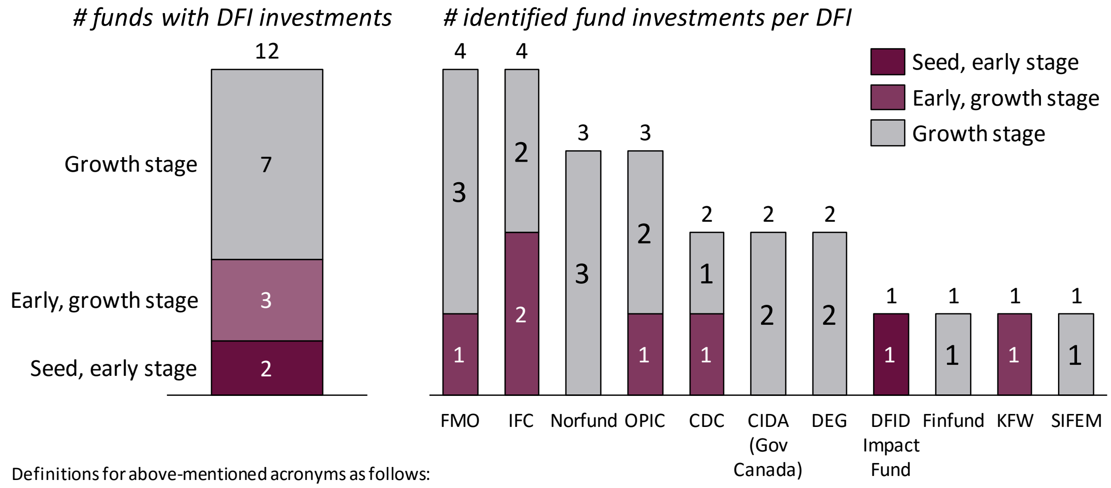
[29] "The Landscape of Impact Investing in South Asia", GIIN & D. Capital (2015).

[30] "Annual Impact Investor Survey", GIIN, J.P. Morgan (2016).

[31] D. Capital analysis; "EMIIF Market Landscaping Analysis", Palladium (2016).

[32] Within EMIIF's target region, the DFID Impact Fund focuses only on Bangladesh, Sri Lanka and Myanmar.

***Figure 12: Distribution of DFI funding across identified funds active in DFAT target countries[33]***




Definitions for above-mentioned acronyms as follows:
CDC = Commonwealth Development Corporation; CIDA = Canadian International Development Agency; DEG = Deutsche Investitions- und Entwicklungsgesellschaft; DFID = Department for International Development; FMO = Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden; IFC = International Finance Corporation; KFW = Kreditanstalt für Wiederaufbau; OPIC = Overseas Private Investment Corporation; SIFEM = Swiss Investment Fund for Emerging Markets

**There is a great need for a more dedicated focus on supporting seed and early-stage SME funds in South and South East Asia.** The overall growth of the capital market in the region is currently constrained by the limited ability of SMEs to progress along the business life cycle. At the SME level, early-stage SMEs need much more financing and technical assistance support to mature into opportunities that are investor-ready for growth-stage funds. At the financial intermediary level, there is a need to build and strengthen the layer of early-stage-focused and first-time SME fund managers into investable opportunities, in order to increase the ability of impact-focused commercial capital to be deployed and ultimately to crowd in more private investments into the market.

***Case study: Asian Development Bank Private Equity Fund Operations***

ADB

*ADB first invested in private equity funds (PEFs) in 1983 primarily to promote growth of SMEs in developing countries. At the time, SME financing in Asian markets was nascent even for growth-stage financing.*

*From the early 1980s to late 1990s[34], ADB played critical role in catalysing private investments into the market through incubating, anchor funding and supporting first-time fund managers[35]. Over time, the PEF market in Asia has grown exponentially, reaching annual deal values of USD 125 billion in 2015.*

*ADB's current portfolio in Asian PEFs exceeds USD 800 million across more than 60 PEFs. Most of this capital is invested in funds with a focus on growth-stage financing, in the Chinese and Indian markets. ADB is increasingly investing in South East Asian countries, but remains focused on relatively developed markets such as Malaysia and Indonesia, with some investments in the Philippines and Vietnam.*

*ADB's position in the market has evolved over time, as reflected by its return expectations and risk investment profile. ADB is increasingly targeting early-stage financing, yet it takes a deliberate commercial position in investing, and requires a demonstration of fund manager's track record.*

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33 D. Capital analysis; "EMIIF Market Landscaping Analysis", Palladium (2016).

34 "Evaluation study of private equity fund operations", ADB (2008).

35 D. Capital interviews.

## 2.3. A MARKET-BUILDING OPPORTUNITY FOR DFAT

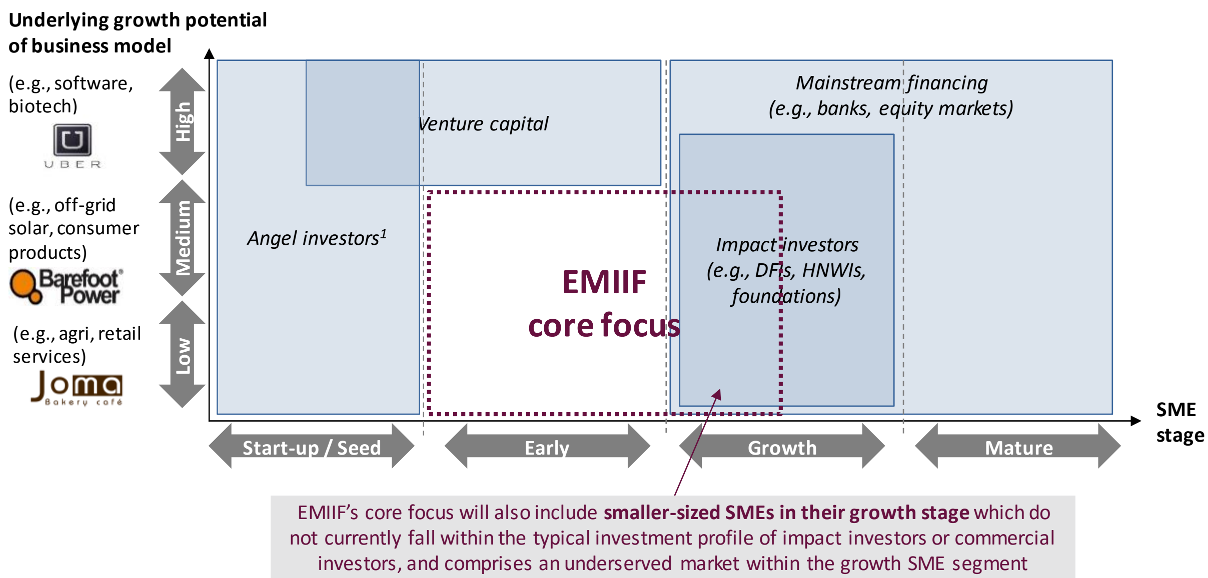
**The establishment of EMIIF will allow DFAT to play a unique role in the South and South East Asian market.** EMIIF's primary market-building objective will be to build the SME funds market in order to reduce the access-to-finance challenge for businesses that are most underserved because their business profiles do not match the investment requirements of other investors in the market, such as MFIs, angel investors, venture capital, impact investors and mainstream investors (see Figure 13).

Hence, EMIIF will have a core focus on investing in SME[36] funds that currently serve, or have strongly indicated the intention of serving:

- SMEs requiring USD 250,000 to USD 2 million of financing (equity, debt or mezzanine)
- SMEs that are in the early stage of the business life cycle (at least one year of business operations), or have had significant challenges in accessing capital at the early stage, and hence are not able to grow; SMEs in their seed or start-up phase will not be targeted
- SMEs that adopt a more traditional business focus and are not typically high-growth technology businesses.

While a broad range of market-building initiatives exist in the SME space (e.g., SME incubators, specialist SME investment consultant firms, placement agents, brokers and other financial intermediaries), **EMIIF will specifically focus on deploying capital to SME funds, which represent a significant gap in the market.** In addition to providing capital to these SME funds, EMIIF will consider the key underlying barriers, identified in *section 2.2.1 The challenge of access to finance for SMEs,* which are currently preventing SMEs from accessing adequate capital. In order to address these challenges, EMIIF will specifically provide TA to its investee funds to address internal barriers (e.g., limited management capacity, lack of business and financial skills, ineffective business operating processes) alongside its investments, as detailed in *section V. Technical assistance (TA) strategy*.

***Figure 13: Mapping of investors across SME segments***

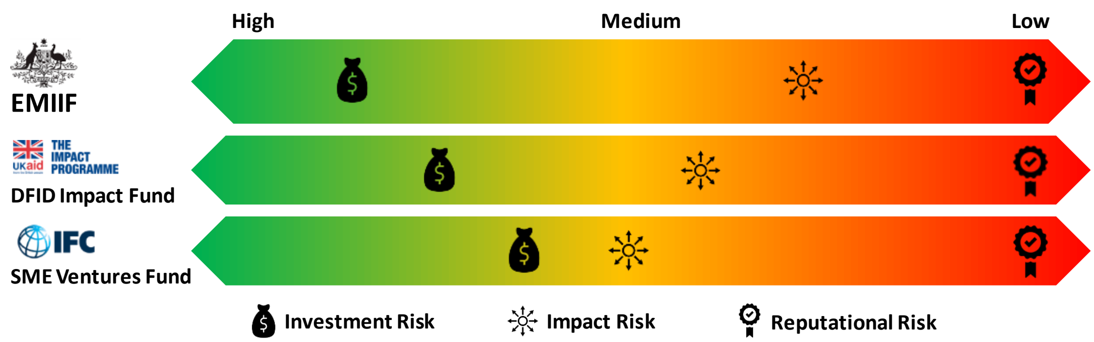



[36] While micro enterprises and larger enterprises are not excluded from EMIIF's investment mandate, they do not represent its core focus.

**EMIIF can adopt a risk profile that is well suited towards encouraging more private capital to flow into SMEs by addressing key risks perceived by investors.** This will consist of three core components:

- **High investment risk tolerance.** A key barrier to commercial investment in a nascent SME funds market and in early-stage SMEs is the potentially high probability of not achieving expected financial rates of return due to the mismatch between investors pricing of risk and the SMEs' growth models and probability of attaining operational viability. By investing into SME funds under more concessionary terms, EMIIF will lower the investment risk of other investors to participate at this nascent stage of the SME financing market[37].
- **Low impact risk tolerance.** Achieving development impact will be at the core of EMIIF's investment strategy. EMIIF will provide TA funding alongside its investments to ensure that investee funds are able to achieve their impact potential. In doing so, EMIIF will create greater confidence and awareness among investors.
- **Zero reputational risk tolerance.** As with other DFIs and government agencies, EMIIF will strictly safeguard the Government of Australia's reputation and/or relationships against any unethical practices being undertaken or supported by EMIIF. This positioning will provide strong reassurance to other investors around the credibility of investee funds in target markets with which they might be less familiar.

*Figure 14: Comparison of DFI risk tolerance profiles*




EMIIF can look to build on the momentum created by existing investors in the impact investing space and to adopt their best practices to support sound and effective financial intermediaries.

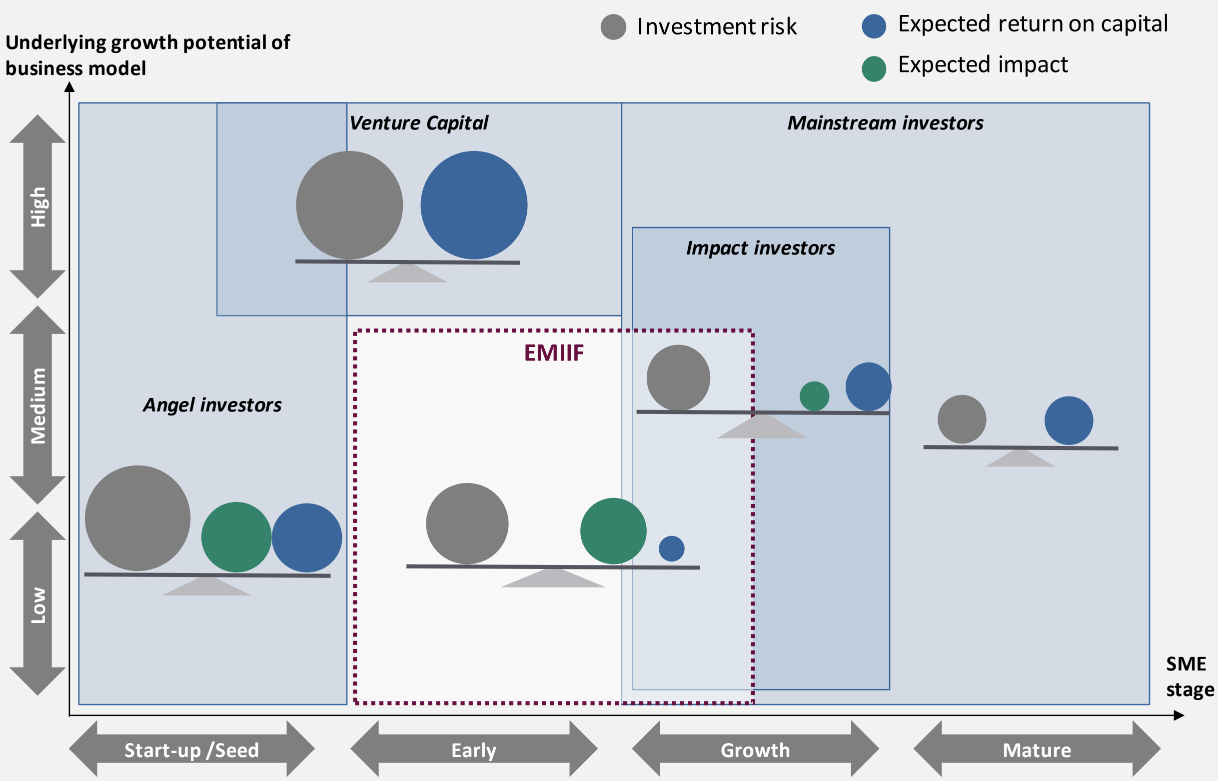
[37] It is noted that other than providing technical assistance, it is expected that EMIIF's investee funds will provide their financing to their invested SMEs in accordance with local financial market terms – apart from the provision of specific technical assistance that can be made available to the underlying SMEs.

***Risk-return profiles of investors***

***Investors choose the segment of the SME financing spectrum that they invest in based on their risk-return profile.*** *Typically, the investment risk of investing in an SME is related to both its stage of development (higher probability of failing to become sustainable in the early stages of business life cycle—see* Figure 9*) as well as its business model (business models that are unproven may have higher growth potential but also have higher risks associated with them). An investor's risk appetite will largely determine where within the SME segment it wishes to invest—venture capital and angel investors, for instance, have fairly high risk appetites compared to more mainstream investors.*

***However, the attractiveness of an investment is always assessed by weighing its investment risks against the expected returns it is able to provide.*** *While commercial investors refer solely to the expected financial returns on the capital that is invested, impact-oriented investors (e.g., DFIs, venture philanthropist, impact funds) recognise the expected impact that can be achieved through an investment as an added return on the investment, in addition to its expected financial return. As such, they may not choose to invest in opportunities that maximise the expected financial return on capital and instead incorporate the expected impact that can be achieved through the investments when assessing the overall investment risk. Given the dual forms of expected returns that complement each other to counterbalance against such investment risks, there is flexibility for impact investors to decide to what extent they wish to blend the expected return on capital with the expected impact for a particular investment strategy.*

***Figure 15: Proposed market positioning in terms of investment risk-return on capital-impact profile***



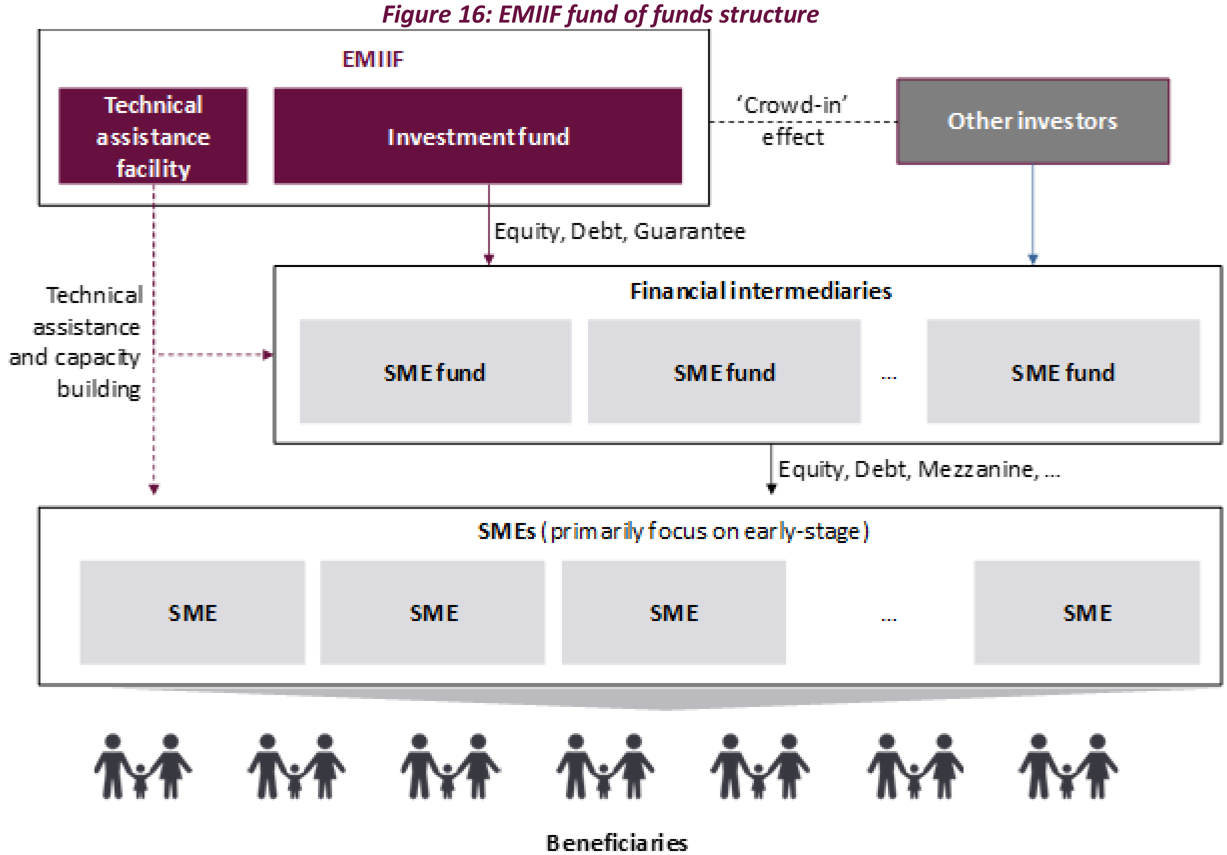

*Due to the positioning of its risk and return profile, EMIIF can play a unique role in the market:*

- *In comparison to all other (commercial and impact) investors in the market, it is able to take a more concessionary position by investing under more concessionary terms into investee funds with greater expectations of achieving development and market-building impact.*
- *In comparison to other impact investors in the market (e.g., DFIs), it can invest in the early stages of a nascent market.*

**In order for EMIIF to play a market-building role in the SME financing space, it will invest in SME funds that provide early-stage SME financing within the South and South East Asian region.** As discussed previously, there is a clear market opportunity for EMIIF to:

- **Increase flows of capital to early-stage SMEs**. Access to capital for early-stage SMEs in South and South East Asia remains an issue. By acting as an anchor investor in SME funds focused on early-stage SMEs, EMIIF will aim to crowd in additional investments to address a critical gap within the target market.
- **Build up the track record and technical capabilities of investee funds.** Given the nascent nature of the market, SME fund managers in the region often have a limited track record. EMIIF will focus on building the intermediary layer within the SME financing ecosystem by providing capital where there is a greatest market gap and by providing TA to build the capabilities and track record of these investee funds.
- **Establishing best practices in SME financing.** EMIIF's positioning as an anchor investor in its investee funds will provide an opportunity to shape the funds' investment approaches—for example, regarding the adoption of impact management and gender lens investing practices. This will allow EMIIF to achieve its development impact objectives and at the same time to promote impact investing best practices within the region.

*Figure 16: EMIIF fund of funds structure*



***About gender lens investing***

At its core, gender lens investing incorporates a gender analysis into financial analysis in order to achieve better outcomes[38]. Gender lens investing builds the consideration of gender (e.g., gender biases, gender patterns, risks related to gendered behaviour) into the investment process, which allows the investor not only to achieve better gender equality outcomes, but also—when it is done well—to obtain improved financial outcomes.

Recognising the importance of gender equity and gender dynamics in shaping the way societies and economies operate, a number of investors have integrated gender considerations into their investment strategies. A few examples of investors active in South and/or South East Asia include (i) DFIs such as ADB, USAID and IFC; (ii) microfinance institutions such as Grameen; and (iii) local investing networks such as the Global Entrepreneurship Program-Indonesia.

These investors often focus on specific objectives for gender outcomes—for example:

- Increasing access to capital for women entrepreneurs and businesses that have women in leadership positions
- Promoting gender equity in the workplace by investing in private sector companies with leading gender policies that also extend across their supply chains
- Increasing the number of products and services that benefit women and girls by directing capital to socially responsible businesses that develop and offer these products and services

However, gender lens investing is not limited to developing a mandate for improving gender equitable outcomes and tracking metrics against these objectives:

- It involves a deeper integration of gender lens practices into the analytical process that ultimately drives investment decisions.
- It should also be seen as an approach in which finance could be used to address social issues related to gender, such as trafficking and violence against women.

Through its Investing in Women Initiative, DFAT is aiming to encourage the adoption of gender lens investing approaches within the impact investing community in South East Asia. Specifically, Investing in Women aims to increase investment into women-owned SMEs in Vietnam, the Philippines and Indonesia.

[38] Definition by Criterion Institute.

# Part B:

## EMIIF Design

EMIIF design will build on six key design components:

- **Legal structure and governance:** the legal structuring of EMIIF and related governance structures.
- **Investment strategy:** the investment scope, approach and processes that will guide EMIIF's investments, in line with its targeted impact objectives.
- **Technical assistance (TA) strategy:** the TA focus, approach and processes that will facilitate capacity building, investment readiness and the ultimate success of EMIIF's investments.
- **Impact management (including gender lens investing approach):** the frameworks and processes that drive the implementation of EMIIF's impact strategy.
- **Risk management:** the frameworks and processes for identifying, assessing and mitigating risks arising from EMIIF activities, at the design level and throughout the investment management process.
- **Fund economics:** EMIIF's targeted fund allocation, cost structure and cash flows.

Both impact and risk are fully embedded within the design of EMIIF and will be managed across the investment process. The approach to *manage* rather than only *measure* impact and risk incorporates current best practices within the impact investing space.

***Figure 17: Design components***

**Legal structure & governance**

- Legal structure
- Governance

**Investment strategy**

- Investment focus and scope
- Investment approach
- Investment management process
- Reporting and communication framework

**Technical assistance strategy**

- TA focus and scope
- TA approach
- TA management process

**Impact management (incl. gender lens)**

- Impact management strategy
- Detailed impact management frameworks
- Managing impact across EMIIF's investment process

**Risk management**

- EMIIF design-level risk framework
- Managing risk across EMIIF's investment process

**Fund economics**

- Targeted fund allocation, cost structure and cash flows

# III. LEGAL STRUCTURE AND GOVERNANCE

The legal structure and governance of EMIIF are designed with the objective of balancing the appropriate level of DFAT's strategic control over EMIIF with the required flexibility to effectively implement EMIIF's investment strategy.

They draw from best practices across the impact investing and development finance community and are designed to provide the most robust governance to mitigate the core risks embedded within EMIIF and its implementation, as outlined further in *section VII. Risk management*.

## 3.1 LEGAL STRUCTURE

The **legal form for EMIIF is that of an un-unitised investment trust ("the Trust") with the Commonwealth as represented by DFAT as the sole beneficiary**.

**The domicile of the EMIIF Trust will be Australia.** This will ensure transparency on EMIIF's obligations to Australian corporate taxation laws. This will not prevent EMIIF to invest in investee funds that are domiciled in countries other than Australia.

The Trust will be administered by a trustee to be appointed by DFAT during the initial stage of EMIIF's implementation. DFAT will have a right to approve changes to the investment strategy of the Trust through the Trust deed.

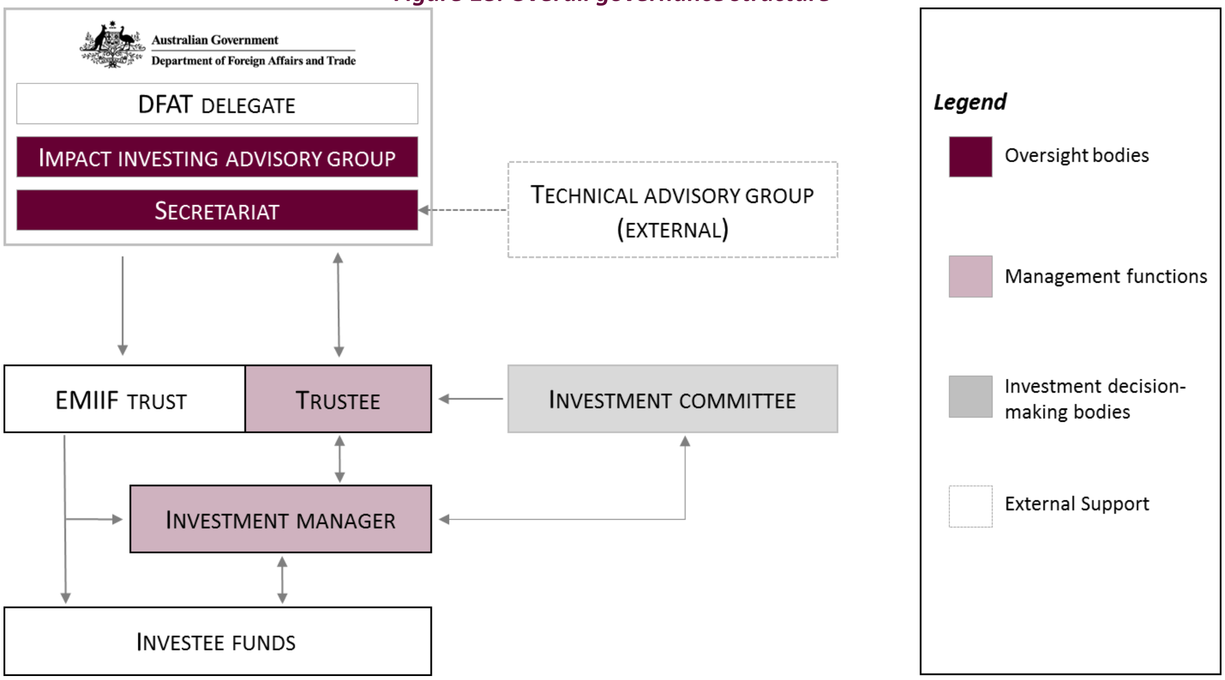
## 3.2 GOVERNANCE

The proposed governance structure for EMIIF has three key components:

- The **oversight bodies** within DFAT that will be responsible for overseeing EMIIF's strategic direction and policy coherence;
- The **management functions** that will be responsible for implementing and managing EMIIF;
- The **investment committee** that will be in charge of EMIIF's investment decision-making.

EMIIF's proposed governance structure is set up to allow DFAT to direct EMIIF's alignment with the department's policy and strategic direction while at the same time providing EMIIF with sufficient independence for the management of day-to-day operations. With the above in mind, Figure 18 illustrates the proposed governance structure of EMIIF.

*Figure 18: Overall governance structure*




## 3.2.1 Oversight bodies

Involvement by DFAT in the implementation and oversight of EMIIF will occur at three different levels:

1. Final decision-making for any strategic decisions required, which will sit with the **DFAT delegate** for EMIIF**.**
2. Strategic advice, guidance and support to the DFAT delegate regarding the overall direction and implementation of EMIIF, which will be undertaken by the **Impact Investing Advisory Group (IIAG)**. The IIAG will also provide SES-level coordination and learning from DFAT's impact investing programs to ensure alignment, efficiency and effectiveness of DFAT's impact investing portfolio.
3. The **Secretariat** will be the focal point for ongoing interaction between the trustee and the investment manager to monitor ongoing performance, risk management, disseminate information and receive relevant reporting. It will number 2-3 individuals within DFS and will advise the IIAG and DFAT delegate.

*Figure 19: Details on oversight bodies composition and engagement*

**Proposed DFAT delegate profile**

- The financial delegate for the initiative (FAS MDD)

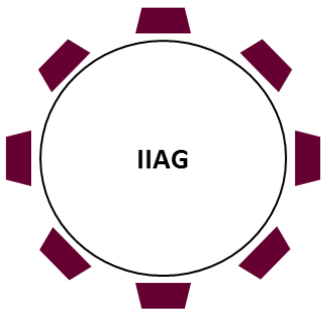
**Further Details**

**Summary of decision-making responsibilities**

(upon advice from the IIAG)

- Changes relating to the legal structure of the EMIIF
- Changes to EMIIF's strategic position in the market or the setting of its investment strategy
- Appointment of independent members of the investment committee
- Investment manager taking on specific additional mandates from bilateral or thematic areas of DFAT

**Proposed EMIIF IIAG**




- Up to 8 members
- Illustrative composition: FAS MDD (Chair), FAS iXc, Chief Economist (Development), FAS PAD, FAS SRD, FAS SWD, FAS SED, AS GEB, with external input as required

**Further Details**

**IIAG appointment**

- Appointed and removed by the IIAG Chair

**Length of appointment**

- On an annual basis (to allow for adjustment where deemed appropriate), but renewable with no restrictions on tenure

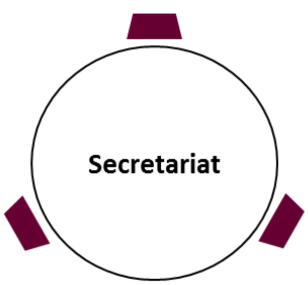
**Decision / recommendation making process**

- Quorum: A majority of members
- Decision: A majority of members being present

**Mode of engagement**

- Meetings every 4 weeks during initial implementation and launch
- Quarterly meetings, post-implementation and launch of fund

**Proposed Secretariat**




- 2 to 3 dedicated staff members, preferably forming part of DFS

**Further Details**

**Secretariat appointment**

- Appointed and removed by DFAT leadership

**Length of appointment**

- Permanent role within DFAT (appointment made in accordance with DFAT's internal appointment and HR processes)

**Mode of engagement**

- Frequent engagements with the DFAT delegate, IIAG, Trustee and IM in initial establishment phase
- Monthly progress meetings with Trustee and IM during operations

#### 3.2.1.1 The DFAT delegate

**The DFAT delegate has ultimate responsibility, oversight and accountability for the operations of EMIIF.**

Advised by the IIAG, the DFAT delegate will make decisions on:
- Any proposed changes relating to the legal structure of EMIIF;
- Any changes to EMIIF's strategic positioning in the market or the setting of its investment strategy, such as changes to its focus, overall mandate and/or objectives. This will be done in consultation with the trustee, the investment manager and the Secretariat;
- The appointment of independent members of the investment committee;
- The investment manager taking on specific additional mandates from bilateral or thematic areas of DFAT (see *section 4.2.5 Extension of EMIIF's investment scope* for more details).

#### 3.2.1.2 The Impact Investing Advisory Group (IIAG)

**In support of the delegate, the IIAG will be the key body providing active SES-level oversight and monitoring DFAT's investment in EMIIF from a strategic perspective**.

Informed by reporting presented by the Secretariat, the IIAG will provide Senior Executive Service (SES)-level oversight to the implementation and on-going performance of EMIIF. It will provide relevant feedback to the Secretariat on operational matters, and to the DFAT delegate on any material decisions requested or proposed.

The IIAG will advise the DFAT delegate on strategic decisions as outlined above, while relying closely on the reporting and insights provided by the Secretariat to inform its advice. The IIAG will also monitor and advise on the risk management approach taken by EMIIF in accordance with DFAT's risks management and safeguard policies, as outlined in the design and agreed with the Investment Manager.

The IIAG will also provide SES-level coordination and learning from DFAT's broader impact investing programs to alignment, efficiency and effectiveness of DFAT's impact investing portfolio.

Figure 19 provides further details on the makeup, appointment and frequency of engagement of the IIAG.

It is proposed that the First Assistant Secretary (FAS) Multilateral Development & Finance Division (MDD) will chair the IIAG and appoint up to eight other members of the IIAG from DFAT's senior leadership with external input as required. This may include: the FAS innovationXchange; the Chief Economist (Development); the FAS Pacific Division; FAS South-East Asia Mainland and Regional Division; FAS South and West Asia Division; FAS South-East Asia Maritime Division; and Assistant Secretary Gender Equality Branch.

**The Secretariat will be responsible for the day-to-day management of EMIIF including coordination with EMIIF management structures and on-going monitoring of EMIIF's activities and performance.** This will include a particular focus on risk and performance management given the risk profile of EMIIF. It will also be the central point for aggregation and dissemination of learning from the operation of EMIIF.

Its responsibilities will include:
- Proactive management to ensure that EMIIF is established and operating in accordance with the design, implementation plan and DFAT legislative and policy requirements;

- Monitoring of the on-going activities and operations of EMIIF and of the performance of the trustee and the investment manager in relation to their mandates, including the receipt and analysis of relevant reporting;
- Proactive management of risks associated with EMIIF's operations, in close collaboration with the Investment Manager;
- Collating and transmitting relevant reporting to the IIAG as well as the DFAT delegate;
- Proactive coordination with various Divisions within DFAT for the promotion and use of EMIIF;
- Capture and dissemination of lessons learned from the implementation of EMIIF and its investment approach; and
- Enactment of any instructions or guidance received from the IIAG or decision-makers.

#### 3.2.1.3 The Secretariat

**The Secretariat will represent the main point of engagement for DFAT Divisions and Posts to engage with EMIIF's activities throughout its implementation. At the same time, it will be the key interface for the organisational learnings across DFAT, as well as ensuring that DFAT's policy and risk management requirements are fully embedded and well implemented during EMIIF's operations.** Apart from being the main point of contact from a reporting perspective, the Secretariat will be the key interface for organisational learning from EMIIF within DFAT. It will engage with Divisions across DFAT to facilitate transfer of insights and knowledge from existing private sector development and engagement programs, as well as capture and disseminate learnings from EMIIF's operations into DFAT. At the same time, the Secretariat will be the key focal point for any possible risk mitigation process steps, as further laid out in *section 7.1.2 Risk mitigation approach*.

As a result, the Secretariat is expected to have extensive and frequent interaction with EMIIF —especially the investment manager—to foster such learning, knowledge management and effective management of risk. Best practice observed among comparable funders suggests that having at least a part of the Secretariat team adopt an exclusive focus on the management and oversight of EMIIF will help ensure effective oversight and learning. The Secretariat is expected to build up a strong institutional knowledge and network of relationships with key partners, co-investors and organisations from the impact investing industry in Australia and across the South and South East Asian region.

**To maximise DFAT's learning from EMIIF, a DFAT staff member could be seconded to the investment manager who will be appointed to manage EMIIF.** While this is to be negotiated with the investment manager, DFAT's ability to leverage the establishment of EMIIF in increasing its organisational learning would be significantly enhanced by the opportunity to second a staff member with some relevant experience to the investment manager for a period of a year or more. This would not only allow for a skills' transfer to the relevant DFAT staff member, but also enable DFAT to maintain a much closer line of sight into the investment manager's initial operations which would be particularly beneficial to ensure DFAT's risk management policies and approaches are well understood and integrated into the investment manager's policies, procedures and implementation.

## 3.2.2 Management functions

### 3.2.2.1 The trustee

**The proposed establishment of a Trust requires the appointment of an independent trustee** to act as trustee (legal owner of EMIIF's assets). DFAT will therefore need to procure the services of an independent trustee during the implementation phase, following a procurement process outlined as part of the implementation plan. DFAT will oversee the drafting and settlement of a Trust deed.

The trustee will set up and manage the custodian trust account that will house the funds of EMIIF. The trustee also hold EMIIF's investment assets. The trustee will be responsible for the management of the account and for any disbursements to be made; it will report to DFAT via the Secretariat on the use of funds and fund cash flows on an ongoing basis.

**The trustee's roles and responsibilities will be set out in the Trust deed**. These will largely include:
- Assuming fiduciary responsibility as trustee for the management and oversight of the Trust, governed by the Trust Act;
- The management of the funds held by the Trust, and any disbursements to be made by the Trust;
- The preparation of reporting to the beneficiary (DFAT), including information on the use of funds and financial statements of the Trust;
- Acting on instructions received from DFAT, as provided for under the Trust deed; and
- The relay of information received from relevant counterparties (e.g., the investment manager) to DFAT.

### 3.2.2.2 The investment manager (IM)

**It is recommended that an appropriately licensed and qualified investment manager (IM) independent of DFAT and the trustee be appointed to undertake EMIIF's investment management process** on an ongoing basis. This arrangement will ensure that operational control of EMIIF is not retained by DFAT, while also preserving the independence of the trustee. Appointing the IM and trustee independently of each other allows for an additional level of oversight, ensuring that EMIIF is operating according to its approved strategy and should also allow the flexibility to replace the IM (if required) without needing to replace the trustee, and vice versa. Appointing an external IM also represents a key risk management measure for DFAT, given the Department's limited existing experience in investment management.

**The appointment of an independent IM also corresponds to the approach adopted by other initiatives worldwide similar to EMIIF.** While established DFIs with investment management experience and expertise—such as Norfund, FMO and OPIC—have chosen to invest directly into SME funds, other funders such as DFID and the government of the Netherlands (in the case of the Dutch Good Growth Fund), have all chosen to appoint separate, experienced investment managers to manage the investment facilities that they have funded.
**The IM's roles and responsibilities will be laid out and governed by the investment management agreement (IMA).** This will be set out in more detail in *section 10.1 IM roles and* responsibilities, and can be summarised as follows:
- Assuming responsibility for the overall implementation of EMIIF's investment strategy, as outlined in *section 4.3* Investment management process*;*

- Providing capacity-building and operational support to investee funds, and overseeing the provision of TA, as discussed in further detail in *section 5.3 TA management process*[39]; and
- Preparing and presenting the relevant reporting to the trustee pertaining to the overall performance of the investment portfolio, as well as to any proposed strategic decisions requested. *Section 4.4 Reporting framework* below provides further details on the relevant processes.

In addition, EMIIF's IM will draw on other third-party support and engage with relevant TA providers. This third-party verification and support will consist of financial auditors to provide audits on financial reporting at relevant intervals, third-party verification of impact reporting (also at relevant intervals) and further support to assist the IM in conducting more extensive impact studies in specific instances. *Section 5.3 TA management process* provides further detail on TA provision.

### 3.2.3 Investment committee (IC)

**EMIIF's activities are centred on its investment management process; within that process, the investment committee (IC) is the core decision-making body.**

While the IM will identify proposed investments and conduct the underlying analysis and due diligence on the suitability of investment opportunities, it is standard practice within impact investment funds as well as commercial private equity funds, for the final investment decisions to be made by a separate committee. This separation is intended to ensure the objectivity of the decision and to allow for further expert input into the investment decision-making process. In most funds, this separate committee is referred to as an IC.

The IC will comprise of investment professionals with suitable experience and qualifications and will be tasked with making EMIIF's final investment decisions throughout its investment life cycle.

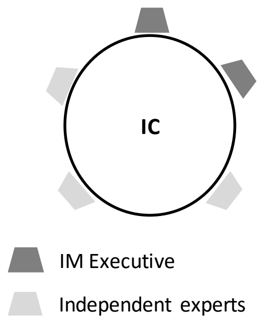
The composition of the IC depends on the level of influence DFAT would like the IM to maintain and therefore the number of independent members DFAT would like to include. In order to avoid any potential liability linked to the IC's investment decisions, DFAT should avoid appointing any of its own employees as members of the IC. DFAT will sign off on all the IC's independent members, as agreed to with the IM.

**The ultimate makeup of the IC will be subject to contract negotiation with the IM**, but should allow for at least a minority number of investment executive(s) from the IM—at least the Chief Investment Officer managing EMIIF as part of the IM mandate. The IM and the Secretariat will work closely together to draw up a list of potential independent IC members, ensuring that both the IM and DFAT will have sufficient confidence in the IC's competencies to drive the EMIIF's investment decision making. DFAT will ultimately appoint the independent members to the IC.

[39] While this lies outside the traditional scope of a fund manager, DFIs proactive in the space (such as DFID, Norfund) have needed to include this in their operations. The IM team would need to incorporate the relevant skills, as discussed further in *section 10.5 IM staffing.*

*Figure 20: Details on IC composition and engagement*

**Proposed Investment Committee Composition**




- Up to 5 experienced investment professionals
- At least 2 executives from the IM
- All independent members appointed by DFAT

**Further Details**

**Investment Committee appointment & removal**
- All representatives ratified by the trustee (after DFAT's approval)
- One independent selected as Chair of IC

**Length of appointment**
- 3 years
- Renewable without any tenure limitations

**Decision making process**
- Quorum: A majority of IC members being present
- Decision: Unanimous decision required of members present

**Mode of engagement**
- Meeting at least 4 times a year

IC members should, as individuals or collectively, bring the following skills and expertise to the IC:

- Each IC member, individually, should have no fewer than 10 years' experience in investment analysis, structuring and management within investment fields that bear relevance to the target focus for EMIIF, with a sufficiently robust investment track-record;
- Among the IC committee members, at least one individual should have expertise in the structuring and management of SME funds and/or investment structures as proposed in EMIIF's investment strategy;
- Among the IC committee members, at least one individual should have particular expertise in TA programs and allocations to SME financing sector;
- Among the IC committee members, at least one individual should have impact investing expertise;
- Among the IC committee members, at least one individual should have gender lens investing expertise;
- IC members should ideally have previous experience serving on an investment committee.

In addition to the above skills and professional background, the IC composition should also be well balanced across gender and ethnicity.

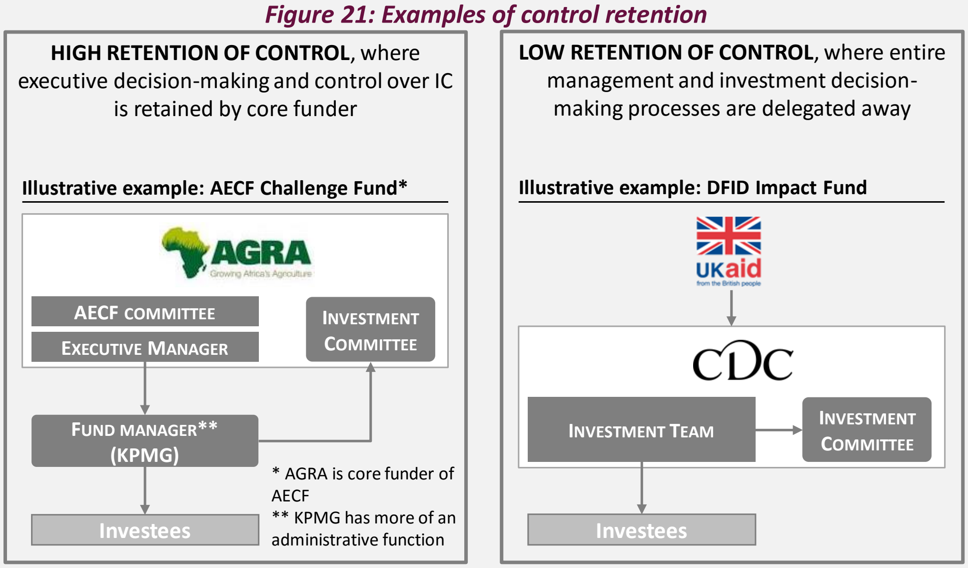
In order for the IC to be effective in its operation, it will be essential that the IC members are fully bought into the objectives and focus of EMIIF, and that they have access to relevant guidelines to inform their decision-making. This includes but is not necessarily limited to: EMIIF's targets, scope and investment terms as agreed to with the IM, relevant market insights, fraud and anti-corruption policies, social and environmental safeguards, as well as OECD guidelines around the use of concessionary financing. The Secretariat with the IM will play a focal role in ensuring that the IC is aligned with EMIIF's design, strategic objectives, implementation plan and DFAT legislative and policy requirements. This will be further detailed in the legal agreements between the IM, the Trust and DFAT.

***Case study: Trade-off between donor control and liability in governance structure***

*Funders can adopt a wide range of governance approaches to the implementation of a financing facility. In the case of the Africa Enterprise Challenge Fund (AECF), AGRA, as the core funder, retained overriding control over the AECF committee, executive manager and investment committee, while the fund manager fulfilled a largely administrative function. In this structure, AGRA is, to a large extent, liable for AECF activities.*

*In contrast, DFID transferred almost complete control to CDC in the management and decision-making of the DFID Impact Fund, with the investment team and the investment committee controlled by the CDC. Such an approach is aided by the strong alignment and linkage between CDC and DFID.*

***Figure 21: Examples of control retention***




## 3.2.4 Support from industry players

A number of key technical advisors will be appointed by the Secretariat to act as its ongoing advisory counsel and sounding board to the Secretariat and the IM. The TAG will consist of 2-3 experts from the impact investing industry.

On an ongoing basis, the IM and Secretariat will draw on expertise from the broader impact investing community through informal consultations and interactions. The IM and Secretariat will convene an annual forum of SME fund managers, prospective fund managers and co-investors that are closely linked to EMIIF's investee funds; the forum will provide an opportunity to discuss key lessons learned throughout the region (see more details on EMIIF's communication strategy in *section 6.3 Managing impact across EMIIF's investment process*).

# IV. INVESTMENT STRATEGY

## 4.1 INVESTMENT FOCUS AND SCOPE

Informed by DFAT's focus areas, the following key attributes will define EMIIF's scope:

- **Geographic focus:** EMIIF targets countries in South and South East Asia where DFAT has a strong bilateral focus (e.g., Bangladesh, Cambodia, Indonesia, Laos, Myanmar, the Philippines, Sri Lanka and Vietnam).
- **Sector focus:** EMIIF will not be limited to specific sectors, given the multi-sectoral approach adopted by the overriding majority of SME funds. However, as a minimum (and without any set allocation among them), EMIIF's portfolio will cover the sectors in which the majority of SME funds are investing, including agriculture, healthcare, education, financial inclusion and clean energy.
- **Investee focus:** EMIIF aims to invest in SME funds that have the ability to actively seek and achieve development impact and are primarily focused on early-stage businesses.
- **Funding role:** EMIIF seeks to play a "crowding-in" role in the development of suitable SME funds. It aims to achieve this predominantly through serving as an anchor investor in SME funds that otherwise would be unlikely to raise the requisite capital, providing finance on terms that are complementary and/or advantageous to potential co-investors and, in certain instances, playing a concessionary role.

**The investment strategy aims to translate the design principles into criteria, incentives and guidelines that will guide the effective execution of EMIIF.** This involves a fine balancing act between the optimal pursuit of the design principles and other considerations such as risk management and the ability to deploy capital successfully within a reasonable timeframe.

**For impact funds operating within a relatively nascent market, there is a tension between establishing strong requirements and preserving the ability to deploy investments.** The aim of setting clear requirements for investment eligibility (e.g., geographical or sector focus), impact and risk management is to ensure that EMIIF funds are directed towards the right purposes. Meanwhile, it is critical to allow for sufficient flexibility in the use of EMIIF's funds to achieve the intended development impact and market-building objectives, as well as learn lessons as an organisation, within a reasonable timeframe.

## 4.2 INVESTMENT APPROACH

There are four key components to the application of the investment strategy:

- **Investment eligibility criteria:** Pre-determined criteria used for screening potential investment opportunities and ensuring that all investments identified meet agreed-upon standards
- **Portfolio allocation thresholds**: Minimum and maximum allocations to limit exposure to market risk and limit the risk of not achieving target impact at the portfolio level
- **Investment instruments**: Forms of financing that can be used by EMIIF to invest in and support SME funds, as well as crowd in investors
- **Investment terms**: Terms and conditions to be used by EMIIF to structure its investments

Figure 22 presents a summary overview of the proposed investment approach:

*Figure 22: Summary of proposed EMIIF investment approach*

| | |
|---|---|
| Investment eligibility criteria | • **Geography:** >50% target portfolio in DFAT target countries (with a preference for >80%)<br>• **Sector:** No sectoral focus requirement, outside of excluded activities<br>• **Market focus:** Explicit strategy to invest in early-stage SMEs<br>• **Impact focus:** Explicit or implicit impact focus, with the ability to adopt impact management approach<br>• **Ethical standards:** Compliance with environmental and social performance standards (IFC or other equivalent)<br>• **Intermediary legal structure:** Flexible (open to considering innovative financing structures)<br>• **Investment size:** >AUD 2 million per investee fund<br>• **Team strength:** Relevant investment track record / experience<br>• **Long-term sustainability:** Clear path to financial sustainability identified |
| Portfolio allocation thresholds | • <25% committed to any one investee fund<br>• <33% expected to flow into any one country<br>• <33% expected to flow into any one sector<br>• >50% committed to early-stage SME funds (e.g., funds that invest >50% in early-stage SMEs) |
| Investment instruments | • Flexible **investment instruments** (debt, mezzanine, equity)<br>• **TA support**<br>• **Risk-mitigation solutions** (guarantees, hedging solutions) |
| Investment terms | • Target **returns** ranging between **5-10%**<br>• **Pari-passu or subordinated terms** to other investors<br>• **TA** of up to 20% of investment value |

While the investment eligibility criteria, portfolio allocation metrics, investment instruments and terms are set initially in EMIIF's Design Document, these elements should not be considered static over the course of the implementation of the fund. DFAT will be able to revisit the investment strategy, if required, through the oversight body of IIAG, as outlined in *section 3.2.1 Oversight bodies.*

### 4.2.1 Investment eligibility criteria

EMIIF's investment eligibility criteria seek to balance EMIIF's ability to achieve its impact development objectives with the availability of an investable pipeline. Specifically, the geographic eligibility requirement takes into account the fact that SME funds are largely multi-country and multi-sector. A narrow strategic focus would greatly limit EMIIF's addressable market. Therefore, to maximise EMIIF's ability to deploy its capital efficiently, EMIIF's addressable market includes all eight target countries and is largely sector agnostic.

At the same time, EMIIF will require that investee funds allocate the majority of their capital to target countries to ensure its impact objectives are met. Some eligibility criteria may need to be detailed further during the implementation phase in collaboration with the IM (e.g., list of excluded geographies or sectors, basis for assessing compliance with social and environment performance standards like written confirmations etc.).

### 4.2.2 Portfolio allocation thresholds

EMIIF's portfolio allocation thresholds aim to (i) ensure sufficient portfolio diversification to limit EMIIF's exposure to specific market concentration risks (maximum investment exposures—see *section VII.*
Risk management for more details), and at the same time (ii) focus EMIIF's portfolio to ensure the achievement of its impact objectives (minimum investment exposure).

The following thresholds are proposed for EMIIF:

- Three maximum investment exposures: e.g., (i) assets committed to any one investee fund should not exceed 25% of EMIIF's portfolio; (ii) funds expected to flow into any one country should not exceed 33% of EMIIF's portfolio (this is of particular concern with larger markets that have greater capacity, such as Indonesia and the Philippines); and (iii) funds expected to flow into any one sector should not exceed 33% of EMIIF's portfolio;
- One minimum investment exposure, e.g., funds committed to early-stage SME funds should represent at least 50% of EMIIF's total fund allocation.

### 4.2.3 Investment instruments

**EMIIF will employ a broad range of instruments to provide risk capital and further support to investee funds.** This flexible approach will allow EMIIF to provide the most relevant form of investment capital to investee funds, so that they can adequately serve the needs of their underlying SME portfolio. EMIIF may provide any combination of the following instruments:

- Ordinary equity
- Mezzanine equity / subordinated debt financing
- Short- or longer-term debt financing

Ordinary equity and subordinated unsecured debt are expected to represent the two best-used instruments given their suitability as catalytic funding and alignment with the financing needs of SMEs. Where debt is used, it is likely that the repayment of both interest and capital will be weighted towards the end of the repayment period given the back-ended cash flow patterns expected from underlying SME investees and SME funds.

**Risk-mitigation solutions may also be provided in order to de-risk co-investment from other investors.** This can take the form of subordinating EMIIF's funding position, or else specific solutions such as guarantees, political insurance or currency hedging in order to allow for or support the provision of increased levels of local currency financing to investee funds.

***Considerations on financing instruments – asset-liability management***

***SME financing needs vary greatly depending on the unique profile of the business.*** *Typically, funders provide longer-term growth capital in the form of debt or equity and shorter-term working capital in the form of debt. SMEs often favour debt or equity-like debt instruments over equity instruments due to their relative lack of familiarity with equity funding and a preference for maintaining ownership control (a point that is often the hardest to agree upon with equity financing). However, many SMEs have limited access to lending due to a lack of collateral as well as the financial strain the repayment schedule would place on the company's growth.*

***Women-owned businesses often confront specific financing needs given the different risk profile of their businesses****. Studies have shown that women entrepreneurs tend to be more risk-averse, which may not typically be reflected in the loan terms that they are offered through mainstream finance. In addition, a large number of women-owned firms are in the service sector, and tend to rely heavily on intangibles as their main assets. The investment processes of investee funds should ensure that the value of these intangibles be taken into account when assessing what type of financial instrument is suitable, as well as in the evaluation and assessment of the cost of capital for these businesses.*

***Investments in SME funds should align with their underlying financing activities (****asset-liability management). The tenure and repayment profile of funding provided to SME funds should ideally match that of their underlying investments in SMEs. This approach can reduce or avoid stress caused by cash flow mismatches that could otherwise lead SME funds to struggle to honour their payment obligations.*

**In addition, EMIIF will provide TA support alongside its investments.** Investee funds will receive either bespoke TA in the form of capacity-building support from the IM or else TA grant funding to cover their capacity-building efforts with underlying SMEs (see details in *section V. Technical assistance (TA) strategy*).

### 4.2.4 Investment terms

The IM will be responsible for structuring EMIIF's investment terms based on the needs of investee funds and the opportunity to crowd in investors. Three key funding terms are detailed below:

- **Targeted investee fund returns**: EMIIF's expected return on capital will be driven by the underlying fund economics and targeted returns of investee funds. Based on initial market research, EMIIF should target investing in funds that aim for annual net returns to their investors of between 5 and 15%.
  *Proposed term*: Targeted investee fund returns in line with market offering, but consider providing funding on more favourable terms in specific instances.
- **Subordination / seniority:** EMIIF can accept subordinated positions to crowd in additional capital, in line with its market-building objective.
  *Proposed term*: (i) Subordinated or pari-passu positioning (e.g., ordinary equity, subordinated loan structures); (ii) partial subordination of EMIIF's funding to secure certain threshold return levels for co-investors should ideally be considered (as opposed to complete subordination); (iii) subordination will be considered to leverage private capital.
- **Technical assistance:** TA funding alongside investment activities is typically considered in relation to the size of the investment as well as the ability of the investee fund to share some of the TA costs.
  *Proposed term:* TA funding of up to 20% of the total investment for investee funds.
- **Currency of financing:** EMIIF will be able to provide financing in both hard currency and local currency, informed by the financing need and implicit currency risk exposure of investee funds and investment requirements from other investors in the investee funds.

These terms can be adjusted to allow EMIIF to play a concessionary financing role vis-à-vis other investors. For example, EMIIF could look to leverage co-investment by deliberately taking on some of the fund management costs, by allowing lower returns on its investment relative to other investors, by subordinating repayment on its capital to other investors and/or by allowing for longer repayment periods so that other investors can be repaid first; as well as by providing financing in local currency alongside hard currency financing from other investors, to reduce the proportional risk that co-investors are exposed to due to underlying currency risk (in addition to providing further potential hedging solutions).

A cautious approach to the use of concessionary terms will be adopted, ensuring that relevant barriers to private sector involvement are addressed while limiting potential distortionary impact, in order to ensure longer-term sustainability and the ability of the underlying investee fund to mature away from required support from a funder such as EMIIF. In this regard, care will be taken to adhere to the relevant guidelines as set out by the OECD[40]. It is not envisaged that the investee funds will be providing their financing to the SMEs on a concessionary basis. Investee funds will invest in SMEs at market terms, although are likely to provide additional technical assistance alongside their investment.

Broadly, EMIIF's crowding-in role should predominantly rely on its intended position as an anchor investor, and on providing funding on terms that are junior to or on a pari-passu basis to other investors (as opposed to ranking senior to other investors or demanding improved terms). The IM will have the flexibility to assess the need for providing funding on more concessionary terms, and to propose funding on such terms for consideration by the IC, as detailed in *section 4.3 Investment management process*.

### 4.2.5 EXTENSION OF EMIIF'S INVESTMENT SCOPE

Over time, opportunities may arise for EMIIF to use its investment-based capabilities to support specific DFAT programs or initiatives through specific funding windows.

The use of specific funding windows within the EMIIF is being piloted by the iXc's 'Innovation Window'. This AUD 10 million window will invest in SME funds that are primarily focussed on seed and early-stage SMEs that are innovative in their use of technology or science. Given the additional challenges of working with seed or early-stage SMEs, the 'Innovation Window' will target returns ranging between 0 and 5%.

Geographically the 'Innovation Window' includes Pakistan and the Pacific countries in addition to the EMIIF's target countries in South and Southeast Asia. To be eligible for investment through the EMIIF 'Innovation Window', funds must explicitly and meaningfully include the Pacific countries (e.g., Papua New Guinea, Solomon Islands, Timor-Leste, Fiji, Vanuatu, Samoa, Tonga, Kiribati) in their investment and growth strategy. The greater challenges of working in this context are recognised with a lower minimum investment size of AUD 1 million per investee fund.

***Figure 23 Summary of proposed 'Innovation Window' investment approach***

| | |
|---|---|
| **Investment eligibility criteria** | • **Geography:** >50% target portfolio in EMIIF target countries + Pakistan + Pacific countries, with a preference for >80%. Pacific countries should feature in investee fund investment and expansion strategies<br>• **Sector:** No sectoral focus requirement, outside of excluded activities<br>• **Market focus:** Explicit strategy to invest in seed or early-stage SMEs with innovative business models (including in their use of technology or science)<br>• **Impact focus:** Explicit or implicit impact focus, with the ability to adopt impact management approach<br>• **Ethical standards:** Compliance with environmental and social performance standards (IFC or other equivalent)<br>• **Intermediary legal structure:** Flexible (open to considering innovative financing structures)<br>• **Investment size:** >AUD 1 million per investee fund<br>• **Team strength:** Relevant investment trach record / experience<br>• **Long-term sustainability:** Clear path to financial sustainability identified |
| **Portfolio allocation thresholds** | • <25% committed to any one investee fund<br>• <33% expected to flow into any one country<br>• <33% expected to flow into any one sector<br>• >50% committed to early-stage SME funds (e.g, funds that invest >50% in early-stage SMEs) |
| **Investment instruments** | • Flexible **investment instruments** (debt, mezzanine, equity)<br>• **TA support**<br>• **Risk-mitigation solutions** (guarantees, hedging solutions) |
| **Investment terms** | • Target returns ranging between **0-5%**<br>• Pari-passu or subordinated terms to other investors<br>• TA of up to 20% of investment value |

40 "DFI Guidance for Using Investment Concessional Finance in Private Sector Operations", European Bank for Reconstruction and Development (2013) (referred to as "DFI guidance" by OECD DAC).

Further extensions of EMIIF's Investment Scope may be initiated by DFAT Divisions, either bilateral or thematic areas, and managed through the Secretariat. EMIIF's IM will first be contracted and remunerated separately to assist the relevant DFAT Division in conducting a market scoping and opportunity analysis for a proposed investment strategy to inform DFAT's decision-making in terms of the viability of such an additional funding window including whether the investment manager has relevant capability and expertise. A proposal will then be presented to the Secretariat by the relevant DFAT Division, in conjunction with the IM, regarding the addition of such an additional funding initiative.

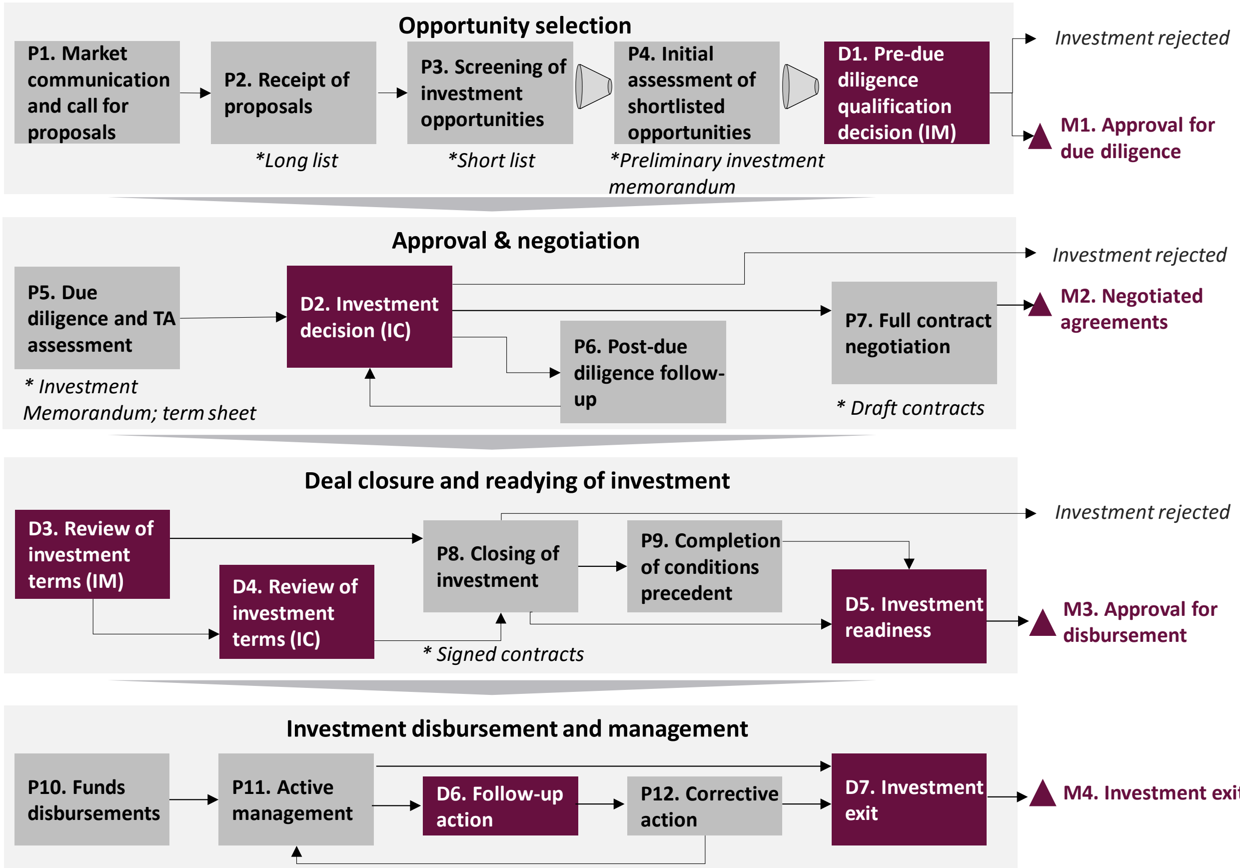
Throughout this process, the IM is expected to play a significant role in providing recommendations and input to the Secretariat. The Secretariat will be responsible for collating necessary insights from any combination of the trustee, the IM, independent experts and any other potential stakeholders, delivering a recommendation and material for consideration regarding the addition of a window to the IIAG. After considering the information at its disposal, the IIAG will make a recommendation to the delegate regarding the proposed window.

## 4.3 INVESTMENT MANAGEMENT PROCESS

The investment management process will represent the core of EMIIF's operations once it has been set up. This section outlines the detailed processes involved in opportunity selection, approval and negotiation, deal closure and readying of investment, and investment disbursement and management. The IM will incorporate impact management and gender lens investing considerations across the entire investment process. A number examples are highlighted within this section; further details are provided in *section VI. Impact management.*

Throughout this process, the IM will leverage the resources available through DFAT, including engaging with existing programs to identify opportunities related to pipeline development, as well as leveraging the network and in-depth country knowledge of DFAT Posts on country- or region-specific matters (e.g., specific market insights and engagement with local stakeholders, including government entities). This would include, but not be limited to, making available to the IM team as well as investee funds training around matters such as safeguards and DFAT's fraud control policies, delivered by relevant areas of DFAT.

*Figure 24: Investment management process*




P = Process; D = Decision point; M = Milestone

## 4.3.1 Opportunity Selection

**P1. Market communication and call for investment proposals:** To create awareness within EMIIF's target market, the IM will be responsible for conducting targeted market communication at the beginning of the implementation phase. Proactive market communication will be critical to improve the identification and conversion of investment opportunities for EMIIF. It will also allow the IM to prioritise the segment of the market that is most aligned with EMIIF's development objectives (e.g., ability to achieve development impact, ability to address gender inequities). The IM's market outreach activities should include:

- Developing an online presence that outlines the investment strategy of EMIIF and funding application process
- Attendance and presentation at public fora, such as conferences and workshops
- Proactive origination and sourcing through engagement with the IM's networks (e.g., reaching out to similar funders with complementary focus areas, such as gender, to share potential pipeline)
- Dissemination of standardised information brochures or documents

An initial call for investment proposals will be announced as part of this process in order to solicit proposals from prospective investee funds. After this initial call for investment proposals, the IM will continue to solicit and proactively source new investment opportunities until it has fully committed EMIIF's allocated funding. This is anticipated to occur within the first three years. The IM will be responsible for actively generating a pipeline of investment opportunities for EMIIF (as further detailed in *section 9.2 Portfolio development* strategy).

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|---|---|
| Outputs | • Full market communication design and strategy |

| | |
|---|---|
| | • Standardised application form<br>• Website<br>• Other informational material |

**P2. Receipt of proposals:** The IM will receive investment proposals from prospective investee funds, and will be responsible to ensure that sufficient information is provided to screen the investment opportunities. Throughout this process, the IM will be responsible for making any relevant information available to all interested funds, preferably through an online site, given the broad geographical focus. This information will include details on the call for investment proposal process, selection process and expected role of investee funds. Completed proposals received by the IM will form the initial long list of investment opportunities for EMIIF.

| | |
|---|---|
| Outputs | • Completed applications with supporting information<br>• Long list of potential investment opportunities |

**P3. Screening of investment opportunities:** The IM will review and consider investment proposals and determine if they are complete enough for consideration (and advise if they are not). This decision will be taken by the investment professional engaging with the prospective investee, overseen and assisted where needed by an executive of the IM. The decision will be made through an established screening process, which will allow the IM to make objective decisions on which applications will proceed to a short list of potential investment opportunities. During the screening process, prospective investees will be required to confirm their adherence to the IFC Environmental and Social Performance Standards. Investee funds' adherence thereto will be assessed in greater detail throughout the investment analysis process.

| | |
|---|---|
| Outputs | • Screening criteria for investment opportunities<br>• Short list of potential investment opportunities |

**P4. Initial assessment of shortlisted opportunities:** Before conducting a full due diligence assessment, the IM will conduct an initial assessment of the investment opportunity relying largely on desk research, making use of information provided during the application process as well as limited external references and/or interactions with people who might be able to assist. The focus of the assessment will be on establishing suitability for investment by EMIIF (considering additionality, long-term sustainability and other considerations regarding the appropriateness of investment); the quality of the team and the viability of the investment thesis, including expected financial returns and development impact; the competitive environment; and the financial and non-financial support requested and/or required. In order to keep EMIIF accessible to a broad range of prospective investee funds, care should be taken to keep the requirements simple and as achievable as possible throughout this assessment and the remainder of the due diligence process.

| | |
|---|---|
| Outputs | • Preliminary investment memorandum (PIM) |

**D1. Pre-due diligence qualification decision:** Based on the preliminary investment memorandum, the IM will make a decision on whether the investment opportunity is attractive enough to warrant a full due diligence (or not, or not yet). This decision is traditionally made by the executive/principals of EMIIF, while external parties could be included in relevant meetings so as to be able to interact with the pipeline of potential opportunities and monitor broader alignment. The outcome of this first milestone is the approval of the investment opportunity for due diligence.

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|---|---|
| Outputs | • Decision to decline investment or to proceed to due diligence |

**M1. Approval for due diligence:** At the end of the opportunity selection phase, the IM will need to have assessed all proposals received and made a decision on whether an investment opportunity is rejected or approved to proceed to the due diligence phase.

### 4.3.2 APPROVAL AND NEGOTIATION

**P5. Due diligence and TA assessment:** The IM will conduct a thorough and comprehensive analysis of the potential investee fund, including reference checks and confirmation of information provided insofar as possible, looking at various aspects including (i) the level of experience and skill possessed by the management team, including the performance of previous investments made and references; (ii) the investment thesis and objectives of the fund, and the potential likelihood for achieving these; (iii) the technical offering of the potential investee fund and its suitability vis-à-vis the market's needs; (iv) processes in place that are aligned with DFAT's fraud and anti-corruption policies and social and environmental safeguards, and EMIIF's impact management and gender lens investing approaches; and (v) the strength of its existing pipeline of investment opportunities. At the same time, the IM will also conduct a TA needs assessment, which will identify any required TA funding allocation or TA support to be provided alongside the investment. As part of this process, the IM will prepare a full investment memorandum (including a proposal for TA provision) and a signed term sheet laying out the in-principle terms of the investment that have been discussed and agreed upon by the deal team. This investment memorandum will include a recommendation as to whether or not the IM should reserve the right to appoint individuals to the IC of a proposed investee fund. The investment memorandum should also clearly outline the motivation for EMIIF's involvement as a funder, to which extent financing is proposed on concessionary terms, as well as the underlying rationale for such concessionary terms. In addition to the outputs required for its own investment management process, the IM should also ensure that information gathered and certain analyses performed are collated within an online-accessible data room, which can be made available to potential co-investors as a further means of supporting the capital raising efforts of investee funds.

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|---|---|
| Outputs | • Investment memorandum (including proposal for TA provision)<br>• Signed term sheet stating in-principle investment terms |

**D2. Investment decision:** The decision to invest or not to invest should be made by the IC[41], as discussed in *section 3.2.3 Investment committee*. The IC is expected to deliberate on the investment memorandum and other information presented at least a week in advance, with the transaction lead presenting the deal to the IC and addressing any questions the IC might seek to raise. The IC's decision can take three forms: (i) approval of the investment outright, subject to the satisfaction of certain conditions precedent, or unconditionally, and with the same terms or adjusted terms as those proposed in the investment memorandum[42]; (ii) request for the investment team to address specific aspects of the investment before re-submitting for the IC's consideration; or (iii) rejection of the investment outright, stating clear and specific reasons for doing so.

| | |
|---|---|
| Outputs | • Investment approval with proposed terms and any conditions precedent where relevant; or investment rejection with specified justification; or instructions for further analysis |

**P6. Post-due diligence follow-up:** In the event that the IC decides on option (ii), the deal team will conduct follow-up work to try to address the relevant concerns highlighted by the IC. While this additional step should be allowed for in the investment decision-making process, it should not constitute the norm. Should such follow-on work be required a majority of the time, the IM should be requested to assess and address shortcomings in its due diligence process. Upon completion of the follow-up work, the IM will resubmit both the updated investment memorandum (with specific issues raised in the first IC meeting

[41] Over the course of their IC mandate, any IC member with a potential conflict of interest (e.g. through an interest held in an underlying potential investee fund) are expected to recuse themselves from the relevant discussion and decision-making.

[42] This shall include a decision on whether or not EMIIF is to be represented on the IC of the investee fund, and if so, the particulars of the individuals to be proposed to sit on the investee fund's IC

addressed insofar as possible) and updated signed term sheet to the IC. At this point, the investment can only be approved (with or without the same proposed terms, and with or without conditions precedent) or rejected.

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|---|---|
| Outputs | • Updated investment memorandum with specific issues raised in the first IC meeting addressed insofar as possible<br>• Updated signed term sheet |

**P7. Full contractual negotiations:** Once investment approval has been obtained, the IM will be responsible for entering into final negotiations with the proposed investee fund and for overseeing the conclusion of the legal agreements. It is important at this stage for the IM to incorporate and establish EMIIF's core investment requirements within the legal agreements. For example, the IM should provide guidelines within the agreements for impact management and gender lens investing best practices, as well as flexibility for investee funds to employ different investment terms and structure. As examples, these guidelines may take into consideration non-traditional vehicles and instruments (e.g., holding companies) as well as legal structures that could potentially appeal to co-investors or follow-on investors. The legal agreements are to be signed by the trustee[43] who is responsible for ensuring that the terms of the contracts correspond to the approval given by the IC. If there is any doubt in this regard, the IC chairperson should be consulted. The IM will have the opportunity to consult the IC for further guidance during the negotiation process, where required.

The legal agreement will also include specific terms to ensure that EMIIF investment is used in accordance with DFAT's policies and safeguards and EMIIF's investment strategy. This may include a seat on the investment committee of the investee fund, which would be considered on a case-by-case basis. It could also include conditions under which EMIIF would be an 'excused investor' and not participate in a particular deal, in case the investee fund could not provide assurances pre-investment that an SME had adequate policies and procedures in place to implement DFAT's safeguards. This would be a last resort risk mitigating measure for EMIIF – and DFAT - in the exceptional circumstance that the investee fund manager could not ensure compliance and would still proceed with the investment. The IM shall be responsible for reporting on any events of this nature to the Secretariat, including the measures being undertaken for monitoring any remedial action proposed closely. This will allow the Secretariat to fulfil its risk management role, with escalation to the IIAG if required.

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| Outputs | • Draft contractual/legal agreements, likely consisting of shareholders' agreements, investment/funding agreements and/or loan agreements (including final investment terms) |

**M2. Negotiated agreements:** At the end of the approval and negotiation phase, all investment opportunities considered will have either received an approval or rejection by the IC. Approved investment opportunities will need to have addressed all concerns and conditions laid out by the IC, and will have proceeded to having negotiated draft legal agreements in place.

### 4.3.3 Deal closure and readying of investment

**D3. Review of investment terms (IM):** The draft contractual/legal agreements (including final investment terms) will be reviewed by an executive professional at the IM as well as the trustee, who will provide confirmation of whether or not these agreements are in line with the prior investment approval of the IC. Once this is confirmed, the investment opportunity will proceed to the final steps of closing. If any of the terms and agreements significantly varies from the IC's earlier approval, the IM will need to resubmit these terms for approval of the IC, including supporting information where relevant.

[43] To be confirmed during implementation phase

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| Outputs | • Confirmation to proceed to closing of investment; or updated investment terms and supporting information to be considered by the IC |

**D4. Review of investment terms (IC):** The IM will present the updated investment terms and supporting information to be reviewed by the IC, where relevant. The IC's decision can take three forms: (i) confirmation for the investment opportunity to progress to closing; (ii) request that the investment team address specific aspects to the investment before re-submitting for the IC's consideration (which may occur on an iterative basis as required); or (iii) rejection the investment outright, stating clear and specific reasons for doing so.

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|---|---|
| Outputs | • Confirmation to proceed to closing of investment, investment rejection with specified reasons for rejection, or instructions for revising contractual/legal agreements (including investment terms) |

**P8. Closing of investment:** The IM will take necessary steps to finalise the closing of the deal, including facilitating signatures on the agreed-upon contracts and legal agreements. Upon completion, the IM will either (i) commence work alongside the investee fund to satisfy the conditions precedent or (ii) deliver instructions to proceed with disbursement to the trustee. The trustee, as the custodian of the Trust and its financials, will be responsible for confirming that the legal agreements are in order so as to verify investment readiness. In doing so, the trustee should be supported in full by the IM and should be able to consult with the chairperson of the IC if there is any doubt as to whether or not the approved terms have been met.

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|---|---|
| Outputs | • Signed legal agreements<br>• Approval for disbursement |

**P9. Address conditions precedent:** In the event that the legal agreements have imposed conditions precedent, the deal team will work on addressing the relevant conditions precedent. Conditions precedent could consist of information outstanding that is yet to be presented, which could be completed in little time, or it could consist of capacity-building support to be provided first (or a combination of these two), which could require longer. As a general rule, if conditions precedent have not been met in full within a period of 12 months, the deal should be presented back to the IC for waiver of such outstanding terms, or for a revised decision. Upon completion of addressing these conditions, the IM will prepare a recommendation to the trustee to proceed with disbursement.

| | |
|---|---|
| Outputs | • Recommendation to proceed to disbursement |

**D5. Investment readiness:** The trustee will review recommendations received from the IM to proceed with disbursement, and will verify whether or not the conditions precedent have been met (where relevant), as well as whether the disbursement instructions correspond to the terms approved in the legal agreements.

| | |
|---|---|
| Outputs | • Approval for disbursement |

**M3. Approval for disbursement:** Once the trustee has verified the investment readiness of the opportunity, it will proceed to deliver against funding commitments as provided for in the legal agreements, which are often linked to the achievement of specific milestones.

### 4.3.4 Investment disbursement and management

**P10. Funds disbursement:** The trustee will proceed to make disbursement according to the terms and schedule provided for in the legal agreements, in terms of investments as well as the provision of TA.

Payment will likely be made in tranches; the IM will support the trustee in determining if subsequent milestones have been met to allow for follow-on disbursements.

| | |
|---|---|
| Outputs | • Disbursements made |

**P11. Active management:** Investment management formally commences once a commitment agreement has been signed. Although this does include the ongoing receipt and monitoring of information and reporting (financial and impact) from investee funds, the IM should adopt an active management approach towards managing investments, and foster a positive and dynamic working relationship with investee funds so as to enable ongoing and proactive engagement with investee funds to assist them in their growth and development. Where relevant, this engagement should also include the IM's participation in the IC of the investee funds. *Sections V. Technical assistance (TA) strategy and VI. Impact management* offer further information on TA funding and support that is provided alongside investments, as well as on the process for embedding impact management and gender lens investing.

| | |
|---|---|
| Outputs | • Reporting to trustee on performance of investment portfolio and any key investment management actions being taken |

**D6. Corrective action:** Through the active management of investments into investee funds, the IM will be responsible for identifying key concerns or risks that arise or are expected to arise within investee funds, and that are likely translating into a current or expected underperformance of the investment portfolio. This may occur through formal reporting, or through less formal interactions with the management team of investee funds. Once such concerns have been identified, the IM will decide on remedial action to be taken, which will need to be reported on to the trustee and the Secretariat. The IM will be assisted by relevant guidelines on risk management, which will be developed during the implementation of EMIIF.

| | |
|---|---|
| Outputs | • Remedial action plans in response to challenges/concerns identified |

**P12. Follow-up action:** The IM will enact the remedial action plan as presented to the trustee. Insofar as is possible, the focus of any remedial action should be on supporting investee funds in addressing whatever performance challenges they face, and in allowing them sufficient opportunity to address or rectify these challenges. It will also be essential for the IM to engage with co-investors and align on proposed action plans, especially if such plans involve any actions that would impact their funding position and given that funds will not provide unilateral rights to DFAT. Where the concerns are material and remedial action has proven unsuccessful, EMIIF could decide to exit its investment in the fund ahead of the previously anticipated lifespan of the investee fund.

| | |
|---|---|
| Outputs | • Reporting on changes in performance and addressing of underlying challenges |

**D7. Investment exit:** EMIIF will exit from investee funds through the natural liquidation of the underlying investments, which will occur over the pre-determined life of the investee funds. Under exceptional circumstances, the IM may decide to negotiate a premature exit due to significant concerns with the performance of the underlying investment and/or any activities by investee funds or underlying SMEs that are in breach of the ethical standards imposed by EMIIF. The IM should secure approval from the IC to proceed on such a matter which will necessarily involve a fine balancing act between (i) protecting the interest of EMIIF as it exposes EMIIF and DFAT to high reputational risk in the market for not seeing through the investment cycle, while (ii) limiting any negative impact of such an action on the underlying SMEs and their stakeholders (especially employees), and (iii) safeguarding the interests of co-investors.

| | |
|---|---|
| Outputs | • Decisions to exit<br>• Realised returns from investments, with relevant reporting |

**M4. Exit:** The IM will be responsible for overseeing the exit of investments in accordance with the terms stipulated with the legal agreements. All repayments will be made to the Trust's account, in accordance with the legal agreements.

### 4.3.5 Further considerations on due diligence process

The IM and DFAT will negotiate further the due diligence process to be adopted, which will follow industry standards as further detailed in *Annex 1 – Further details on due diligence process*. Broadly, industry best practice suggests that the due diligence process should not be structured or governed in a formulaic "check-box" approach, but rather should ensure that the aspects of a potential investee most pertinent to the risk and returns of an investment be effectively assessed. While the IMA will provide general guidance as to the core questions to be addressed during the due diligence process, it will remain up to the IM to address these questions in the most effective manner possible. Broad guidelines for the application of the due diligence process are as follows:

- Unless there are very clear reasons to the contrary, a due diligence assessment should entail a site visit to observe the operations of the IM, as well as to engage with existing or potential investees.
- The IM should be able to appoint expert counsel to advise on specific aspects of the due diligence assessment, but this should be clearly motivated and the costs thereof borne by the IM or underlying investee.

Key considerations to be assessed during the due diligence process include:

- The strength, experience and track record of the investee fund management team;
- The level of additionality, sustainability, and catalytic, market-building and/or crowding-in effect of the proposed investment; with regards to the latter, the types of capital to be sought alongside that of EMIIF, the likely sources and the likelihood of securing these should EMIIF invest;
- The quality of the pipeline of investment opportunities identified, considering in particular the long-term sustainability and growth outlook of the businesses targeted;
- The expected ability of the investee fund to continue originating the right investment opportunities at sufficient scale;
- Alignment with the impact objectives of EMIIF (geography, sectors, target SMEs, etc.);
- The achievability of the financial and impact targets proposed by the candidate IM;
- Adherence to DFAT's fraud and anti-corruption policies and social and environmental safeguards, employing relevant frameworks that DFAT subscribes to such as the IFC Environmental and Social Performance Standards;
- The quality of the investee's impact management framework and incorporation of gender lens investing principles;
- The strength and robustness of the investee's operations and decision-making processes;
- The reliability and transparency of the investee's monitoring, evaluation and reporting frameworks; reference can also be made here to industry-developed toolkits, such as the IFC DFI Toolkit on Corporate Governance; and
- Considerations for social, environmental and gender patterns (and the risks associated with them) that may affect the target financial performance of those funds as well as their ability to achieve development impact.

Further guidelines on the due diligence process are included in Annex 1 – Further details on due diligence process.

## 4.4 REPORTING FRAMEWORK

The reporting framework within EMIIF will be centred on the reporting of:

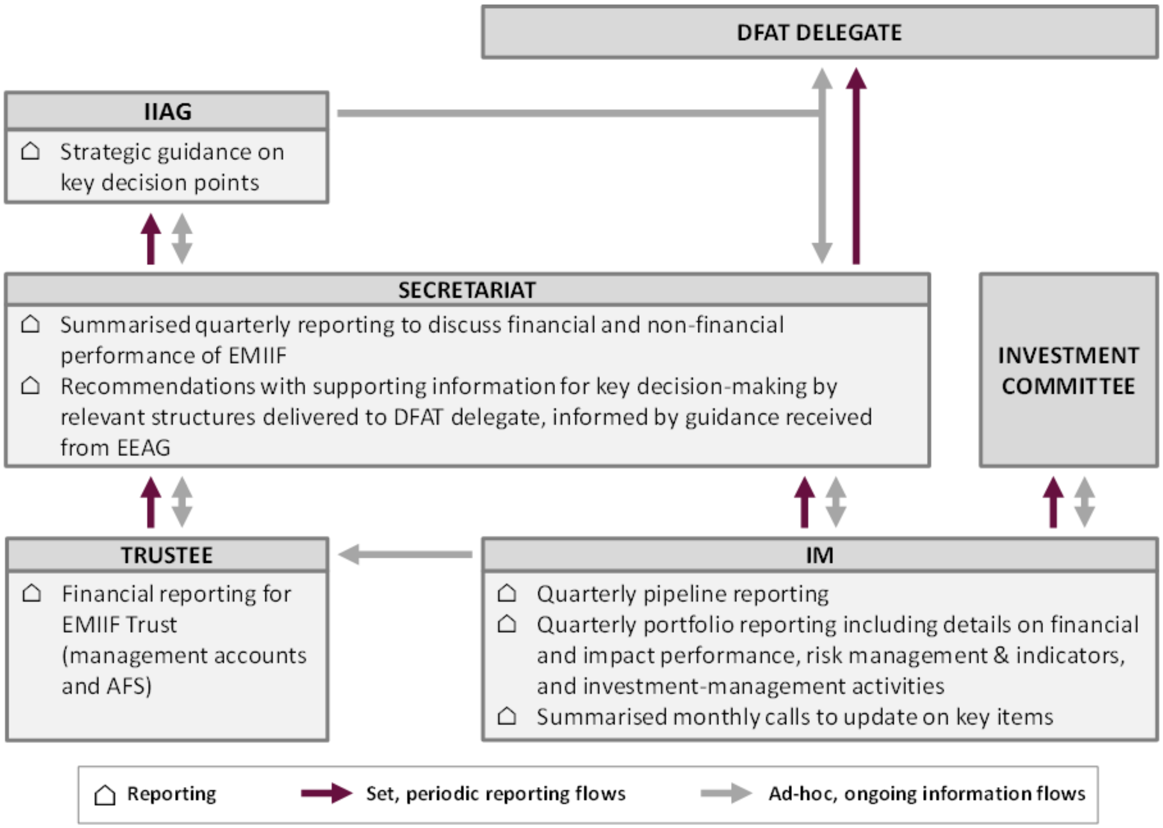
- The financial position of the Trust and cash flows, for which the trustee will be responsible;
- Any further fiduciary reporting required from the trustee to confirm that EMIIF's structures are sound and intact;
- The development of the pipeline of potential investable opportunities and SME funds under consideration, provided by the IM, as part of the investment analysis and due diligence processes;
- The status and performance of the investment portfolio, both from a financial and impact perspective, also collated and presented by the IM;
- Details of additional capital leveraged/catalysed through the involvement of EMIIF;
- Further details on investment management and any activities undertaken or proposed in this regard, by the IM; and
- Further activities undertaken by the IM in accordance with its mandate, such as participation in public fora, work being undertaken to assess the addition of new funding windows and other strategic reporting and recommendations.

This reporting will be conducted mostly on a quarterly basis while certain reporting items may be reported on less frequently (annually or when requested)[44], and presented to the Secretariat by the trustee and IM for review and comment. This formal process should not exclude more frequent and ad hoc engagements between the Secretariat and the trustee or IM, especially during the earlier phases of establishment. With regards to the IM, monthly engagements to obtain more frequent updates should be considered. The level of engagement and insight achieved through this process by the Secretariat will also represent a key means of monitoring and managing the risks involved in implementation.

The Secretariat will be responsible for collating the reporting presented by the IM and trustee, and providing relevant information and insights for review to the IIAG. On an as-needed basis, also based on the feedback and guidance from the IIAG, the Secretariat will also prepare relevant reporting and recommendations regarding key decisions to be made that do not fall within the ambit of the Secretariat's or IIAG's authority. This reporting framework is to be further detailed during the implementation phase, and will be stipulated in the Trust deed and IMA.

[44] A reporting schedule should form part of the overall reporting framework to be developed during the implementation of EMIIF, outlining the frequency with which specific items are to be reported on.

*Figure 25: Illustrative reporting framework*




Financial and impact reporting will also be consolidated on an annual basis. Annual financial reporting should be audited by independent auditors appointed by the Trust, while an independent third party should be contracted to verify the impact reporting on a periodic basis, in addition to performing more extensive impact analyses or studies, as deemed appropriate by the Secretariat.

As provided for in Figure 25, the IM and IC will engage regularly (at least on a quarterly basis), in addition to deal-specific decision-making meetings as detailed in *Section 4.3.2 Approval and negotiation*. This ongoing engagement will provide the IC with updated insights into the development of the deal pipeline, as well as allow for their inputs to be considered by the IM in the progression of active deal pipeline into investment recommendations.

# V. TECHNICAL ASSISTANCE (TA) STRATEGY

## 5.1 TA FOCUS AND SCOPE

**Given EMIIF's target positioning in the SME market, TA will form a critical component of its investment strategy**:

- EMIIF will have the ability to provide dedicated TA funding to its investee funds to support their capacity-building efforts with SMEs as part of their investment process. EMIIF focuses on a segment of the SME market where TA is particularly needed, often resulting in operational constraints for intermediaries who need to follow a hands-on investment approach.
- EMIIF will also provide tailored TA support to its investee funds, particularly for first-time fund managers, to develop effective investment processes. This will be provided or overseen by EMIIF's IM. EMIIF's positioning as an anchor investor in these funds will also present an opportunity for it to shape the investment approach undertaken by its investee funds—for example, on adopting impact management and gender lens investing practices.

Provision of TA using the two approaches above will allow DFAT to assess key learning objectives of EMIIF, in terms of i) how capacity-building assistance can best support the transition from grants to commercial investments and ii) what the best approach is for providing TA alongside investments.

***Considerations on TA for SMEs***

***In the context of SME development, TA refers to the provision of non-financial support that enables and encourages the development of successful SME businesses.*** *TA often takes the form of capacity-building services aimed at improving core business management capabilities, facilitating greater access to resources, ensuring compliance with relevant regulation, meeting best practice ESG standards, providing impact measurement support, etc.*[45]

***TA support to SMEs is particularly needed at the early stage of their business life cycle and can lead to significant long-term benefits****. The provision of adequate TA can significantly improve SMEs' ability to become investment ready, hence developing sustainable pathways for transition from grant funding and concessionary assistance to commercial sources of finance*[46]*.*

***Early-stage SMEs face basic business challenges****, including a lack of core business management skills (e.g., financial management, risk management); entrepreneurial experience and know-how; and resources (market information, technology and skilled labour) and processes to support efficient business operations.* ***These challenges are further exacerbated for women in developing countries, who face higher barriers for starting or managing businesses.*** *Women entrepreneurs often have limited access to formal education and are not exposed to opportunities to develop their business management skills and knowledge. However, studies show that women are 'better' at running businesses due to their ability to manage risks and finances more carefully.*

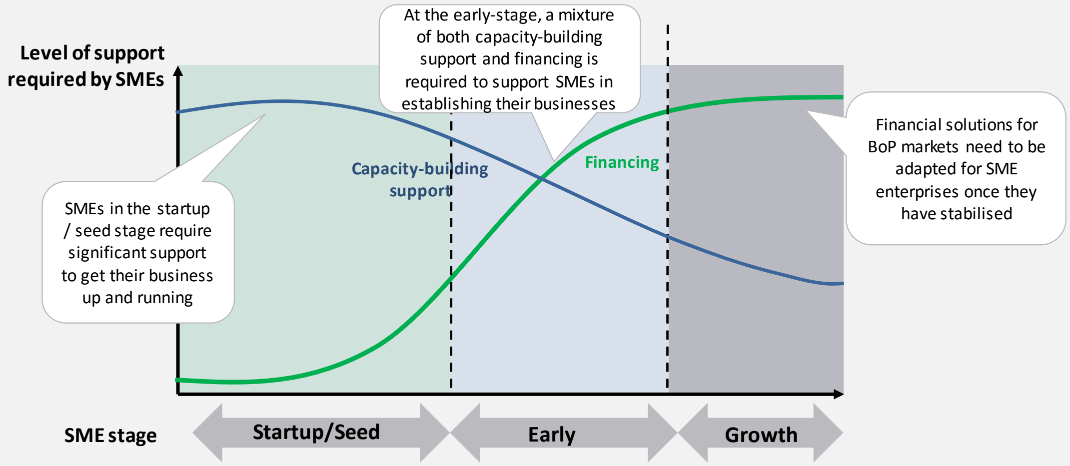
***As a result, investee funds focusing on this segment of the market are typically required to take a hands-on approach towards investing,*** *providing intensive core business support services to SMEs*

[45] In some cases, sector-specific technical expertise may be made available through TA services. This has been applied in the agriculture sector (e.g., Root Capital), where TA programs exist to support smallholder farmers in adopting innovative technologies or developing esoteric skillsets in agriculture activities.

[46] "Private Equity and Venture Capital in SMEs in Developing Countries: The Role of Technical Assistance", The World Bank (2014).

*alongside capital. The resulting additional operational burden is often absorbed by the SME funds themselves, given the limited availability of dedicated funding for this kind of activity*[47]*. This burden, in addition to the relatively small size of the SME funds investing at the early stage, contributes to their significantly higher share of operational costs compared with funds investing at a more mature stage of the SME market. These higher operational costs make potential investors wary (especially commercial investors), contributing partially to the financing gap in early-stage SME funds.*

***Figure 26: Financing vs. capacity-building support required for SMEs***




**EMIIF will provide TA alongside its investments both at the investee fund level and at the underlying SME level**. TA is an important component of investment funds that operate in this market and can underpin the success of their investment activities. TA is complementary to investment activities as it both encourages pipeline development through improving investment readiness of SMEs and supports the business needs of underlying SME investments. Examples of investors providing TA alongside investment capital include DFID Impact Fund, Dutch Good Growth Fund and IFC SME Ventures. Many DFIs also provide access to TA facilities alongside investments (e.g., KfW, IFC).

**In line with its investment strategy, EMIIF will address a key gap within the market by providing SME funds with TA support in two forms:**

1. **Dedicated TA funding to cover SME funds' capacity-building efforts with underlying SMEs.** Given that SMEs contribute to over a third of the GDP in this region, SME development is a priority for many national and regional private sector development strategies. While a number of TA programs cater directly to SMEs to encourage overall development of the SME market[48], limited resources are available for SME funds that provide TA directly to SMEs—particularly those focusing on early-stage financing where the TA need is greater.
2. **Customised TA support focused on strengthening SME funds' investment processes.** The SME funds market within South and South East Asia is still in its infancy, with a number of first-time fund managers operating in the region. However, a few organisations or investors are addressing the need for TA resources dedicated to building this critical market within the SME ecosystem. There is also a significant gap in TA provision for impact management and gender lens investing approaches, which have not been key areas of focus for investors and TA providers in the region.

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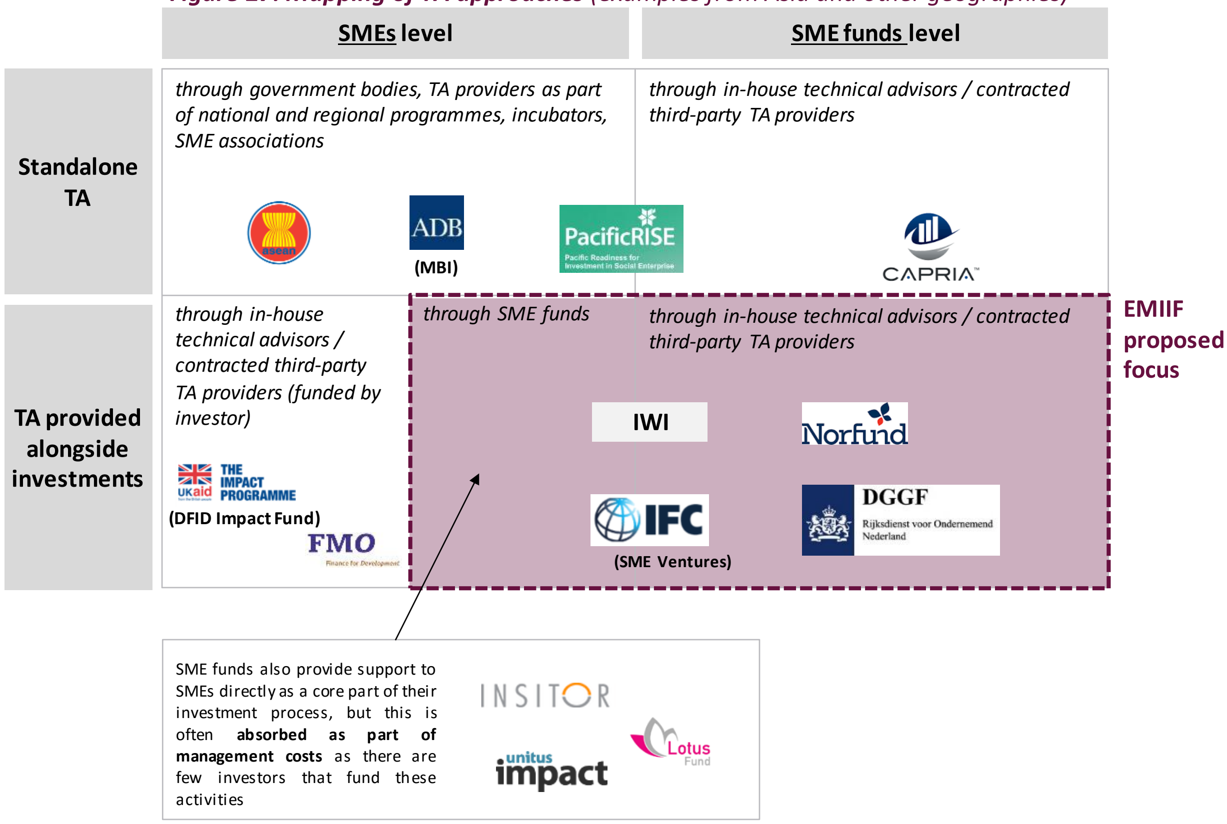
47 D. Capital analysis*; "EMIIF Market Landscaping Analysis"*, Palladium (2016).
48 For example, through government bodies, incubators and SME associations and other TA providers as part of national and regional programs.

***Figure 27: Mapping of TA approaches** (examples from Asia and other geographies)*




***Case study: Adopting a proactive approach to developing SME funds***

*Norfund, Capria, the Dutch Good Growth Fund (DGGF) and IFC SME Ventures run programs specifically focused on the capacity building of SME funds. By directly providing support to SME funds, Norfund ensures a strong pipeline of investable intermediaries in its target countries. Capria started as an incubator and accelerator of SME funds, and is now raising capital to invest in such SME funds on a larger scale. The DGGF has a specific funding window (Seed Capital and Business Development) to support the development of SME funds. IFC has been supporting its investee funds that operate in challenging business environment through its SME Ventures program.*

***The strong focus by these funders on capacity-building efforts emphasises the need for relevant TA support alongside EMIIF's investment activities. EMIIF could partner with existing investors to share TA support, or even consider enrolling investee funds into existing programs like Capria's.***

## 5.2 TA APPROACH

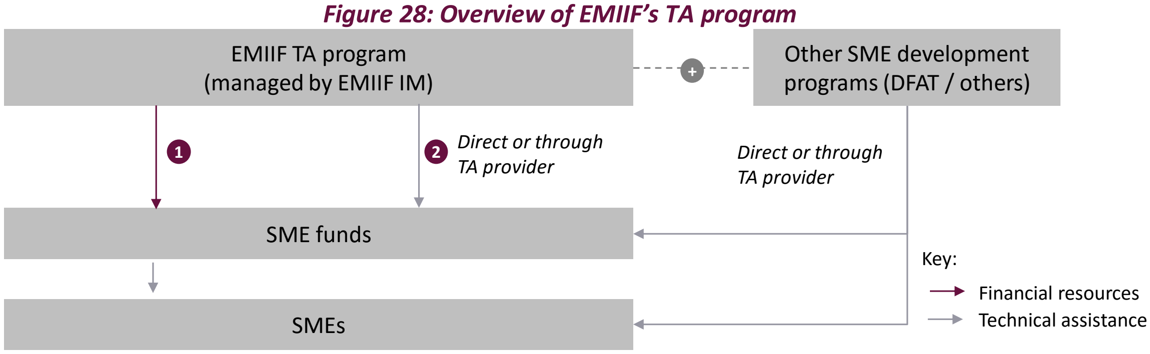
**EMIIF's TA activities will be managed by the IM to ensure strong coordination and alignment between the investment and TA decision-making and management processes.** This will reinforce the complementarity between both processes so that (i) the provision of TA contributes to the success of EMIIF's investments while (ii) the investment management process informs when and to whom EMIIF provides TA, and what type of TA is needed.

The IM will manage the provision of both forms of TA identified:

1. **TA funding allocations for investee funds will be disbursed as part of EMIIF's investment process; the provision of TA to SMEs will be overseen by the IM through regular monitoring and reporting.** The purpose of TA provision to SMEs is to support the performance / impact of SMEs that EMIIF investee funds invest in.
2. **Bespoke TA support to investee funds will be provided as needed directly by the IM, through in-house technical advisors or third-party TA providers.** The purpose of TA provision to SME funds is to ensure alignment of EMIIF's investee funds with EMIIF mandates and to support the investee funds' performance / impact.

**Furthermore, the IM will establish linkages with other existing TA programs, whether funded by DFAT or other donors / investors.** This will allow EMIIF to leverage existing programs to most effectively address the needs of SMEs and SME funds in the market. It will also allow EMIIF to strategically develop its pipeline (as well as the pipeline for other investors) of both SME funds and SMEs that could potentially be good investment opportunities in the future. For example, EMIIF investee funds may identify SMEs in the earlier stage of their business life cycle (e.g., start-ups) that could benefit from receiving support from existing DFAT initiatives (e.g., in-country SME incubation programs, iXc). Investee funds should establish these linkages with the relevant initiatives to ensure that the appropriate level and type of support can be provided to improve the investment readiness of these SMEs, which may in turn allow them to be considered as an investment opportunity at a later date.

*Figure 28: Overview of EMIIF's TA program*




**1 SME level**
through SME funds

- **Target**: Seed or early-stage SMEs within EMIIF investee funds portfolio
- **Purpose**: Support performance / impact of SMEs that EMIIF investee funds invest in

**2 Investee funds level**
directly or through third party TA provider

- **Target**: EMIIF investee funds, especially first-time fund managers
- **Purpose:** Ensure alignment and support performance / impact of investee funds

**+ Linkages to other SME development programs (DFAT / others)**

- **Target**: Eligible SMEs and SME funds within DFAT target countries where there are existing development programs (DFAT / others)
- **Purpose:** Pipeline development for EMIIF / investee funds

**Both TA funding allocation and TA support should be closely aligned and complementary to one another.** For example, the IM will develop gender lens investing frameworks and disseminate relevant information and toolkits across the investee funds (as part of bespoke TA support to investee funds), either itself or through service providers. Based on this, investee funds should include in the support they offer their underlying SME investments (as part of their TA funding allocation) approaches for incorporating the considerations of gender patterns in assessing and implementing business plans (e.g., including data analysis and identifying partners who can support their understanding of how gender patterns affect the specific sector or industry in which they are working).

**TA funding allocation as well as bespoke TA support activities will be considered on the basis of need, as proposed by investee funds in their proposals to EMIIF.** Figure 29 provides an illustrative menu of TA topics. "Core" TA topics—expected to more directly support the achievement of EMIIF's market-building and development impact objectives—will be prioritised over "support" TA topics.

***Figure 29: EMIIF TA menu for SME and investee funds***

| TA funding allocation to investee funds (for provision of TA to SMEs) | Bespoke TA support to investee funds |
|---|---|
| **Core**<br>• Foundational business and management skills<br>• Pitching and business development<br>• Financial planning and management<br>• Governance, compliance and risk management<br>• Impact management | **Core**<br>• Investment management and process management<br>• Impact management<br>• Gender lens investing<br>• Governance, compliance and risk management (e.g., ESG investing standards) |
| **Support**<br>• Building networks and partnerships<br>• Regulatory improvements (e.g., environment certifications and audits) | **Support**<br>• Pipeline development<br>• Sector-specific skills / knowledge development<br>• Fundraising strategy |
| **Not included as part of TA program**<br>• Advocacy (e.g., policy improvements / business environment) | |

From a cost perspective, some TA activities may be covered as part of the management fee paid to the IM and investee funds, while the remaining TA activities would be provided through financial resources in addition to the management fee. This will be subject to the negotiation process with the IM and investee funds and clarified as part of the due diligence and investment process. As part of the negotiation process, the IM should ensure that the implications for commercial sustainability are considered wherever TA funding is provided as a form of subsidy to investee funds to cover operational costs for providing TA to SMEs. The IM should work together with investee funds to develop and implement a clear pathway towards sustainability[49] as part of the TA funding allocation process.

[49] Sustainability in this regard is considered in terms of the investee fund's expected ability to secure additional investments into their fund, from impact-oriented investors as well as, in the longer term more commercial institutional investors.

## 5.3 TA MANAGEMENT PROCESS

**The level and nature of TA provision will be defined on a case-by-case basis depending on the unique needs of each investee fund.** TA assessment and provision will therefore be embedded within EMIIF's investment process. The decision to provide TA will be made as part of the due diligence process undertaken by the IM. During this assessment, the IC will approve the type and amount of TA to provide to investee funds:

1. **TA funding allocation for investee funds to provide TA to SMEs (managed by investee funds, oversight by IM).**
   ***IM responsibilities:*** While the IM will not provide direct TA to SMEs themselves, it will (i) provide and manage an allocation to investee funds as part of the investment process, and (ii) provide oversight for the deployment of TA resources to EMIIF's investee funds through regular monitoring and reporting. The IM will also be responsible for coordinating with other TA programs and establishing linkages where appropriate.
   ***Investee funds responsibilities:*** EMIIF's investee funds will be responsible for managing and implementing TA provided to SMEs. Investee funds maintain the flexibility to identify and address the TA needs of the SMEs in which they invest. Investee funds are able to select provision of TA from an existing TA menu (such as the one illustrated in Figure 29) based on their agreement with the IM. The IM must provide prior approval for additional TA support services that fall outside of the initial list of agreed TA. Investee funds are also responsible for monitoring and reporting TA activities undertaken to the IM as part of their regular reporting requirements.
   ***Timing of TA provision:*** TA funding can be provided only alongside deployment of capital i.e. it will not be provided prior to EMIIF investing in the investee fund.

2. **Bespoke TA support offered to investee funds (managed by IM).**
   ***IM responsibilities:*** The IM will be responsible for providing and overseeing TA to investee funds, embedding it within the investment management process (Figure 30). TA will be provided in the form of core capacity-building support to investee funds (e.g., to improve their investment processes) as well as the development and dissemination of any relevant frameworks, toolkits and guidelines (e.g., to enable the appropriate consideration of impact and gender)[50]. The IM will also be responsible for identifying areas where the support of third-party TA providers is required instead, and subsequently contract and manage the provision of TA to investee funds. All EMIIF's investee funds are eligible to receive TA from EMIIF (subject to TA assessment); however, more resources will be dedicated towards building up first-time fund managers.
   ***Timing of TA provision:*** TA support can be provided prior to deployment of capital, subject to approval of the EMIIF IC.

To ensure effective allocation of TA resources, the IM will be responsible for selecting and making recommendations on how TA should be provided to investee and prospective investee funds. The IM will conduct three main activities:

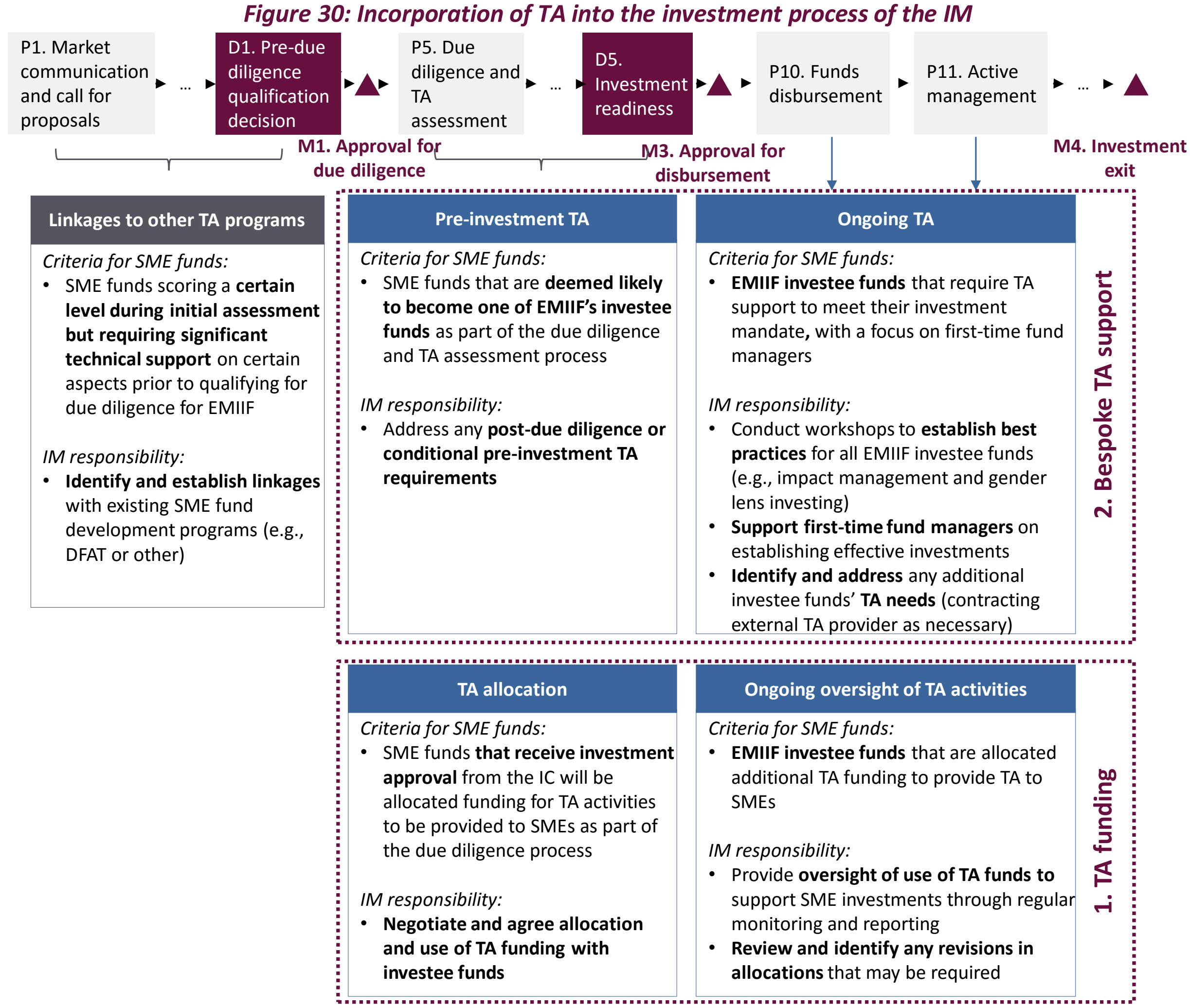
- **Establishing linkages to other TA programs for SME funds that are not investment ready or eligible for EMIIF investments:** During the market communication and initial identification of potential investment opportunities, the IM will seek to establish linkages to other TA programs where possible[51].

[50] See full list of bespoke investee fund TA support in Figure 29.

[51] Note that TA provision to SME funds is limited as discussed in *section 5.1 TA focus and scope*.

- **Providing pre-investment TA for SME funds that have received conditional approval by the IC for investments**: A TA assessment will be conducted alongside investment due diligence, which will identify if TA provision is required at the pre-investment stage, either prior to investment approval or prior to investment disbursement (as a condition for investment approval). This will be primarily light-touch support and provided to SME funds that are deemed to be an attractive investment proposition and likely to become one of EMIIF's investee funds, but are lacking in areas that are required as part of the investment approval criteria.
- **Providing on-going TA for EMIIF investee funds:** Only EMIIF investee funds that have fully met the conditions for investment are eligible for this support, which will consist of the majority of the TA to be provided by the IM (or contracted to an external TA provider). The IM will take a hands-on approach towards supporting the investee funds and ensure that TA provision is contributing towards EMIIF's market-building objectives[52]. It is likely that more resources will be needed in the beginning of the investment period to support the establishment of required processes within the investee funds, which can be used for a more extended period of time by the investee fund managers, if required and justified.

***Figure 30: Incorporation of TA into the investment process of the IM***




[52] Separate allowance has been made for TA management fees parable to the IM, outside of the investment management fees and outside of the actual allocation for TA expenditure.

# VI. IMPACT MANAGEMENT

## 6.1 IMPACT MANAGEMENT STRATEGY

**Impact management is a core component of EMIIF's design and underpins its ability to achieve its impact goals**. The importance of establishing impact goals and measuring impact has been widely demonstrated within the impact investing community. Having this process in place allows funders and investors to (i) establish close alignment between investments and the social objectives of impact investors, (ii) understand whether and how the investments have allowed them to achieve those social objectives and (iii) align and refine their investment strategies towards achieving their social objectives.

**Despite the increasingly dedicated efforts towards establishing and implementing best practices for impact measurement, there has yet to be a unique set of norms that are regarded as a standardised approach towards considering impact within investment processes.** In fact, a range of these approaches exists, from passive (ex-post) impact measurement to a full incorporation of impact management throughout the investment process *(more details below).* While the industry has made progress on a number of components within this space (e.g., standardised indicators based on Impact Reporting and Investment Standards (IRIS) and management tools such as Global Impact Investing Reporting Standards (GIIRS) Ratings), it is an area where further development could greatly benefit the impact investing industry.

**An impact management approach goes well beyond the practice of defining impact goals and outcomes and measuring progress against them.** It involves a strong incorporation of and focus on factors that go beyond what is typically considered to constitute an investment's immediate financial and economic context. Adopting and impact management approach should incorporate considerations of social (including gender), cultural and environmental contexts when selecting, making, managing and exiting investments. Sound impact management practices can enhance investment decision-making processes—for example, by driving more accurate risk assessment and investment valuation approaches or by promoting more effective incentive structures in the negotiation process.

**As part of its market-building objectives, EMIIF will test an impact management approach, going beyond a simple impact measurement approach** in order to maximise both EMIIF's development impact and the performance of its investment strategy.

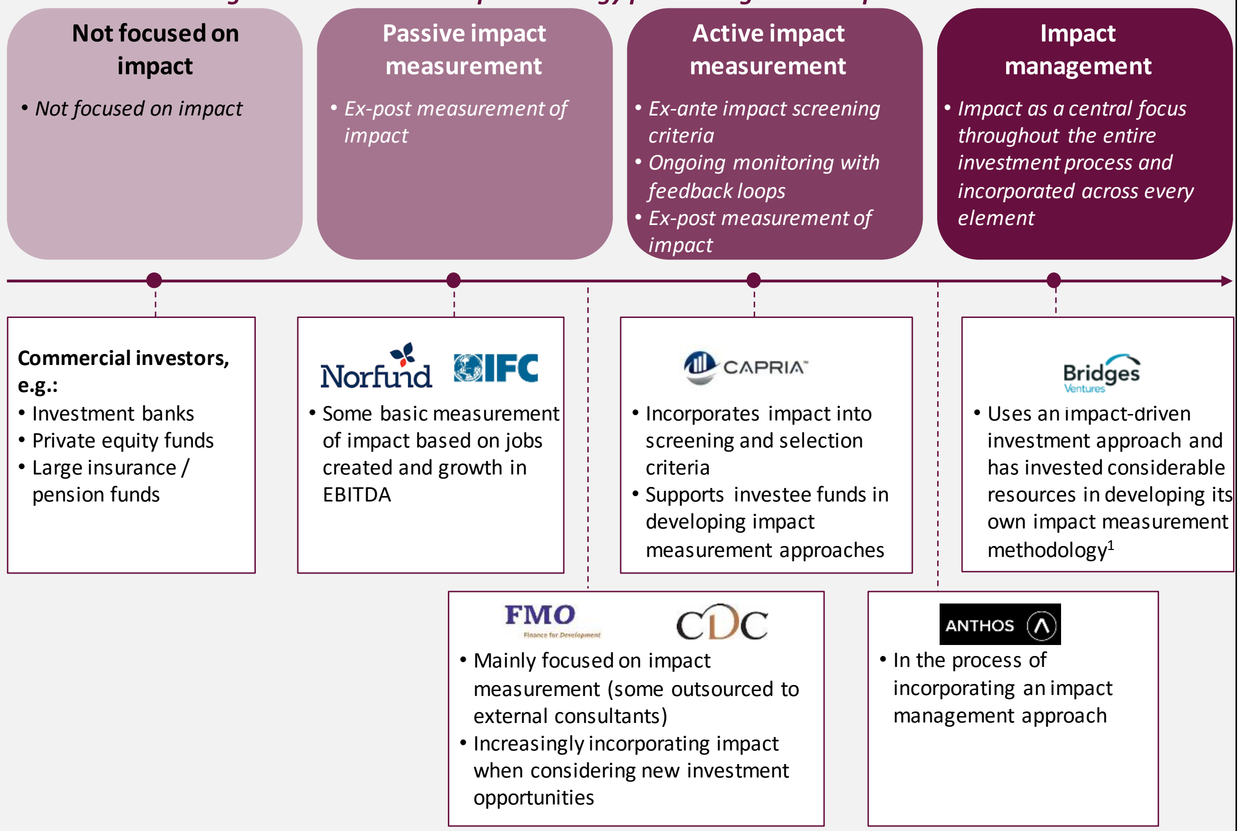
***From impact measurement to impact management***

*Impact investors currently adopt one of the three impact strategies below:*

- ***Passive impact measurement.*** *Almost all impact investors (including DFIs) have in place some version of a measurement framework that allows them to track whether or not a social goal was achieved post-investment. Measurement of impact in the industry has recently been guided through standardised guidelines (e.g., IRIS, GIIRS); however, some organisations also choose to adopt in-house measurement frameworks that better suit their needs.*
- ***Active impact measurement.*** *In addition to ex-post impact measurement, a growing number of impact investors proactively embed impact data and analyses into their investment decisions. This includes, for example, ex-ante assessment of the expected impact of an investment as part of the screening process and regular reassessment of the investment strategy based on impact performance.*
- ***Impact management.*** *Impact management positions impact as the central focus of the impact investors' investment approach. Impact is not simply addressed as a goal to be achieved through*

*investment, but as a means to drive better investment decision-making or management. A few organisations (e.g., Bridges, Anthos) have been testing impact management strategies, whereby a range of impact tools are developed and used for the day-to-day management of these investment funds. This approach is yet to be widely adopted within the industry, but investors are increasingly acknowledging its importance and adapting their practices to move towards impact management.*

***Figure 31: Illustrative impact strategy positioning across impact investors***




EMIIF's impact management strategy will rely on three key principles:

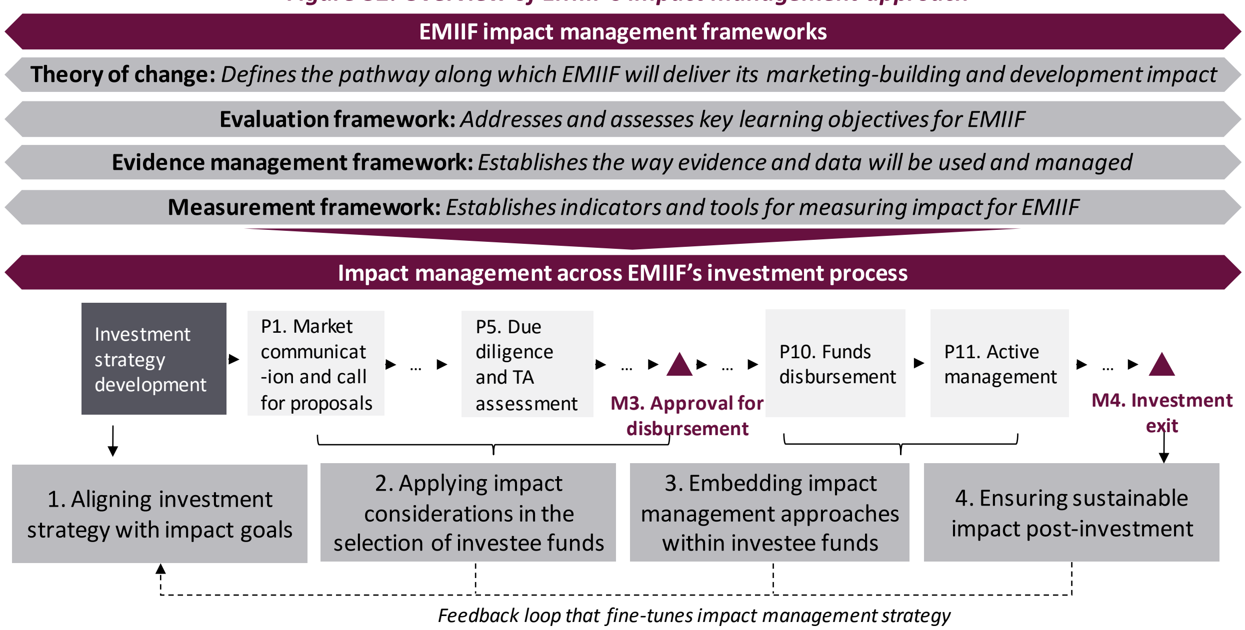
- **Embedding impact into every aspect of EMIIF's design and operations, and specifically across its investment strategy and process.** In addition to establishing clear impact goals, prioritising investments that have the potential to deliver greater impact and implementing a measurement framework, EMIIF will also leverage a range of insights, data and analytics on social, environmental and cultural factors to inform the way it assesses investments. Through taking into account a more holistic view of opportunities and risk, EMIIF will be better able to make informed decisions about its investment portfolio.
- **Establishing guidelines and processes to ensure the dissemination and implementation of an impact management approach within EMIIF's investee funds portfolio.** As a fund of funds, EMIIF is limited in its ability to directly manage and measure impact at the SME level. It will be crucial to ensure that EMIIF's investee funds are closely aligned with EMIIF's development impact goals and are equipped to implement EMIIF's impact management approach. In addition to alignment towards achieving development impact, it is also important to ensure that DFAT's standards and requirements for implementing safeguards against potential negative development outcomes (e.g., an investment that exacerbates social and economic inequities) are translated into the practices of investee funds. Further details on safeguarding policies are discussed in *section VII.*
- Risk management.

- **Integrating gender lens as a key component of EMIIF's impact management approach.** Taking into account the effect of gendered behaviours on operations in institutions, societies, cultures and economies—through, for example, the analysis of gender factors and patterns—can provide significant insights into the investment process, allowing EMIIF to invest and manage its investments more effectively.

**Four key impact management frameworks will underpin EMIIF's impact management approach—**a theory of change (ToC), an evaluation framework, a measurement framework and an evidence management framework. These will guide the way impact management is embedded throughout EMIIF's investment process, which will be undertaken by the IM.

**While the IM will be responsible for managing EMIIF's investment process, which will incorporate impact management and gender lens investing approaches, it will also need to ensure that these practices are embedded within the investment processes of EMIIF's investee funds**, who ultimately will be making the underlying SME investments. In doing so, the IM will need to ensure that it is able to balance the process of management and oversight with an establishment of trust with investee funds through the alignment of objectives. As such, it is important to align on the objectives and benefits for incorporating these frameworks and approaches early on in the process of engaging with investee funds.

*Figure 32: Overview of EMIIF's impact management approach*



## 6.2 DETAILED IMPACT MANAGEMENT FRAMEWORKS

The Design Document provides the principles for guiding the development of EMIIF's impact management frameworks as well as the proposed structures and several illustrative examples. These are subject to further refinements by the IM during the implementation phase of EMIIF.

### 6.2.1 THEORY OF CHANGE (TOC)

As discussed in *section I. Strategic context*, EMIIF aims to achieve three main sets of objectives: (ii) market-building objectives, (iii) development impact objectives and (iii) organisational learning objectives. EMIIF's TOC sets out how its investment and TA activities will achieve these three objectives:

| Inputs and outputs |
| --- |
| The operations of EMIIF will be facilitated by the **establishment and capitalisation of the Trust, the establishment of the relevant oversight structures within DFAT** (the Secretariat and IIAG) **and the appointment of third-parties to manage it**, including the IM and trustee.<br><br>Through its provision of capital and TA support, EMIIF will **play a complementary and additional role in the market by addressing a key gap**:<br>• **EMIIF will provide capital to SME funds**, with a focus on those that invest in early-stage SMEs in South and South East Asia. As supported by the market analysis in *section II. The market-building opportunity*, this focus addresses a segment in the SME market with the most limited access to capital. EMIIF will provide capital to SME funds that are best placed to deploy investments to SMEs in alignment with EMIIF's objectives.<br>• **EMIIF will provide direct TA support to its investee funds**, with a focus on supporting first-time fund managers or new investment structures and improving investing practices. Due to the nascent stage of the SME funds market in the region, investee funds need TA to ensure the effectiveness of their investing. Furthermore, given EMIIF's positioning in the market, it will be able to influence the investment strategies of its investee funds in doing so, more specifically in embedding impact management and gender lens investing practices.<br>• **EMIIF will also provide TA funding to support underlying SMEs through its investee funds**. TA support is critical to early-stage SMEs, as they often face challenges that are beyond limited access to capital yet can be effectively addressed through TA.<br><br>The immediate outputs of EMIIF's activities will include:<br>• The provision of financing support, through **investments made into investee funds**, as well as the **provision of TA** in favour of investee funds and/or underlying SMEs, as envisaged above.<br>• Activities undertaken in the **active management of the portfolio of investments by the IM**. In order for the underlying inputs to achieve the overall outcomes, it is important that the underlying portfolio of investments is managed actively.<br>• The **delivery of training and further support to investee funds.** Outside of the TA support envisaged above, the IM investment team is also expected to provide ongoing support to underlying investee funds, which is to include but not be limited to the provision of training to investee funds' management teams on gender-lens investing and impact management. Some of this may be achieved through support from third parties.<br>• The **identification, collation and dissemination of information by the Secretariat within DFAT**. The Secretariat, with the support of the IM and trustee, will be disseminating information gained from EMIIF throughout the organisation, particularly as relates to risk management, the achievement of development impact objectives, and policy compliance. |

| |
|---|
| • The dissemination of information and the transfer of knowledge gained from EMIIF through relevant fora, such as fora held with multiple stakeholders and other relevant channels and platforms. |
| **Short term outcomes** |
| Through delivering the relevant inputs and focusing on the associated outputs, the short-term outcomes that EMIIF will seek to achieve include:<br>• **Investment made into underlying SMEs, in order to address their financing needs**. This represents the primary need that EMIIF is seeking to address.<br>• **The delivery of TA support to SMEs in order to support their growth and development.**<br>• **The investee fund managers performing well.** The effectiveness and soundness of investee fund managers' operations will be key not only to the performance of EMIIF as a fund but also the sustainable impact on the overall industry.<br>• The **adoption of gender-lens investing and impact management into the operations of investee funds**, so as to be able to secure improved outcomes in this regard.<br>• **Increased collaboration between relevant DFAT Divisions**, and the IM, so as to be able to further develop the involvement and scope of EMIIF as an alternative tool to achieve development outcomes in the region.<br>• **Increased interest shown across DFAT in EMIIF and its activities**, so as to optimise the integration of relevant learnings into DFAT's broader operations, and interactivity between relevant programs. |
| **End of program outcomes** |
| The above-mentioned short-term outcomes are sought in order to achieve longer-term end of investment outcomes, as outlined below:<br>• **The operational sustainability of SMEs funded.** EMIIF will invest in SMEs and provide them with TA support in order to develop long-term sustainable businesses that can continue to deliver employment, products services and sources of income toto the poor.<br>• **The increased adoption of gender lens investing and impact management practices** by SMEs**.** EMIIF will seek to broaden the adoption by SMEs of such approaches, which contribute towards improvements in both development and financial outcomes.<br>• **Demonstrated track record of financial intermediaries through various structures.** By investing in a nascent market and addressing key market gaps, EMIIF will build the intermediary market through driving the establishment of SME funds with a strong track record, especially through its explicit mandate to support early-stage funds, first-time fund managers and new investment structures. This will form a core component of contributing towards its market-building objectives.<br>• **Demonstrated financial and development benefits of impact management and gender lens investing.** Due to its strong focus on impact management and gender lens investing, EMIIF will play a leading role in shaping and establishing best practices, which will be implemented through investee funds. As part of its learning objectives, it will test and demonstrate the effectiveness of approaches in impact management and gender lens investing that can contribute towards improvements in development and financial outcomes.<br>• **Increased funding flows through EMIIF from various DFAT Divisions.** Assuming EMIIF is able to demonstrate its value within the market, and through fostering closer interactions with other DFAT programs, the objective is to grow EMIIF beyond its initial size, especially through attracting additional funding flows to be invested through it from other DFAT areas such as country Desks/Posts.<br>• **Increased integration of knowledge and learnings from EMIIF with other activities within DFAT.** Through the proactive sharing of insights and information, EMIIF hopes to espouse an increased understanding and appreciation of the value of an investment-focused approach within DFAT as an |

organisation, as well as ensure increased interactivity and integration of learnings and insights into relevant activities across DFAT.

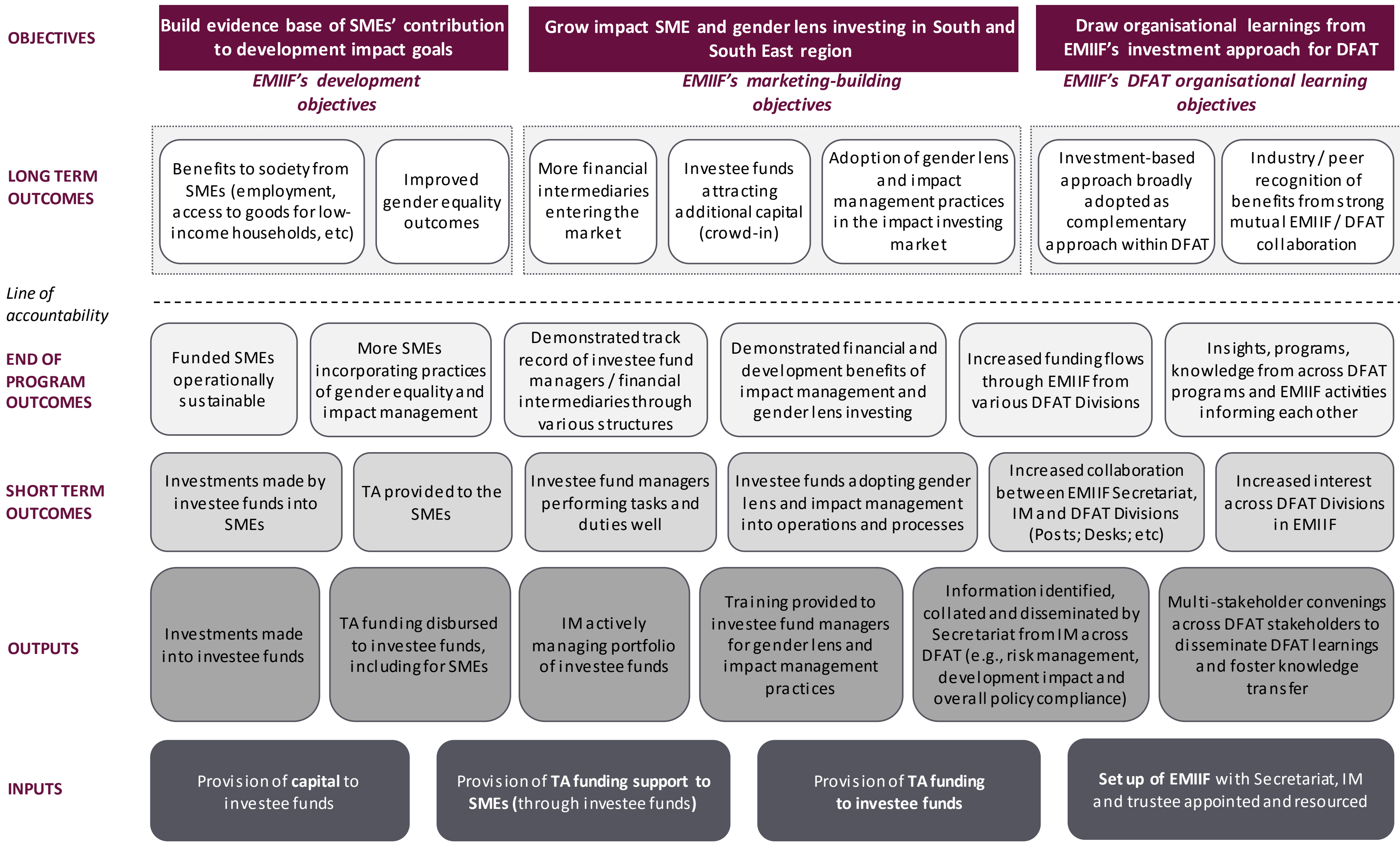
These end of investment outcomes represent the limit to which EMIIF will seek to measure and evaluate outcomes that it can attribute to itself. Longer-term outcomes beyond this level will be measured and evaluated, but not necessarily attributed directly to EMIIF's involvement.

**Long term outcomes**

All of the above outcomes and objectives are intended to achieve broader societal and industry outcomes, that can be summarised as follows:

- **Benefits to society deliver through the activities of the underlying SMEs.** Through supporting the growth of SMEs, EMIIF is indirectly supporting income generation activities in South and South East Asia. Due to its focus on development impact, EMIIF's investee funds will prioritise SMEs that create benefits for the poor as consumers, producers or employees, hence creating opportunities for those most in need. EMIIF's investee funds will also deliberately focus on SMEs that provide goods and services that could improve the quality of life of the poor. Through a strong focus on sectors that have a clear role in improving social outcomes, e.g., education, health and financial services, EMIIF also seeks to achieve knock-on effects in terms of economic opportunity.
- **More financial intermediaries entering the market**, contributing to a more dynamic and effective industry providing financial access to SMEs. The access to finance represents a significant barrier to growth by SMEs. By contributing to increased activity and a positive track-record within the sector, EMIIF seeks to encourage more intermediaries to participate within the space to broaden the impact on improved access to finance.
- **Investee funds attracting additional capital.** EMIIF's involvement will be focused on supporting the growth and development of intermediaries towards financial sustainability and increased growth. In doing so, such intermediaries will become better placed to secure additional sources of financing outside of EMIIIF, and progressively reduce or negate their reliance on funding from EMIIF.
- **The increased adoption of gender lens investing and impact management practices within the industry.** EMIIF will seek to broaden the industry's understanding and adoption of such approaches and promote industry best practices for impact management and gender lens investing, which contribute towards improvements in both development and financial outcomes, by delivering positive evidence hereof through the performance of EMIIF's investee funds.
- **The acceptance of an investment-oriented approach as complementary within DFAT.** Through the successful implementation and performance of EMIIF, the intention is to better understand the value, risks and appropriate use of an investment-oriented approach within DFAT's operations, and allow for its incorporation as appropriate into further DFAT interventions.
- **Broader industry recognition of the benefits of such an approach.** In doing so, DFAT also seeks to act as a source of insights and learnings as to the benefits of closely linking an investment-oriented approach with grant-making capabilities, to inform and encourage similar organisations in adopting a similar approach.

*Figure 33: EMIIF's theory of change (ToC)*



### 6.2.2 Evaluation framework

**EMIIF's evaluation framework will set out the key evaluation questions that will be addressed through EMIIF's impact management activities** (both in terms of measurement of impact as well as informing key decisions throughout the investment process). These questions will highlight both the impact objectives of EMIIF (development and market-building objectives) and a set of learning objectives that will allow DFAT to test the underlying rationale for EMIIF's investment and inform an iterative learning process.

An interim evaluation is proposed to be undertaken after 3 years of EMIIF's operations, recognising that many of the investee funds may not yet be fully invested by this stage. This evaluation will allow DFAT to refocus the investment strategy and adapt EMIIF operations if required. A larger evaluation will be undertaken after 10 years of EMIIF operation (the end of the first investment cycle) to inform strategic decisions on whether to continue EMIIF as a mechanism.

The questions below are framed as key evaluation questions; however, when being applied to other stages of the investment process, these questions should be tailored and reframed to suit the activities undertaken by the IM and investee funds. For example, in the due diligence phase, a question related to the development impact objectives should be framed such as, "How will this investment opportunity contribute towards inclusive economic growth and poverty reduction?" Similarly, during the investment management process, the question could be reframed as, "What progress has the investment made towards improving inclusive economic growth and poverty reduction?"

| Objectives | Key evaluation questions |
|---|---|
| **Development impact objectives** | • How effective has EMIIF been in contributing to inclusive economic growth and poverty reduction in South and South East Asia (including contribution to gender equality outcomes)?<br>• What development outcomes have been achieved (relating to the four categories of development outcomes in the ToC)? Have there been any unexpected positive and negative outcomes (e.g., unexpected outcomes for men and women or for other disadvantaged communities)?<br>• To what extent has EMIIF been able to increase access to capital for and promote inclusive growth of SMEs? Has this resulted in improved development outcomes?<br>• Has EMIIF's investment (and TA strategy) been effective at promoting inclusive growth of SMEs? |
| **Market-building objectives** | • What are the outcomes of EMIIF's market-building activities?<br>• To what extent has EMIIF been able to "crowd in" private investments into the SME funds market?<br>• Have there been any improvements in the investment processes of EMIIF's investee funds (e.g., incorporation of impact management and gender lens investing approaches)? What has been EMIIF's contribution to these improvements? How have these improvements impacted its investee funds? |
| **DFAT learning objectives** | • Is an investment capability of strategic value to DFAT in addition to existing tools such as grant-based bilateral assistance and multilateral investment?<br>• How is concessionary capital best used to achieve market-building objectives?<br>• How has the market been influenced by EMIIF, including through its focus on gender lens investing?<br>• How is capacity-building assistance best delivered to support a transition from grants to commercial investment? |

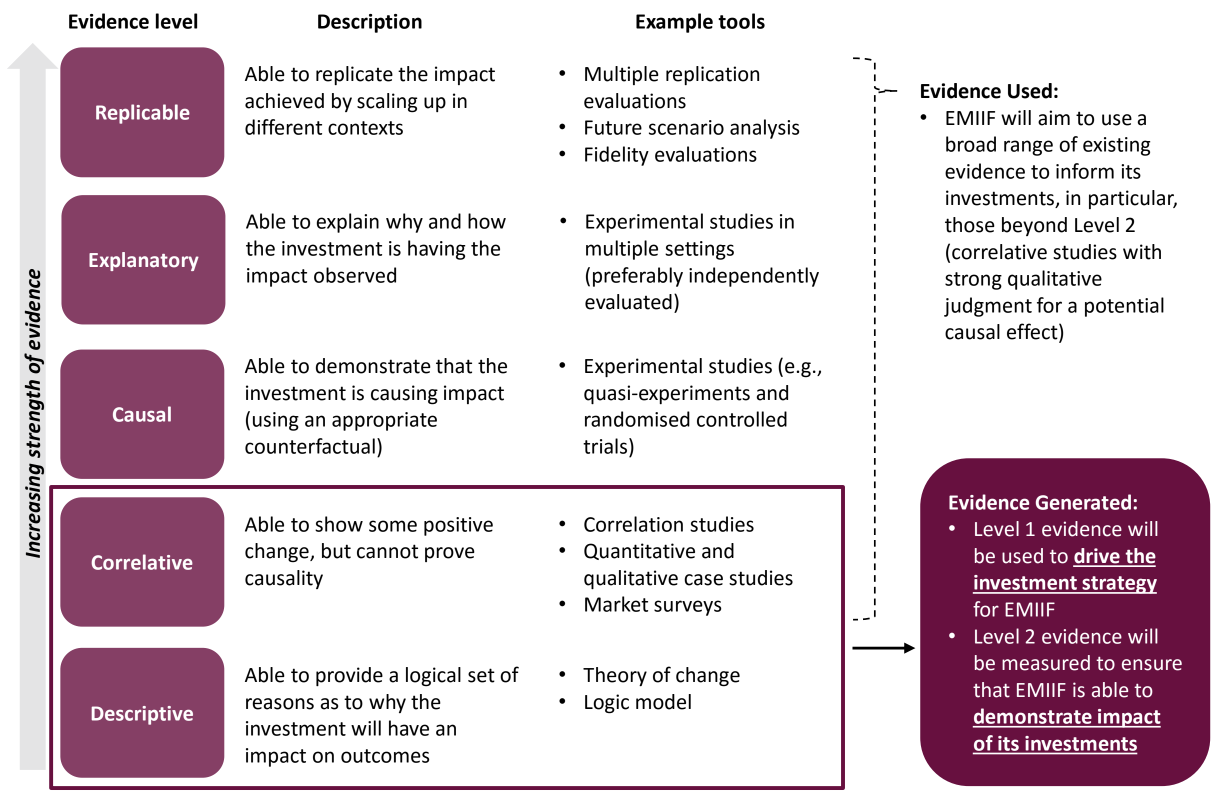
### 6.2.3 Evidence management framework

**The IM and investee funds will adopt a broad range of tools to support its impact management throughout its investment process.** While there will be a number of investment tools that will be employed by the IM and investee funds, this section will focus particularly on evidence collection tools, which, among other applications, can be used to:

- Assess the potential impact of an investment or a specific component of one;
- Assess the achieved impact of an investment or a specific component of one;
- Assess linkages between patterns and trends observed (e.g., gender, social, environmental) to adjust for risks and valuations of an investment.

**The type of tools that the IM and investee funds employ will determine the strength of evidence that they collect.** This will affect how the IM and investee funds can interpret and make use of this evidence (e.g., for communications, value risk adjustment or informing decisions on investments). To ensure that the data / evidence used are fit for its purposes, EMIIF will employ an evidence management framework for categorising the evidence it collects (see Figure 34).

***Figure 34: EMIIF evidence management framework***[53]




**EMIIF will distinguish between two broad categories of evidence or data, based on their primary purpose:**

- **Impact data <u>generated</u> by EMIIF investments, with the primary intent to demonstrate the direct and indirect impact of the investment.** This data will be generated at a **descriptive level** (e.g., logic model) prior to investment, and at a **correlative level** (e.g., market studies, case studies) once the investment has been made. Given the context in which EMIIF will operate (with a focus on early-stage businesses

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53 Adopted from NESTA standards of evidence.

and the nascent SME funds market), it is unlikely that causal evidence / data can be generated to demonstrate the impact of EMIIF, particularly when analysing the impact of its investments on development outcomes. This will affect the degree of attribution that can be made towards EMIIF's activities.

- **Impact data <u>used</u> from external sources**, with the objective of informing EMIIF's investment decisions. This includes, for example, challenging assumptions within due diligence, valuation or risk management processes. A wide range of studies are available to support this purpose—for example, existing studies on changes in gender patterns that could disrupt the status quo of power dynamics within agricultural value chains, which in turn may affect value and risk assessments for an existing smallholder farmer cooperative (potential SME investee). As evidence / data used within these processes may result in significant adjustments to business value and risks, such analysis should always incorporate the highest standard of evidence / data that is available. In particular, it is important to ensure that **at least correlative** evidence / data is observed, complemented with qualitative justification for why that evidence may be causal.

***Further considerations on attribution of impact***

**In addition to the evidence level at which data or information is collected, the IM will need to also apply some degree of qualitative judgment towards the attributability of impact to EMIIF's investments and activities**. The IM should consider assessing evidence based on the degree of separation between EMIIF's investments or TA activities and the impact that is being assessed. Given its fund of funds structure, communication should be carefully nuanced to take into account the broader context of the market and how EMIIF specifically is contributing towards impact. For example, the ToC provides an indication for how the degrees of separation may be considered: outputs can be more directly linked to EMIIF's contribution, while it will be more challenging to fully attribute development outcomes directly to EMIIF. Indirect impact on outcomes as a result of EMIIF's market-building role should also be distinguished clearly from the direct impacts through its investment portfolio.

### 6.2.4 MEASUREMENT FRAMEWORK

**Throughout the investment process, the IM and investee funds will collect information on, keep track of and assess a range of indicators.** For example, prior to an investment, an IM or investee fund may make informed assumptions about a particular outcome metric as a means of assessing the attractiveness of an investment. Once an investment has been made, the IM or investee fund will continue to track this indicator to understand what the realised impact has been (ex-post measurement) in order to continuously validate, test and reassess these assumptions.

**These indicators will provide critical information to the IM for assessing, monitoring and tracking progress on its investments (and potential investments).** Figure 35 presents a set of suggested indicators. These should be further developed and refined by the IM based on the following principles:

- A number of core indicators should be established that could be measured across all investee funds. They should closely resemble (if they are not identical to) industry-standardised metrics (e.g., IRIS[54])

[54] IRIS is preferred over the use of DCED indicators, as the former is more widely used by impact investors while the latter focuses more on traditional grant-based program indicators.

to ensure that they are complementary to the approaches employed by other impact investors. (Proposed indicators are marked with [*] in Figure 35.)

- Additional indicators (e.g., sector-specific outcome indicators) should also be measured where relevant, but need not apply to all investee funds.
- In certain cases, the IM may need to collect broader industry based information to assess EMIIF's market-building impact. This may be commissioned through an independent evaluation or market study as part of EMIIF's annual monitoring and evaluation process. (Potential relevant indicators are marked with [**] in Figure 35.)
- All indicators should be SMART (specific, measurable, achievable[55], relevant, timely).
- There should be sufficient flexibility for aggregation (e.g., EMIIF portfolio level, investee fund level) and disaggregation of indicators (e.g., by income group, sex, geography, sector, type of funds).
- Collecting information on the indicators should not place a significant burden on SMEs and should be relevant to the operations of their businesses. Investee funds should agree to the collection of indicators with SMEs at the early stage of the investment process (e.g., due diligence stage) to ensure that a collaborative approach is adopted towards defining the indicators and agreeing on the measurement and reporting framework that will be used.

***Figure 35: Proposed indicators for EMIIF (illustrative long list)[56]***

| Indicator category | Outcome | **Proposed indicators** (to be refined by IM at implementation stage, e.g., disaggregation of development outcomes) |
|---|---|---|
| | Provision of capital to investee funds | • Amount of capital raised and set aside for investment purposes |
| | Provision of TA to SMEs | |
| | Provision of TA to investee funds | |
| | Set-up of Trust and governance structures; appointment of trustee and IM | • Relevant legal agreements in place<br>• Decision-making to establish governance structures in place<br>• Meetings and engagements of relevant stakeholders |
| | Investments made | • Overall amount committed to and # of investee funds which focus exclusively on early-stage SMEs*<br>• Amount committed to and # of investee funds which focus exclusively on early-stage SMEs*<br>• Amount committed to and # of investee funds which have first-time fund managers*<br>• Number of investee funds where EMIIF is an anchor funder |
| | TA funding disbursed | • Amount committed to investee funds in terms of TA funding allocation*<br>• # of investee funds receiving direct TA support (including type of support)*<br>• # of hours of workshops/training sessions held on impact management and gender lens investing * |

[55] While EMIIF will not set publicly communicated targets on an aggregate level, the IM will need to ensure that a set of targets are in place to guide the investment activities of investee funds, which will be agreed upon internally.

[56] Detailed draft monitoring & evaluation frameworks that could be used during the implementation of EMIIF are included in Annex 3 – Initial detailed monitoring and evaluation framework. These are to be negotiated and agreed to with the IM.

| | | |
|---|---|---|
| | IM actively managing portfolio | • Frequency of engagements with investee funds*<br>• Qualitative reporting on form and content of interactions* |
| | Training provided to investee funds | • # of hours of training programs delivered<br>• Categories of training delivered |
| | Dissemination of information in DFAT… | • # and qualitative review of information pieces (e.g. memorandii, reports, presentations) made available* |
| | … through fora and other means | • # and types of fora and other channels/events organised* |
| | Investments made into SMEs | • Total amount of EMIIF capital deployed by EMIIF investee funds to SMEs*<br>• # of SMEs receiving EMIIF investment capital*<br>• Average ticket size per investment made by investee funds |
| | TA provided to SMEs | • # of SMEs supported by investee funds on TA activities (incl. type of TA activity provided)*<br>• Amount of funding spent on TA to SMEs*<br>• Qualitative review of types of support offered to SMEs |
| | Investee fund managers performing well | • AuM for each investee fund<br>• EMIIF investment as % of total AuM of investee funds<br>• Comparative reporting on actual vs forecast performance against key metrics |
| | Adoption of gender lens investing and impact management by investee funds | • # of investee funds incorporating successfully an impact management and gender lens investment approach*<br>• Frequency of use of impact / gender studies in informing the investment process |
| | Collaboration with country Posts and initiatives | • # of new collaborative initiatives proposed and/or launched |
| | Increased levels of interest shown in EMIIF within DFAT | • Qualitative reporting on broader dissemination of information and interest shown |
| | Funded SMEs operationally sustainable | • # of SMEs receiving TA support from investee funds with improved business practices<br>• Financial performance of portfolio SMEs (e.g., business revenues, profits, sales)*<br>• # and % of SMEs able to secure follow-on capital following EMIIF's investee funds initial investments* |
| | Increased adoption of gender-equality and impact management by SMEs | • # of SMEs incorporating impact management and gender-friendly policies (e.g., flexible working arrangements)*<br>• # and % of SMEs that are certified by environmental regulations |
| | Demonstrated track-record of investee funds | • Amount and # of first-time fund managers (investee funds) receiving follow-on investments<br>• # of investments successfully exited – *long-term metric*<br>• Performance of investment portfolio, based on relevant metrics* |
| | Demonstrated financial and development benefits of | • # of investee funds with improved investment processes* |

| | | |
|---|---|---|
| | impact management and gender lens investing | • # of investee funds with risk management strategies that take into account social, cultural and environmental factors |
| | Increased funding flows through EMIIF | • # of additional initiatives launched through EMIIF<br>• Amount of additional funding committed through EMIIF |
| | Insights are integrated to inform all DFAT activities | • Qualitative reporting on broader dissemination of information and integration of learnings |
| | Benefits to society from SMEs | **Employment and livelihood opportunities**<br>• # of equivalent full-time employees employed by SMEs that are paid a living wage*<br>• # of new jobs created by SMEs*<br>• SME business revenues generated*<br>• # of SMEs located in low-income areas<br>• Indirect gross value-add to the economy<br>**Access to goods and services to low-income households**<br>• # of SMEs providing access to essential goods and services to low2-income households*<br>• # of low-income consumers / beneficiaries*<br>• Estimated cost savings to low-income households due to increased access to goods and services<br>**Sector-specific potential benefits**<br>• Health: # of low-income beneficiaries with improved health outcome (health outcome to be defined)<br>• Education: Increase in literacy rates<br>• Agriculture: # of smallholders included in supply chains |
| | Improved gender equality outcomes | • # of women-owned businesses provided with access to capital (including % of portfolio and AUD amount)*<br>• Workplace diversity: ratio of M/F staffing*<br>• Average gender pay gap across SMEs invested in<br>• SMEs targeting women as consumers |
| | More intermediaries entering the market | • # (and growth in the #) of SME funds active in DFAT target countries**<br>• Estimated value of funds investing in DFAT target countries**<br>• # of SME funds focused on early-stage SME finance** |
| | Investee funds attracting additional capital | • Leverage: Amount co-invested in investee funds*<br>• Catalyse: Amount and # of investee funds receiving follow-on capital post-EMIIF investment* |
| | Broader adoption of gender lens investing and impact management in the impact investing market | • # of SME funds adopting impact management and / or gender lens investing approaches**<br>• Use of EMIIF-developed tools and guidelines in the wider industry** |
| | Investment-based approach broadly adopted as complementary in DFAT | • Overall support offered for relevant activities<br>• # of initiatives adopting an investment-based approach, and amount of funding committed thereto |
| | Industry-wide recognition of benefits of DFAT-EMIIF collaboration | • # of new organisations undertaking similar initiatives, potentially informed directly by EMIIF<br>• # of initiatives seeking to collaborate with EMIIF |

EMIIF will place core reliance on the measurement of certain standardised impact metrics across all investments, similar to the approach currently adopted by the majority of DFIs. However, it will also seek to adopt a proactive management approach (Figure 31) and include sector-specific or investment-specific metrics where appropriate.

It will be critical to find a suitable balance between the comprehensiveness of the impact measurement framework to be adopted, and the ability to deliver against it. An overly burdensome monitoring and evaluation framework will either detract from the IM's and investee funds' ability to effectively manage their investment portfolios, rendering the funding support from EMIIF ineffective in building the market; require excessive degrees of TA support to empower investee funds to be able to deliver against it; and/or potentially dissuade co-investors due to concerns over a loss of focus on investment-management activities. The right balance between the need to evaluate impact and the need to ensure effective operations will need to be discussed and agreed to between DFAT and the IM.

At the beginning of the implementation phase, the IM will be responsible for developing a detailed monitoring, evaluation and learning framework for EMIIF. This will include: (i) refining the above indicators, (ii) setting out the process for data collection, (iii) defining and implementing a data management system for monitoring and reporting on these indicators and (iv) outlining the frequency and type of analysis that will be conducted. In doing so, the IM will need to consider existing data analysis and performance management systems that are commonly employed by impact investors, such as PRISM and GIIRS ratings.

## 6.3 MANAGING IMPACT ACROSS EMIIF'S INVESTMENT PROCESS

The IM will be responsible for refining and implementing an impact management process that will include the following four key components:

i. Aligning EMIIF's investment strategy with its impact goals;
ii. Applying impact considerations in the identification and selection of investee funds;
iii. Embedding impact management approaches within investee funds; and
iv. Ensuring sustainable impact post-investment.

This section provides an overview of the objectives and activities within each of these components. Focus will be placed particularly on component (iii), which details the responsibility of the IM for embedding impact management within the investee funds' processes as well as the responsibilities of the investee funds themselves.

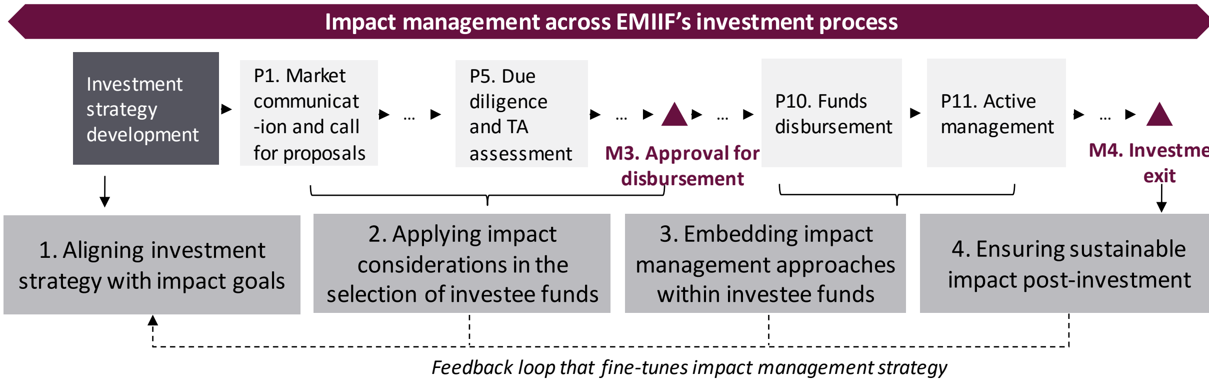
***Reporting and communication of EMIIF's impact***

*As part of the implementation process, the IM will establish a detailed reporting and communication strategy for EMIIF. Within this strategy, the IM will need to clarify the processes for reporting and communicating EMIIF's impact, as well as a reporting schedule that outlines the intended frequency of reporting on relevant components. This should include a clear articulation of (i) EMIIF's dual emphasis on development and market-building objectives and (ii) the implications of this approach.*

*EMIIF's reporting and communication strategy includes details on (but is not limited to) the following:*

- ***Stakeholder mapping:*** *As part of the preparation phase for implementation, the IM should conduct a stakeholder mapping to identify the type of information that will need to be communicated to each group of stakeholders, and with what frequency. This mapping should include how DFAT will engage and communicate with its government partner, which should be informed by DFAT Posts.*
- ***Branding:*** *The IM should take into consideration when the Australian government's brand is suitable to employ and how the IM intends to communicate DFAT's role in EMIIF. This should be informed by consultations with DFAT Posts, who will be able to provide advice based on local contexts, as well as external advisors that are part of DFAT's governance structure, who will be able to provide more overarching strategic input.*
- ***External evaluation:*** *While the IM will be responsible for providing oversight, and will conduct regular monitoring of investee funds, the IM will also be subject to independent evaluation on the management of EMIIF across the investment process. This will be conducted on an annual basis, to evaluate the efficiency and effectiveness of the IM's investment processes, as well as validate results reported and assess the progress made by EMIIF in achieving its objectives. The organisation responsible for conducting these evaluations should be engaged early in the implementation phase, in order to ensure that the evaluation standards are incorporated into the design of EMIIF's monitoring and reporting systems.*
- ***Knowledge sharing:*** *The IM will need to map out how EMIIF will engage with other investors (e.g., DFIs, impact investors), including those that are already investing in the South Asian and South East Asian markets, as well as the wider development finance industries. Given EMIIF's market-building role, it will be important to emphasise sharing lessons learnt as well as thought leadership that may be developed as part of EMIIF's focus on impact management and gender lens investing. One example for how this may be done is through convening annual forums to bring together investors and/or fund managers in the market.*

*Figure 36: Impact management approach across EMIIF's investment process*




## 6.3.1 Align investment strategy with impact goals

The alignment of EMIIF's investment strategy with its impact goals is critical. EMIIF's strategy has been developed based on EMIIF's impact goals (see Figure 33) and current market assessment; however, it is important that EMIIF be allowed to take into account the evolution of its target market and strategic priorities over time.

The IM will be responsible for validating and ensuring that EMIIF's investment strategy is able to deliver on the impact goals as defined by EMIIF, in light of additional information that becomes available to the IM. At a minimum, the IM should conduct annual reviews to assess if adaptations to EMIIF's strategy are necessary. Any recommendations for adapting the strategy will require approval from DFAT.

The IM should take an iterative approach towards adapting its investment strategy to enable EMIIF to best achieve its impact goals. In order to achieve this, the IM should implement feedback mechanisms to allow for evidence and data that are collected during the investment process to be assessed and considered throughout EMIIF's investment strategy development process.

## 6.3.2 Apply impact considerations in the identification and selection of investee funds

While the solicitation of applications for EMIIF investments will be conducted through an open call for investment proposals process, the **IM should prioritise its marketing and communications efforts towards sectors and market segments that are strongly associated with the development impact *and* market-building impact that EMIIF aims to achieve.**

As EMIIF will be relying on the investments made by investee funds to achieve its development impact, **the intentionality of its investee funds in achieving impact as well as their ability and appetite to employ strong impact management and gender lens investing processes will be critical for the success of EMIIF**. This will form an important aspect of the initial assessment and due diligence process conducted by the IM on potential investee funds; priority will be given to those funds that score highly on this aspect.

**During the due diligence process, the IM will be required to conduct a detailed review of the investment thesis proposed by applicants**. This review should incorporate considerations of social, environmental and gender patterns that may affect the target financial performance of those funds as well as their ability to achieve development impact. The IM will also be required to flag any risks associated with the patterns and trends identified—these will need to be addressed during the due diligence process. Actual performance against the thesis needs to be monitored on an ongoing basis, with the ability to promote corrective action where required.

**Within the deal structuring process, the IM will consider structures and arrangements that will allow EMIIF to best achieve its objectives** (in particular, at the investee fund level, EMIIF's market-building objectives). For example, the IM should consider the requirements of co-investors and negotiate an agreement that incorporates the appropriate instruments and terms for facilitating crowd-in investments. At this stage, the IM will also incorporate requirements for impact management and gender lens investing into the IMAs of investee funds, including assessing the needs for TA in these areas and making necessary arrangement to allocate or provide this support.

### 6.3.3 EMBED IMPACT MANAGEMENT APPROACHES WITHIN INVESTEE FUNDS

**Due to EMIIF's fund of funds structure, it is critical for the IM to ensure that investee funds adopt an impact management approach.** While EMIIF's investee funds will be given flexibility in how they incorporate impact management (and gender lens investing) approaches within their investment processes, they will need to meet the guidelines and criteria set out by the IM, which will be informed by EMIIF's impact framework.

**The responsibilities of the IM are as follows:**

- **Develop guidance and tools for investee funds to use in incorporating impact management and gender lens investing approaches into their investment processes.** The IM will employ a tailored approach towards the selection of tools and provide guidance and oversight to investee funds on the use of these tools. The IM should aim to incorporate current best practices for these tools. Examples could be taken from existing impact investment funds, such as Bridges Ventures, which provides a rigorous set of investment tools to support its impact management approach, and Acumen, which is known for its Lean Data Initiative, which helps social enterprises select tools for measuring impact.
- **Support investee funds on implementing impact management and gender lens investing processes**. The IM will be able to access resources to provide capacity-building support to investee funds in implementing impact management and gender lens investing approaches. This could be done either in-house or subcontracted to a third party within allocated TA funding.
- **Conduct audits to ensure that the investment processes undertaken by the investee funds meet requirements of EMIIF and that the investments made are aligned with EMIIF impact goals.** These audits will be required at least on an annual basis to ensure that both processes are in place and being adhered to. During these audits, the IM should highlight any areas for improvement and provide guidance and support to investee funds on improving in these areas.
- **Oversee monitoring of investee funds and produce aggregated reports on impact.** The IM will be responsible for providing oversight and guiding the collection and management of the core indicators (and additional indicators) within the measurement framework. While these indicators will mostly be collected by investee funds due to their direct relationship with the underlying businesses, the IM will be responsible for managing evidence / data generated, both in terms of providing oversight for the data collection processes and of reporting analysis or information to the required stakeholders (e.g., aggregation of data). The IM will be responsible for ensuring that an agreement is in place concerning the frequency with which these analyses will be conducted (proposed on a quarterly basis) and the way they will be reported to relevant stakeholders. The IM will be responsible for providing resources, support and guidance to investees in using this evidence / data and for promoting cross-sharing of existing evidence. More information on the communications and reporting is provided in *section 4.4 Reporting framework.*

The IM will be required to indicate how it intends to ensure that it incorporates, the relevant skills and expertise necessary to be able to fulfil the above-mentioned responsibilities, and how it intends to share best practices learnt from its investee portfolio without breaching any confidentiality.

**The responsibilities of the investee funds are the following:**

- **Developing and incorporating impact management and gender lens investing approaches within their investment process**. Investee funds retain flexibility in how they choose to incorporate the above (e.g., they can choose to develop their own approaches or adopt EMIIF tools) as long as they are able to meet the criteria as set out by the IM. At a minimum, they should have processes in place that include the elements provided in Figure 32.
- **Regular data collection and reporting back to the IM.** Investee funds are responsible for ensuring that the required data on the core (and additional) indicators be available to the IM.

*Figure 37: Impact management and gender lens investing embedded within investee funds' processes*

| 1. Investment strategy development | 2. Investment identification, due diligence and execution | 3. Investment management and exit |
|---|---|---|
| • Ensure alignment of investment mandate with EMIIF's impact goals<br>• Incorporate measurement of EMIIF core indicators<br>• Embed feedback loops between the monitoring, reporting and evaluation process to fine-tune the impact management strategy | • Prioritise market outreach based on sectors / segments of the market that will achieve greatest impact<br>• Employ tools and processes focusing on impact and gender factors when selecting and valuing risks or growth potential of investments<br>• Incorporate impact management and gender lens investing terms in deal structuring and negotiation process as per IMA guidelines | • Provide technical support to SMEs that will increase or encourage the achievement of impact (part of TA)<br>• Regularly monitor impact and report it to the IM<br>• Incorporate processes to ensure sustainability of impact beyond investment period (e.g., exit strategies) |

## 6.3.4 Ensure sustainable impact post-investment

As part of the investment management process, the IM will monitor exits of the underlying SME investments to ensure that investee funds are exiting their investments in a responsible manner. The IM will also need to ensure that it is employing responsible exit strategies for exiting EMIIF's investee funds:

- **Exit from investee fund as per investment terms.** EMIIF will exit from investee funds through the natural liquidation of the underlying investments, which will occur over the pre-determined life of the investee funds (likely 7-15 years). The IM should ensure that the terms negotiated during the investment agreement phase allow for a responsible exit from the investee funds—one that ensures that investee funds can in turn responsibly exit their underlying SME investments. For example, the investee fund life should be adequately planned for, so as to allow the investee fund sufficient time to exit its SME investments. EMIIF should be open to extending investee fund life in situations where doing so would ensure the sustainability of the underlying SME investments and their contribution to development impact.
- **Premature exit from investee fund.** In exceptional cases, EMIIF may need to exit prior to the end of the investee fund life. Although these situations should be avoided, were they to happen, the IM should take into account principles for responsible exiting. These should include adequate consideration of the implications for the fund following the exit of EMIIF, including implications for the fund manager as well as its SME investment portfolio. At a minimum, the following factors and their implications should be considered: (i) timing of the exit from the investee funds, (ii) ownership and governance structures post-exit and (iii) balance between social and financial considerations (when

selecting among bids, where relevant). In particular, the knock-on impact of an EMIIF's exit on the overall sustainability of the investee fund would need to be considered carefully given EMIIF's expected role as an anchor funder and the impact and reputational risks associated with this.

In both cases, the IM should adequately capture the lessons learned from its investment into an investee fund so that these can inform EMIIF's investment strategy in the future. To contribute to EMIIF's learning objectives, the IM should also consider conducting follow-up evaluations of the SME investments to assess the sustainability of the impact that EMIIF achieves.

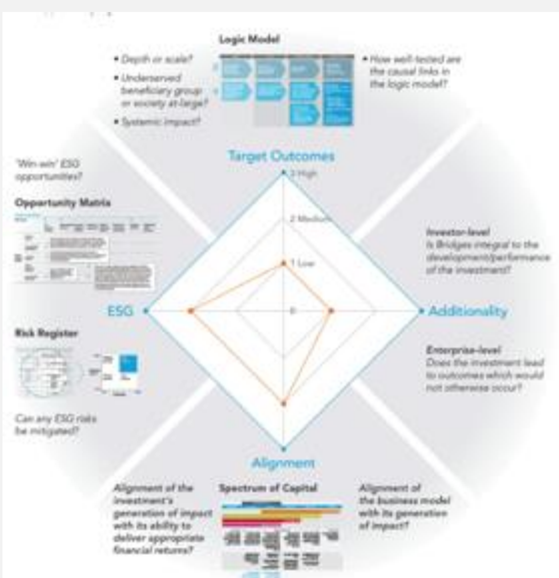
***Case study: Bridges Ventures***

*Bridges Ventures is a specialist fund manager that uses an impact-driven investment approach and has invested considerable resources in developing its own impact measurement methodology. By adopting impact as a lens for selecting and engaging with its investments, Bridges believes that it is able to generate both superior financial returns and greater development impact.*

*The company's impact management approach consists of three key aspects:*

- ***Bridges 'SET':*** *A three-stage process which integrates impact analysis into the full investment cycle, from (S) selecting investments to (E) engaging on ESG factors in order to manage risks and identifying opportunities for creating additional value to (T) tracking progress in order to inform timely management decisions.*
- ***Bridges IMPACT Radar****: A tool that focuses on four key criteria (target outcomes, ESG, additionality and alignment) to assess and map potential risks and returns for a particular investment.*
- ***Bridges' IMPACT+:*** *An advisory function that engages with others in the impact investment sector to improve and support the growth of the wider sustainable and impact investment sector.*

***Figure 38: Bridges IMPACT toolkit***




*As a key factor in its impact management process, Bridges* ***takes into account the existing operational and measurement practices of its investees.*** *Measurement indicators and frameworks are always developed in collaboration with investee enterprises very early in the investment process. In addition, Bridges places* ***a strong emphasis on responsible exits to ensure that its investee enterprises can create sustainable impact*** *long after Bridges' direct engagement.*

*As part of its IMPACT+ work, Bridges is currently convening the "Impact Management Project" which engages with a broad range of impact investors in developing a common framework and language for impact management.*

# VII. RISK MANAGEMENT

EMIIF will follow a **risk management approach** consisting of a deliberate and conscious identification and mitigation of potential risks throughout EMIIF's upfront design phase as well as its ongoing investment process once it has been set up.

To ensure that EMIIF is **designed so as to best mitigate the reputational, impact and investment risks to which it will be exposed**, its design phase includes an upfront risk assessment to identify the key risks that could negatively affect EMIIF's implementation and/or performance, and to proactively identify and construct mitigants within the fund design.

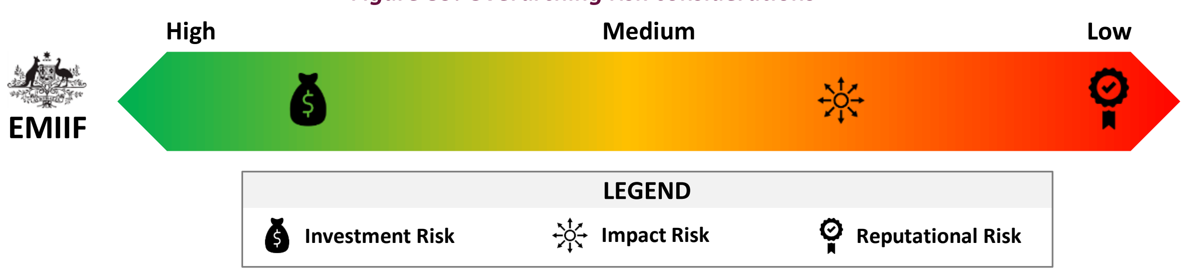
Moreover, **risk management will be embedded throughout EMIIF's ongoing investment process**. This will be implemented by the IM and safeguarded by the trustee. The IIAG will provide senior executive oversight of risk management within DFAT, while support will also be provided by ACD to ensure that the IM and investee funds are able to maintain adherence to fraud and anti-corruption policies as well as social and environmental safeguards.

The Design Document outlines the guidelines and lists the tools to be developed in detail at the implementation stage by the IM and the trustee.

## 7.1 EMIIF DESIGN-LEVEL RISK FRAMEWORK

There are three overarching risk considerations that drive the positioning and feasibility of EMIIF's design (see *section 2.3. A market-building opportunity for DFAT* for more details):

*Figure 39: Overarching risk considerations*




- **Reputational risk.** The risk that EMIIF and parties involved in its implementation and operation will be regarded negatively, either internally within DFAT or externally and more broadly across DFAT stakeholders, such as other government entities, private sector actors and the general public.
- **Impact risk.** The risk of EMIIF failing to achieve its impact objectives as defined in *section I. Strategic context*—both the market-building and development impact objectives, as well as the organisational impact that EMIIF seeks to achieve for DFAT in terms of generating relevant lessons.
- **Investment risk.** The most apparent risk associated with EMIIF's activities, investment risk relates to the possibility of EMIIF's investments not performing in line with expectations.

Note that all DFAT's development activities involved the active management of reputational and impact risks.

These overarching risks are closely interrelated, as outlined in Figure 40.

*Figure 40: Interrelationship between core overarching risks*

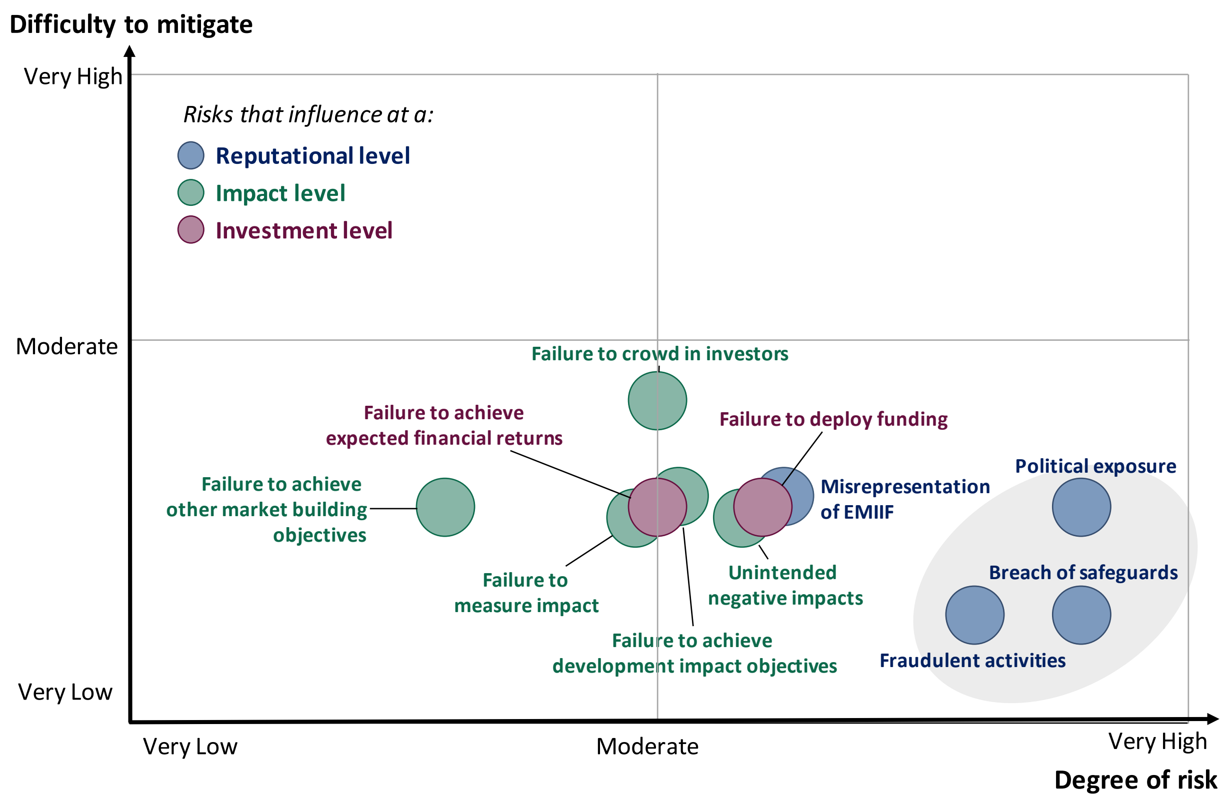
**Investment risk** → ① → **Impact risk** → ② → **Reputation risk**

1. Investment performance is driven by the underlying business success. Successful businesses are naturally more likely to achieve their outcome objectives. The risk of an investment underperforming therefore directly influences the risk of its impact not being achieved as well.

2. The risk of EMIIF not achieving its impact objectives could not only diminish the future consideration of similar initiatives within DFAT, but could also lead to negative perceptions among the broader public and stakeholders of EMIIF, and by implication DFAT. Impact risk therefore influences reputational risk.

Eleven specific risks are particularly relevant to EMIIF's design. Figure 41 illustrates how these risks relate to one another in terms of the level of risk (as measured by the combined likelihood of their occurrence and the severity of the consequences associated with them) and the expected manageability of the risk. Mapping the risks identified against EMIIF's ability to mitigate them provides a net risk exposure for EMIIF.

*Figure 41: Net risk assessment based on level of risk versus manageability of risk by EMIIF*



**The principal reputational threats pose a very high degree of risk but are also regarded as highly manageable given that they correspond to those experienced and managed by DFAT within its aid programming**. In the case of the potential for fraudulent activities, negative political exposure and/or a breach of safeguards, the potential ramifications for EMIIF could be severe. These are addressed through similar approaches, i.e., ensuring that the investment analysis, due diligence and management processes are alert to these risks.

Managing these risks will rely heavily on the efficacy and robustness of the investment analysis and management processes, which also hinge strongly on the expertise of the IM.

**The majority of risks at an impact and/or investment level represent a more moderate degree of risk, but EMIIF has more moderate means available of managing these risks.** These risks are largely interrelated—for example, a failure in the portfolio of investments could not only lead to a financial underperformance, but also an underperformance in terms of development objectives. On the other hand, setting too stringent development impact objectives and focusing too strongly on these metrics could increase the risk of EMIIF not crowding in additional funding, and/or achieving other market-building development objectives.

In order to mitigate these risks, it is critical to ensure sufficient flexibility in EMIIF's investment mandate, while setting clear risk exposure limits to prevent overexposure to specific investments or markets. The expertise and proficiency of the IM will also be instrumental in balancing the management of these risks.

**As noted above, the majority of reputational risks correspond to those experienced and managed by DFAT within its aid programming**; DFAT can draw on these experiences to manage risks in this category as they arise. For investment risk, which is less familiar to DFAT, the Department can draw upon standard practice within the fund management industry as well as the specific experiences of comparable funds such as the DFID Impact Fund and DGGF.

### 7.1.1 Detailed risk assessment

*Figure 42: Overview of core 11 risks to EMIIF design*[57]

| Risk category | Risk | Description | Risk Likelihood | Risk Severity | Difficulty to mitigate |
|---|---|---|---|---|---|
| Reputation risk | **Political exposure through EMIIF activities** | *EMIIF investee funds or underlying SMEs are linked to politically sensitive activities* | H | VH | L |
| Reputation risk | **Fraud activities related to EMIIF** | *EMIIF funds are not used towards authorised purposes* | H | H | VL |
| Reputation risk | **Breach of DFAT's safeguard policies through EMIIF activities** | *EMIIF investee funds or underlying SMEs do not comply with DFAT child protection and environmental safeguards* | H | VH | VL |
| Reputation risk | **Misrepresentation of EMIIF activities** | *False claims are made against EMIIF* | M | M | L |
| Impact risk | **Failure to achieve EMIIF development impact objectives** | *EMIIF portfolio does not achieve targeted outcomes (e.g., employment and livelihoods, BoP access to essential goods and services, benefits to society and gender equality) due to underperformance in portfolio and/or failure to invest in accordance with impact focus* | L | M | L |
| Impact risk | **Unintended negative impact from EMIIF** | *EMIIF inadvertently creates negative impact through its investment activities* | L | H | L |
| Impact risk | **Failure to achieve marketing-building objective of crowding in investors** | *Other investors do not invest alongside EMIIF or investee funds do not secure follow-on investments* | L | M | M |
| Impact risk | **Failure to achieve EMIIF's other market building objectives** | *EMIIF fails to implement impact investing best practices (e.g., gender lens investing, impact management, etc.)* | L | VL | L |
| Impact risk | **Failure to measure impact** | *Impact is not accurately measured and understood* | M | L | L |
| Investment risk | **Failure to deploy EMIIF funding** | *EMIIF fails to invest AUD 40 million within five years* | L | H | L |
| Investment risk | **Failure to achieve EMIIF's expected financial returns** | *EMIIF portfolio underperforms relative to expectations* | L | M | L |

**RISK ASSESSMENT LEGEND**

Risk Likelihood | Risk Severity | Difficulty to mitigate

Very Low VL L M H VH Very High

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[57] Various underlying risks can influence core risks (e.g. currency risk influences investee funds' ability to deliver expected financial returns).

### 7.1.2 Risk mitigation approach

For each of the risks identified, specific risk management approaches have been embedded into EMIIF's design. *Annex 2 – Further details on risk management* offers a closer look at this, while Figure 43 provides a summary of the key risk management approaches adopted:

**Figure 43: Summary of risk management approaches related to overarching risks**

| | |
|---|---|
| **Reputational Risk** | • Establish a robust governance structure with clear responsibilities, decision-making processes and reporting frameworks.<br>• Appoint reputable and financially sound entities, with separated roles (with appropriate checks and balances) and relationships governed by contractual arrangements. This relates especially to the IM and trustee, who will be applying industry standard best practice due diligence processes.<br>• Include identification of politically-exposed persons and/or political affiliations within analysis and selection processes of the trustee, IM and/or within all levels of investment decision-making.<br>• Incorporate analysis and verification associated with social and environmental safeguards as well as fraud and corruption prevention against relevant benchmarks, including the IFC Environmental and Social Performance Standards, throughout investment management processes.<br>• Contractually obligate all associated entities (all the way down to investee funds) to uphold ethical standards that are clearly defined and detailed as well as inclusive of EMIIF's fraud and anti-corruption policies and social and environmental safeguards.<br>• Require disclosure of conflicts of interest and/or vested interests and ensure that conflicted parties are recused from key decision-making.<br>• Proactively communicate EMIIF's clearly defined role, activities and achieved outcomes to EMIIF-related counterparties as well as to the broader market.<br>• Continuously monitor public media and take appropriate action. |
| **Impact Risk** | • Design an investment mandate in line with DFAT objectives and other activities, with continuous interaction with other DFAT-supported initiatives to maintain alignment.<br>• Establish clear investment focus and decision-making processes that enforce clear eligibility criteria for investments, screening criteria for qualifying investments and guidelines on outcomes sought.<br>• Design an investment strategy that allows for sufficient flexibility to provide effective, catalytic support through appropriate investment solutions as well as additional capacity-building support.<br>• Set exposure limits to avoid excessive exposure to any specific investments or market segments.<br>• Develop and implement comprehensive portfolio development strategy, including the establishment of strong networks with financiers and co-investors to increase opportunities for co-funding<br>• Ensure that the IM has the requisite experience, market knowledge and skill to originate investment opportunities, assess these opportunities accurately and structure appropriate investment solutions.<br>• Establish a rigorous and efficient investment management process, paying particular attention to investment analysis, due diligence, decision-making and post-investment support.<br>• Limit the distortionary effect of EMIIF funding.<br>• Establish investment incentives to encourage investee funds to focus on investments that are more strongly aligned with an impact focus.<br>• Align of incentives on the achievement of impact, based on clear and streamlined M&E frameworks that allow for effective and accurate reporting. |
| **Investment risk** | • Deliver appropriate structuring and capitalisation of EMIIF.<br>• Ensure sufficient security provisions for EMIIF, trustee and IM in terms of protection of staff and information.<br>• Develop and deploy a communication program to increase market awareness.<br>• Ensure diversification of portfolio exposure to specific investments<br>• Include potential risk-mitigation mechanisms (e.g., currency hedging) in overall investment offering. |

The risk mitigants will be embedded into the fund design, and will be refined further during the implementation phase by the IM in close collaboration with DFAT. The IM will be responsible for implementing and managing the risk mitigation measures.

## 7.2 Managing risk across EMIIF's investment process

As part of its mandate to manage EMIIF, the IM will be responsible for implementing risk management throughout the investment process.

Its risk management activities will largely revolve around ensuring that:

- The risks inherent in an investment opportunity are properly assessed during the due diligence process;
- Appropriate mitigants are built into the investment recommendation delivered to the IC for decision-making;
- Investment agreements are constructed and executed in line with the relevant investment approval received;
- Investee funds are effectively supported throughout the investment horizon to assist their overall performance;
- Accurate, relevant and timely risk reporting is prepared and presented to DFAT and the trustee; and
- EMIIF achieves a commensurate return on its investment, informed by the investee funds' actual performance and the relative risk assumed in the funding provided, relative to other funders.

Risks associated with investing in first-time fund managers will be managed carefully. Relevant risk management activities should include, in addition to risk mitigation measures highlighted above:

- Alternative approaches to evaluating fund managers, by assessing them on a more holistic basis than their investment track record within their existing organisation (e.g. individual experience, sector expertise, etc.) and by potentially using evaluation techniques to assess the temperament, attitude and disposition of the management team;
- Use of performance milestones to disburse of payments; and
- Increased and tailored TA to assist first-time fund managers in their growth and development.

During the investment analysis and due diligence process, a detailed risk mitigation matrix (see template in *Annex 2 – Further details on risk management* for illustrative example) should be used as part of the submission for investment approval to outline the potential risks that an investee fund might be exposed to, and proposed means of mitigating such risks. In addition to consulting such a matrix, the ability to identify and assess risk will depend on an effective due diligence process, which should incorporate key risk considerations. This template should be finalised by the IM during the initial stages of implementation of EMIIF.

The risk mitigation matrix should inform the remainder of the investment management process, including (i) the forming of contractual agreements to ensure that relevant mitigants are set in place and are enforceable and (ii) the determination of which key operational risks to focus on during the investment management process. The development of a guideline document outlining how to use the risk mitigation matrix should form part of the implementation plan.

EMIIF's trustee will play a crucial role in guaranteeing that risk management is embedded throughout EMIIF's implementation, predominantly focused on ensuring that:

- The contractual arrangements with EMIIF's counterparties are in place and in order;
- Financial disbursements are made in line with the investment mandate, decision-making and contractual arrangements that are in place;
- All financial flows are recorded and reported accurately; and
- All reporting occurs in a timely, accurate and reliable fashion.

Figure 44 offers an illustrative example of what a relevant checklist might look like that a trustee could use to approve and execute a disbursement to an investee fund:

*Figure 44: Illustrative trustee checklist for disbursements to investee funds*

| | |
|---|---|
| **Should disbursement to investee fund be made?** | • Is Trust sufficiently capitalised, and will disbursement affect ability to honour existing obligations and/or liquidity position adversely?<br>• Has relationship with investee fund been finalised and contracted?<br>• Is disbursement in line with investment approval received?<br>• Have all conditions precedent been met and signed off on?<br>• Do target banking details correspond to those stipulated in signed agreements? |

The illustrative checklist in Figure 44 could also form the basis for a relevant risk-reporting template for both the IM and the trustee, which should also be finalised during the onset of the rollout phase.

Specifically, ongoing risk management should focus very deliberately and explicitly on the maintenance of the ethical standards and safeguards to which DFAT adheres, particularly as concerns the fraud and anti-corruption policies and social and environmental safeguards. The primary means of doing so would include:

- **Conducting extensive checks:** Extensive checks should be performed on prospective IMs or trustees and prospective investee fund and fund managers to determine an overall commitment to DFAT's ethical standards and to identify any past transgressions or existing policies, systems and processes in this regard. Relevant questions and checklists should form an integral part to the due diligence of these entities and/or individuals.
- **Closely assessing the investee funds' own due diligence practices:** EMIIF needs to understand in detail the extent of an investee fund's commitment to relevant ethical considerations as well as the investee fund's capacity to investigate potential transgressions as part of its due diligence process.
- **Ensuring the quality of systems and processes in place to monitor and evaluate the ongoing maintenance of these standards:** The ability and commitment of any counterparty involved to monitor and evaluate the maintenance of these standards should be assessed carefully.
- **Establishing and enforcing contractual commitments to uphold standards:** The EMIIF IM and trustee, as well as investee funds, and ideally the underlying SMEs should be contractually bound to uphold relevant standards. These contractual agreements should build in the right for DFAT or the trustee to conduct third-party audits to verify reporting.

The use of independent auditors for financial reporting, and third-party verification and support for impact reporting, will also represent an important measure in managing risks during the operation of EMIIF; this practice will ensure accurate and reliable reporting to DFAT, which is critical to the Department's decision-making.

Detailed checklists and guidelines relating to these factors should be developed; they should be referenced in the legal agreements to be entered into with the trustee and IM.

# VIII. FUND ECONOMICS

**An initial capitalization of AUD 40 million is recommended for EMIIF** to allow for a minimum diversification of the portfolio as well as sufficient economies of scale in fund operations.

The required governance and the employment of a highly-skilled investment manager for EMIIF stipulate a minimum level of operating costs, in addition to the cost of establishment. EMIIF's operating costs are largely fixed, regardless of the fund size. These include:

- The annual management fees paid to the IM and the trustee.
- The annual professional fees paid to independent professionals to participate in the EMIIF IC and in the TAG, and to provide third-party verification and support services
- The one-off establishment costs of the fund structure.

The cash flow of EMIIF over a ten-year period takes place in two main phases:

- **The funds commitment phase**, during which EMIIF is capitalised by DFAT. During this period, EMIIF will commit the majority of its capital to investee funds in the form of investments and TA funding.
- **The portfolio management phase**, during which EMIIF finalises the deployment of its committed capital to investee funds and manages its portfolio. Over time, shorter-term investments such as debt funding will be realised, while the liquidation of most of the investment portfolio and its realisation into actual returns is expected to happen towards the end of the ten-year period.

**EMIIF is targeting capital preservation across its portfolio of actual investments taking into account inflation (between 2% and 5%).** This is comparable to the return target and realised returns observed across impact investors with a similar target market positioning as EMIIF. It should be recognised that, given the market-building role EMIIF seeks to achieve, returns across its portfolio may in fact end up being lower, with some of the investments made potentially being lost.

EMIIF proceeds may be reinvested over time. It is intended that returns on EMIIF investments will be reinvested in accordance with the investment strategy.

# Part C:

## EMIIF's implementation

# IX. IMPLEMENTATION CONSIDERATIONS

The design phase represents the first step of the overall implementation plan, as outlined in Figure 45. This section outlines the initial thought process as to what the implementation plan will entail; follow-up work undertaken during the remainder of the design process will provide further details.

## 9.1 IMPLEMENTATION PLAN

Once approval has been obtained based on the fund design, procurement of services can commence, followed by the establishment of the relevant structures and frameworks to enable rollout. Each of these steps will involve guiding documents that seek to firm up relevant terms, systems and processes.

*Figure 45: Initial envisaged implementation plan*

**1. DEVELOP PROPOSED FUND DESIGN (CURRENT STEP)**

1.1 Prepare design document outlining EMIIF fund design and relevant considerations (DFAT, assisted by D. Capital and TAG)
1.2 Secure decision-making necessary to proceed with implementation of EMIIF, including mandate for relevant implementation team (DFS unit in collaboration with relevant other stakeholders)

**Design document with core principles and guidelines**

**2. PROCUREMENT OF TRUSTEE AND IM**

2.1 Prepare relevant documentation required to inform procurement processes, e.g., ToR (DFS)
2.2 Release open call for proposal to identify potential candidate individuals or organisations (DFAT procurement department, assisted by DFS)
2.3 Run procurement process (DFAT procurement department, assisted by DFS)
2.4 Secure decision-making on recommended appointments for trustee and IM

**Terms of Reference (ToR)** and other support documentation

**3. ESTABLISH EMIIF LEGAL AND GOVERNANCE STRUCTURES**

3.1 Commission legal counsel to set up Trust and relevant structures, as well as to establish contractual arrangements with counterparties (DFS assisted by legal council)
3.2 Set up internal oversight structures (DFS)
3.3 On-board counterparties and draft detailed procedural guidelines and processes to govern implementation of EMIIF (Secretariat)
3.4 Capitalise Trust (DFAT)

**Signed legal agreements (IMA, Trust deed, consulting agreements)**

**4. OPERATIONALISATION**

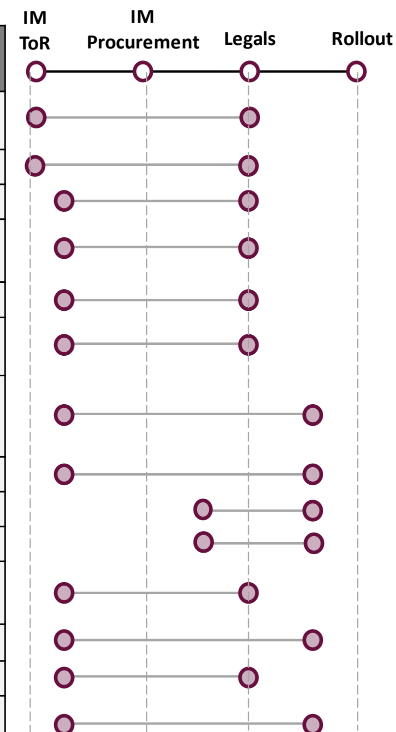
4.1 Conclude detailed procedural guidelines, checklists and templates (IM; Secretariat)
4.2 Conclude go-to-market strategy and relevant contents (IM; Secretariat)
4.3 Commence operations (IM, assisted by Secretariat)

The overall guidelines regarding the fund architecture incorporated into this Design Document will be detailed further in collaboration with the selected IM. While some of these terms and provisions may remain unchanged, they will in many instances be subject to refinement and negotiation during the procurement and negotiation processes, before being firmed up within the relevant legal agreements. In addition, the IM procurement and negotiation process will also involve the inclusion of further content relevant to the contractual framework imposed. At the beginning of the rollout phase, the IM and trustee will, in collaboration with the Secretariat, develop detailed procedural guidelines, toolkits and templates to be relied upon in the management of EMIIF. This shall include engagement with ACD (DFAT) to include training and support to the IM and investee funds, regarding the maintenance of fraud and anti-corruption policies as well as social and environmental safeguards.

Figure 46 summarizes the additional content and terms, beyond those already outlined in this Design Document and to be detailed further, which will need to be developed during the remainder of the implementation plan.

*Figure 46: Summary of additional content to be developed during implementation plan*

| Consideration | Element | Responsible [ ] = Lead |
|---|---|---|
| **Investment strategy** | Formal definitions relating to focus areas and criteria, including the more detailed set-out of eligibility criteria, such as sectors | **[DFS]**; IM |
| **Structure & governance** | Detailed list of roles and responsibilities of IM and trustee | **[DFS]**; IM |
| | Detailed monitoring and reporting framework | **[IM]**: DFS |
| | Performance, penalty and termination clauses to be introduced in agreements with trustee and IM | **[DFS]**; IM |
| **Processes & risk management** | Due diligence checklists and framework | **[IM]**; DFS |
| | Scorecard for assessment of potential investee funds with proposed weightings | **[IM]**; DFS |
| | Template risk-mitigation matrix, term sheet, investment memorandum, preliminary investment memorandum and other relevant documents | **[IM]** |
| | Guidelines for managing risks | **[IM]**; DFS |
| | Risk reporting checklists and templates for trustee and IM | **[IM]**; DFS |
| | Detailed communications strategy, guidelines and processes | **[IM]**; DFS |
| | Detailed checklists and guidelines specific to ensuring that safeguards and ethical standards are maintained | **[IM]**; DFS |
| **Technical assistance** | Development of toolkits, frameworks and guidelines | **[IM]**; DFS |
| **Impact management** | Refinement of impact metrics and development of targets | **[DFS]**; IM |
| | Development of evidence and data collection, management and reporting systems | **[IM]**; DFS |




The DFS team from DFAT should assume overall responsibility for the preparation of the relevant content listed in Figure 46. The Secretariat should then assume responsibility once it has been established. Several content pieces will rely on an interactive and iterative process undertaken with the trustee, IM and other stakeholders where relevant; the DFS (and later the Secretariat) will manage this process. The DFS or Secretariat should also be permitted to refer to external experts and/or legal counsel to provide guidance, where they deem it appropriate.

The request for proposals should expressly request that respondents provide relevant information for content that is indicated in Figure 46 as being "included in proposals." Where relevant, this information may include minimum requirements / terms proposed. For content that is to be developed and/or finalised after contracts have been finalised, the contractual arrangements should refer to the responsibilities of the relevant parties in completing this content.

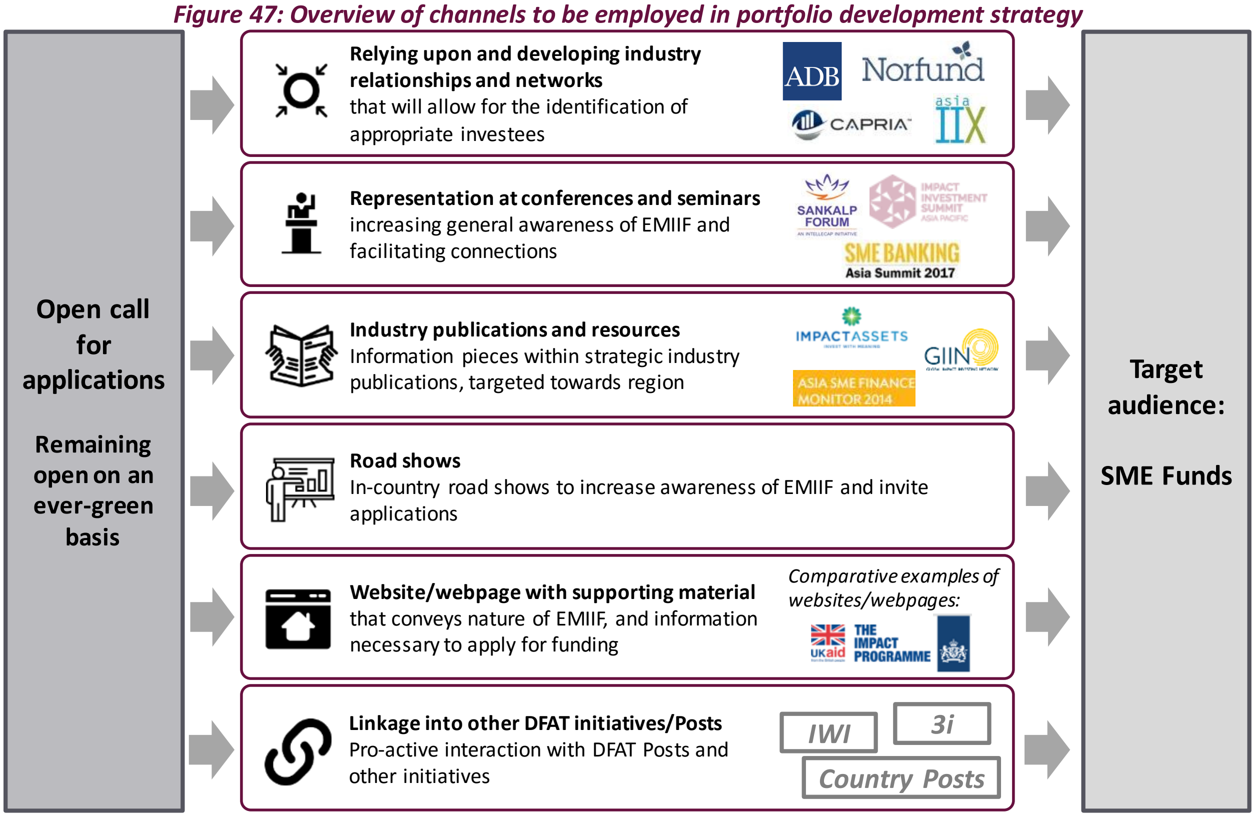
As has been mentioned in *section 6.3 Managing impact across EMIIF's investment process*, the development and deployment of a communication program, will be important not only for strengthening and improving DFAT's overall relationship with relevant stakeholders, but also to allow EMIIF to reinforce and project the nature, objectives and results of its activities, to proactively manage against any unfounded negative perceptions that might arise. The communication strategy should be developed further during the initial stages of implementation of EMIIF, and should be designed and deployed in collaboration with the Secretariat and broader within DFAT Divisions.

## 9.2 PORTFOLIO DEVELOPMENT STRATEGY

The portfolio development strategy refers to the approach used in targeting EMIIF's investee fund market to secure initial investment pipeline, as well as to identify and attract investee prospects on an on-going basis.

In order to capture investment opportunities on a proactive basis, EMIIF will run an open call for investment proposals over an extended period of time, likely for 3 years, until EMIIF's funding has been fully committed. The IM will actively build its investment pipeline by reaching out and communicating to EMIIF's target market, using different channels as outlined in Figure 47.

*Figure 47: Overview of channels to be employed in portfolio development strategy*




The IM shall predominantly be responsible for executing the portfolio development strategy, but may require the assistance of the Secretariat in specific instances. The portfolio development strategy is expected to kick off with the public announcement and marketing to be undertaken for the launch of EMIIF, preferably at a scheduled event, which would be managed jointly by the Secretariat and the IM.

# X. INVESTMENT MANAGER CONSIDERATIONS

This section provides an overview of relevant considerations regarding IM and Trustee. These details should be deliberated upon and/or fleshed out further during implementation, as is indicated in further detail below.

## 10.1 IM ROLES AND RESPONSIBILITIES

As outlined in *section III. Legal structure and governance,* the IIAG and Secretariat will have access to expert inputs, advice and guidance through the TAG, which is to consist of a panel of expert external advisors that can be drawn upon by the IIAG or Secretariat to advise on specific matters for consideration. The TAG could also be called upon to support the IC in specific instances.

Prospective members of the TAG will be identified and proposed during the implementation of EMIIF. The IM will be responsible for implementing the majority of EMIIF's operations and activities, with the trustee fulfilling an administrative and fiduciary responsibility. To recap, the IM's roles and responsibilities will be governed by the IMA, and will broadly include:

- **Overseeing and executing the investment management process:** Starting with the origination of investment opportunities, proceeding to investment analysis and recommendations, including due diligence, through to eventual investment management and exit, the IM will remain responsible for the entire investment management and risk management life cycle.
- **Assisting investee funds with the securing of further capital:** Beyond its provision of anchor funding to assist investee funds in securing further investment, the IM is also expected to provide investee funds with further support in structuring their capital-raising process and providing strategic guidance in terms of their capital-raising program.
- **Managing the provision and execution of TA: T**he provision of TA should be very closely aligned with the underlying investment activity, and should therefore be overseen by the IM. The IM's roles in this regard will include scoping the TA to be provided to and through investee funds; overseeing the appointment of relevant TA providers and the execution of TA; and managing the effective capacity-building support offered to investee funds by the IM's own staff. As part of their proposals, candidate IMs should present an indicative list of TA providers likely to be used, and/or their intended approach in identifying and selecting such providers.
- **Providing relevant reporting on the performance of EMIIF:** While the trustee will be responsible for reporting on the financial flows in and out of the Trust, the IM will provide relevant reporting to the trustee (to be relayed to DFAT) related to the overall performance of the investment portfolio. This reporting should address financial considerations (investment performance) as well as the achievement of impact objectives (impact performance). This should be done in conjunction with third-party service providers appointed by the trustee.
- **Participating in engagements with public and stakeholders:** Although much of the IM's involvement in public or sectoral fora will likely be associated with pipeline development, the IM will likely also have a role in participating in engagements with the public and with stakeholders to contribute to the dissemination of information and the development of EMIIF's profile.
- **Collaborating with DFAT units in the scoping of additional funding windows:** At DFAT's request, the IM will conduct market-scoping engagements to assess opportunities for new EMIIF funding windows.

**The IM's support of DFAT in gaining increased organisational learning will represent an important aspect of its role.** In line with its learning objectives, DFAT will rely heavily on the IM's support in facilitating such learning. The IMs' ability to facilitate this knowledge transfer should be considered as part of the procurement process.

The above provides a high-level summary, which is set out in further detail as part of the ToR developed for the procurement of the IM.

## 10.2 Trustee roles and responsibilities

In turn, the trustee's roles and responsibilities can be summarised as follows:

- **Assume fiduciary responsibility for the oversight of the EMIIF Trust**, which will include but not necessarily be limited to:
    - Ensuring that the trust's funds are kept secure, and that disbursements are made against duly formed and signed contractual agreements, including signatory rights over the trust's accounts.
    - Ensuring that the Trust meets its statutory and regulatory obligations, and remains in good standing with any authorities that have jurisdiction over the Trust.
    - Ensuring that the necessary decision-making to allow for the effective operation of the Trust happens in a timely and effective manner.
- **Monitor whether the relevant deal-closure processes follow due course:** The trustee shall not be responsible for nor be accountable for the investment management and decision-making processes. However, it shall fulfil an important function in verifying that the final investment terms and conditions agreed to by the IC are maintained in the actual investment agreements proposed (refer to *section 4.3.2 Approval and negotiation)*.
- **Treasury management:** The trustee will also be expected to manage the available cash in a way that ensures the liquidity of the Trust and does not put any of the available cash flows at risk. This will be done within the confines agreed to with DFAT.
- **Collating and presenting reporting:** Financial flows from/to the EMIIF Trust will be overseen by the trustee, who will therefore be responsible for the preparation of financial reporting relating to the Trust. In addition, the trustee shall also assist the Secretariat in ensuring that relevant reporting from the IM is forthcoming.

## 10.3 Trustee core competencies

While the IM's expertise and proficiency in identifying, selecting and managing investments will be key to the success of EMIIF, the trustee's core function will be to safeguard the operations and funds of the Trust. As such, the core attributes and competencies to be sought in the trustee are as follows:

- **Independence:** In order to serve as an effective control measure for the appropriate application of funds and veracity of reporting, it is imperative that the trustee maintains strict and complete independence from the investment decision-making and/or the performance of the investment portfolio, and any parties that may benefit therefrom directly or indirectly.
- **Stability and security:** The stability and security of the organisation fulfilling the role of trustee will be very important to maintain the integrity of EMIIF's operations. Only duly licensed organisations should be considered, with a strong financial standing, and sufficient security measures in place to ensure the safety of any information and resources belonging to EMIIF.
- **Proficiency and reliability of systems, processes and resources:** The proficiency of the organisation and the proposed team, and the reliability of their systems and processes, will underpin the ability to rely on information provided by it regarding the operations of EMIIF.
- **Credibility and reputability:** The extent to which the organisation has developed and entrenched a strong reputation and 'brand' in the market represents not only an important reference point in terms of its capabilities, but also serves as a safeguard against unethical practices from the trustee.

**Flexibility:** Given the highly varied nature of the funding activities envisaged, and the expected possibility for EMIIF's scope to be extended over time, the trustee will need to be sufficiently flexible to accommodate such variability.

## 10.4 IM SELECTION

The procurement and final selection of an IM will constitute a core element of the implementation plan for EMIIF. Within the confines of the procurement guidelines that DFAT is expected to adhere to, the process should ideally be as interactive as possible in order to allow for continuous feedback and interaction between DFAT and bidders, owing to two important considerations:

- **Investment management approaches and philosophies** associated with managing unlisted investment (which is more diverse within the impact-investment sphere) vary widely and require more extensive engagement in order to be understood and properly assessed.
- **The negotiated nature of the final agreement with the IM** is such that it should be crafted through an iterative process that allows the parties to engage in discussing and shaping the final proposal.

The selection process will entail having frequent information sessions with all applicants that are still under consideration. As a result, it will be important to reduce the pool of candidate IMs prior to the final selection process so as to limit the burden on those conducting the analysis.

DFAT will manage the procurement processes for the IM and trustee in parallel, and especially with regards to the selection of the IM will also make use of external experts to provide advice and guidance in the selection process.

## 10.5 IM STAFFING

The credentials of the investment team proposed to fulfil the functions of the IM represents a critical consideration. The following are some guidelines when considering the proposed staffing of the IM:

- **A dedicated senior investment professional at its head:** At least one senior investment professional with suitable investment experience in excess of 10 years should be appointed to the investment team to assume responsibility for the overall operations of the IM. Experience in the region as well as within impact investing should be favoured. Ideally, this professional should also have some broader experience in overseeing the operations of a fund.
- **A capable and nimble team of investment associates:** The senior investment professional should be supported by two or more investment associates with at least 2 years' relevant investment experience. The team should be kept as small and tight-knit as possible to ensure sufficient nimbleness and effectiveness in execution, favouring permanent appointments rather than partial time allocation.
- **Specific expertise in TA, impact management and gender lens investing:** The IM is expected to provide support to investee funds by using the time and resources of its core investment team and by partnering with relevant third parties to provide adequate support. In order to do so effectively, proposed approaches and specific experience in this regard will be important, and should form an important consideration when assessing the capabilities of the proposed investment team.
- **Access to additional expert advisory support:** Whether through experts internal to the organisation that the investment team can access, or whether through external advisors that the applicant has long-standing relationships with, such access will be influential in guiding the IM's decision-making and strategic positioning of EMIIF.
- **Secondment of DFAT staff:** The potential secondment of a DFAT staff to the investment team could be a valuable opportunity to allow for the transfer of skills and knowledge to DFAT while providing

relevant institutional linkages for the IM. The IM's proposed approach towards such a possible secondment, should therefore also be considered closely.

# Part D:

## Annexes

# ANNEX 1 – FURTHER DETAILS ON DUE DILIGENCE PROCESS

The due diligence process employed by the IM represents its most important means of assessing the suitability, associated risks as well as support requirements of prospective investee funds. The due diligence process will be negotiated and agreed to between DFAT and the IM, in line with investment industry best practices. This annexure provides guidance on what should be expected of EMIIF's due diligence process, based on industry standards.

The due diligence will broadly cover three aspects, being the commercial, legal/reputational and impact due diligence. The commercial due diligence focuses on the commercial viability and prospects of the investee fund, taking into consideration management, marketing, financial and technical aspects. The legal/reputational due diligence focuses on establishing the bona fide of the investee fund and conducting relevant checks against fraud and/or any other unethical practices. using subscription-based databases that provide more comprehensive and extensive information than is publicly available, and provide insights regarding aspects such as credit records, legal proceedings and presence on sanction lists (e.g., Experian). The impact due diligence covers the performance of the investee fund against environmental and social standards, as well as a broader mission alignment with that of EMIIF.

## 1. Commercial due diligence

The commercial due diligence assesses the investee funds' ability to deliver against the targeted returns and outcomes, looking at four core operational aspects:

- **The qualities and attributes of the fund's management team:** including but not limited to their commitment to EMIIF's impact objectives; the level of investment management experience relevant to the target countries, sectors and types of businesses funded; and the commitment shown by the management team to comply with appropriate governance practices and reporting.
- **The fund's target market outlook, as well as its core investment thesis, focus and offering:** The quality and robustness of the investment thesis and strategy proposed by the prospective investee fund will be central to its success. Aspects to be considered include the level of understanding of the underlying market displayed, as well as the suitability and innovativeness of solutions proposed. The thesis and strategy should also incorporate considerations for social, environmental and gender patterns that may affect the target financial performance of the fund as well as its ability to achieve development impact. At the same time, analysis of external market forces including competitive, political, regulatory, macro-economic and technological developments and their influence on the likely success of the investee fund should be considered (and how well the investee fund is positioned to account for these developments). As a measure of its ability to attract interest within the market and to identify the right investment opportunities, analysis of its pipeline of existing and/or prospective investments will also be critical.
- **The technical and operational proficiency of the fund:** The strength of the fund manager's systems, processes and reporting will represent a key determinant of its likely success. These should be assessed in detail, taking into account the requirements for incorporating diversity in the fund manager's processes. The strength of its resourcing, relevant safety and security measures, as well as contingency planning should also be understood in detail.
- **The financial status and outlook for the fund:** The financial due diligence focuses on developing a detailed understanding of the underlying business model of the investee fund, and the core drivers of its financial success, in order to enable the IM to develop an independent view and assessment of the financial outlook for the fund, together with relevant sensitivity and scenario analyses to inform its understanding of the inherent risk posed to such performance, and the core drivers thereof. The

financial due diligence also looks at the current financial position of the investee, as well as its past financial performance, to determine the soundness of its current financial position, ability to maintain operations as well as to inform its expectations of future performance. This analysis will then inform the IM's assessment of the overall funding requirement, and feasible funding terms. It should also determine closely the extent of additional funding secured and likely to be secured, and to which extent this can be bolstered through EMIIF's involvement.

## 2. Legal/reputational due diligence

The legal due diligence focuses on the bona fide of the investee fund and fund manager, which is a key measure for assessing the risk of potential fraud or other unethical practices. Broadly, the legal due diligence will focus on the following key aspects:

- **Organisation and affiliations:** This relates predominantly to the good standing and integrity of the organisations, with relevant considerations including whether the organisations are duly constituted; are compliant with statutory and regulatory obligations; have the intended business included as their permitted forms of business and are duly licensed and accredited; incorporate relevant policies and controls within their operations; and have not been found guilty or have been accused of any illegal activities. The presence of legal proceedings (and nature thereof) as well as quality of its references and overall reputation in the market is critical. Beyond the good standing of the organisations itself, its affiliations with individuals, professional bodies and other organisations also need to be assessed, to identify any positive inferences that can be drawn therefrom, but also to identify affiliations with any entity or individual that is a politically-exposed person, has been included in a sanctions list, or has been implicated in or found guilty of any corrupt or illegal practices. This should be achieved through a combination of information requested from the investee fund, as well as independent checks using subscription-based industry databases.
- **Regularity of selection practices:** A strong indicator of possible corrupt practices includes whether or not investees, service providers and other related parties appear to be duly qualified and experienced, and/or have been duly selected based on an appropriate investment decision-making process and/or reasonable relevant criteria. An independent observation and partial audit of these relationships can be conducted to verify whether selected investees/counterparties are duly qualified and have been selected based on appropriate measures.
- **Compensation and methods of payment:** This considers to what extent the relevant remuneration structures and payment methods are in line with market expectations, employ unnecessarily complicated or convoluted payment structures (especially if involving offshore accounts), and are substantiated by relevant verifiable contracting.
- **Governance and verification frameworks:** The strength of the organisation's governance framework represents an important safeguard against unethical practices. Relevant factors include the frequency and reliability of reporting, including the use of professional third-party verification; the robustness and independence of governance and decision-making structures, and the level of insight and support into underlying operations is afforded these structures; as well as the strength of internal policies.

External sources such as the *World Economic Forum's Good Practice Guidelines on Conducting Third-Party Due Diligence*[58] provide more detailed guidance on key questions and aspects to consider for investment due diligences.

[58] http://www3.weforum.org/docs/WEF_PACI_ConductingThirdPartyDueDiligence_Guidelines_2013.pdf

## 3. Impact due diligence

The impact due diligence focuses on the social and environmental considerations of the prospective investment. In this regard, EMIIF should seek to comply with the *IFC social & environmental performance standards*[59], which are also ascribed to by many other DFIs. Another potential resource to refer to is the *Toolkit on ESG for Fund Managers*[60] prepared by the CDC. It is important however to note that these guidelines and toolkits are most suited to assess underlying businesses, as opposed to intermediaries.

The first level of EMIIF's impact due diligence should include an ESG analysis of the prospective investee fund. This analysis not only aims to verify that the investee is employing satisfactory standards, but also to objectively rate an investee's performance against such standards from a risk perspective, so as to identify particular risks that are likely to arise.

*Figure 48: Illustrative extract of due diligence questions on environmental standards (CDC toolkit)*

| Due diligence on environmental affairs | | Tick Yes/No | | Comments/ actions required |
|---|---|---|---|---|
| Key due diligence questions | Questions to ask | Yes | No | |
| Resource conservation | Does the company keep records and monitor the use of energy and other resources? | | | |
| | Could use of energy an/or other resources be reduced with more efficient processes and controls or different technologies? | | | |
| Waste management | What wastes does the company generate (types, quantities)? | | | |
| | Are any of the wastes hazardous? How are these dealt with? | | | |
| | How is the waste managed? | | | |
| | Are wastes recycled? | | | |
| | Could wastes be reduced? If so, how? | | | |
| | Does the company produce a significant amount of packaging which creates substantial solid waste elsewhere? | | | |
| Water use | Does the company use large quantities of water? | | | |
| | Might water supply for the company be under threat or shortages? | | | |
| | Does the company's use of water reduce the supply available to other users? | | | |
| International certifications | Does the company have ISO14000 certifications, including ISO14001 for the environmental management systems? | | | |
| | Does the company have any relevant industry specific certifications, e.g. from the Forestry Stewardship Council or other relevant industry bodies? | | | |
| | If relevant, does the company qualify for "organic" certification of its products which could command a premium price in international markets? | | | |
| Land clearance | Do the company's activities involve land clearance? | | | |
| | Are any land clearances well managed, including through consultations with local authorities and affected communities? | | | |
| | Are there any risks for negative impacts on local flora or fauna from the company's operations? | | | |

In addition to the standard ESG considerations, EMIIF will seek a more comprehensive understanding of the prospective investee fund's impact focus. Relevant questions that should be addressed include:

- To what extent the achievement and management of impact and gender-equality is embedded in the mission, objectives, policies and actions of the fund, and/or the fund's willingness to promote this further; and
- Whether the management of the fund display a strong commitment to impact and gender-equality objectives.

[59] https://www.ifc.org/wps/wcm/connect/c8f524004a73daeca09afdf998895a12/IFC_Performance_Standards.pdf?MOD=AJPERES

[60] http://toolkit.cdcgroup.com/

## 4. Additional relevant guidance to conduct investment due diligences

The following guidelines should inform an appropriate due diligence process:

- **The independence of the due diligence team should remain intact throughout the entire decision-making process:** Apart from ensuring that members of the due diligence team don't have any relevant material conflicts of interest, it is important to ensure that the independence and objectivity of the due diligence team is maintained at all times. While specific policies and measures should be set, relevant guidelines include the fact that all travel, accommodation and entertainment expenses incurred during the due diligence process should be for the account of the IM.
- **All information collected/collated, and relevant reporting developed, should be stored for safe-keeping.** This acts as an important safeguard to protect the reputation and good standing of the IM and EMIIF should its due diligence practices and consequent decision-making be called into question. In addition, the establishment of suitable "data rooms" (preferably online if secured) that can be accessed by other investors could play a significant role in encouraging co-investment.
- **Detailed checklists should ensure that all relevant aspects of the due diligence process have been addressed:** The due diligence process should involve an in-depth analysis and interrogation of key investment issues and organisational characteristics that will drive the performance of the investee fund, as opposed to a formulaic "check-box" exercise that would be followed for administrative purposes. Nevertheless, the presence of such checklists or detailed guidelines ensures greater consistency in the conduct of the due diligence, as well as providing a reference for accountability purposes. These checklists/guidelines are to be developed during the implementation phase, and to be referenced in the IMA.
- **Insofar as is possible, representations made by prospective investee funds should be verified:** Although the IM should at all times remain convinced of the good faith and integrity of reporting and representations made by prospective investee funds (and should escalate any observations that diminish this view), it should at all times seek to verify any information provided and representations made, including (but not necessarily limited to) conducting on-site visits during the due diligence process; interacting with investee funds and relevant counterparties; conducting background and media checks on the relevant entities and individuals; seeking out and engaging with character references; performing credit checks and checks against sanction lists; and using any other means available to it.

**The IM should have access to specialists to provide due diligence support in specific instances:** The proposed mandate envisions EMIIF covering a wide range of countries and sectors. Especially with regards to sectors or industries where EMIIF is proposed to have an agnostic approach, the IM cannot be reasonably expected to hold expert knowledge on all fields of business included in the scope. Where prospective investee funds embody a particularly specialised technology or sectoral approach, and/or employ highly innovative financing solutions, the IM should seed to make use of specialist advisors to provide advice and guidance in delivering a due diligence outcome. Furthermore, the IM should engage with a gender specialist to understand gender patterns and risks and their implications for the quality of the investments.

# ANNEX 2 – FURTHER DETAILS ON RISK MANAGEMENT

The table below provides more details on EMIIF's risk management approach.

| Risks | Causes | Mitigation measures | Persons/entities responsible |
|---|---|---|---|
| **Reputation risks** | | | |
| **Political exposure through EMIIF activities** | • Investee funds, underlying SMEs or counterparties who have politically-exposed persons as key role-players, and/or have strong political affiliations<br>• Funding of less acceptable business activities | • Ensure that selection of EMIIF counterparties includes specific consideration regarding the presence of politically-exposed persons (PEPs) as well as any political affiliations of trustee and IM<br>• Ensure that the investment selection and assessment processes of IM and investee funds incorporates the verification of the presence of PEPs and/or political affiliations, and that they are suitably equipped to identify such (e.g., having access to relevant databases)<br>• Establish relevant policies and procedures for the identification and treatment of PEPs, e.g., ensuring that this is explicitly highlighted in the investment decision-making process, and that suitable decision-making and monitoring approaches are adopted. Establish a procedure for consulting with DFAT Posts as part of the due diligence process to get their input.<br>• Establish and enforce clear prohibition within investment management process on funding any illegal practices and/or any excluded activities, such as the distribution and production and/or sale of alcohol, tobacco and other narcotics, the sex trade, the arms trade, and any other sectors that may have negative reputational impacts on the Australian Government. | • DFAT, supported by the design team during implementation phase<br>• IM during actual fund operations |
| **Fraud activities related to EMIIF** | • Investee funds, underlying SMEs or counterparties who engage in fraudulent practices<br>• The fraudulent application of EMIIF funding | | |
| **Breach of DFAT's safeguards** | • Investee funds, underlying SMEs or counterparties that breach relevant safeguards | | |
| **Misrepre-sentation of EMIIF activities** | • EMIIF counterparties not conveying the nature and/or role of EMIIF correctly to stakeholders | • Construct and disseminate clear messaging as to EMIIF's intended role, focus, scope and progress throughout EMIIF structures<br>• Proactively communicate this messaging through appropriate media, including online presence, representation at conferences and relevant fora and any other channels deemed relevant | • IM and DFAT Secretariat |

| Risks | Causes | Mitigation measures | Persons/entities responsible |
|---|---|---|---|
| | • Negative statements being made to stakeholders or in public regarding EMIIF's activities | • Ensure that investee funds are sufficiently informed of what communication regarding EMIIF's funding is deemed acceptable, and how best this should be positioned<br>• Continuously monitor communication media to identify potential statements that could be damaging<br>• Determine a process for dealing with any potentially negative public statements | |
| **Impact risks** | | | |
| **Failure to achieve develop-ment impact objectives** | • Investments made are misaligned with impact focus and objectives<br>• Ineffective investment management and impact management practices<br>• Negative market forces that reduce investment performance | • Set clear parameters and limitations for investment outside of the core scope<br>• Set clear screening criteria that investments need to meet in order to qualify<br>• Set exposure limits to avoid excessive exposure to any specific investments<br>• Set exposure limits to limit overall portfolio exposure to any specific markets, on sectoral, geographical and other relevant bases<br>• Ensure that decision-making process enforces focus<br>• Prepare and deliver clear guidelines for attributes and outcomes sought, and secure commitments from IM and investee funds to uphold such guidelines<br>• Ensure quality and diligence of analyses to determine investment suitability<br>• Appoint a suitably proficient IM<br>• Establish investment incentives to encourage focus on investments that are strongly aligned with impact focus | • DFAT, supported by the design team during implementation phase<br>• IM during actual fund operations |
| **Uninten-ded negative impacts of EMIIF involve-ment** | • Failure of investment activity to consider and/or mitigate negative externalities | • Structure investments to limit potential distortionary effect of DFAT funding within broader market, e.g., providing financing on investment terms with an appropriate risk-return profile<br>• On an ongoing basis, require all EMIIF counterparties to periodically disclose any potential conflicts of interest or vested interests in any of EMIIF's activities; instil understanding that failure to do so will represent a significant breach of contract<br>• Require parties with a conflict or vested interest to recuse themselves from decision-making<br>• Institute separate and potentially more onerous decision-making structures where conflicts of interest or vested interests have been identified | • Predominantly the IM, with DFAT playing a role in requiring relevant disclosures from trustee and IM |
| **Failure to crowd in investors** | • Ineffective investment management and impact management practices<br>• Negative market forces that limit performance of underlying investments | • Include "crowding in" objectives of funding in investment analysis and selection process<br>• Design investment strategy to allow for crowding-in role, including instruments used and terms associated therewith, as well as the overall funding contribution that can be made by EMIIF<br>• Appoint skilled IM to identify and assess right investment opportunities and their ability to grow and leverage additional capital<br>• Proactively engage and form relationships with potential co-funders<br>• Provide effective investment and capacity-building support to investee funds | • Predominantly the IM, with DFAT playing a role during the design and implementation phase<br>• Secretariat will also play supporting role i.t.o. engagement with potential co-funders |

| Risks | Causes | Mitigation measures | Persons/entities responsible |
|---|---|---|---|
| **Failure to achieve other market-building objectives** | • Failure to incorporate within fund design<br>• Failure of EMIIF counterparties to adopt relevant practices | • Include impact-management best practice and gender lens investing considerations in fund design<br>• Include relevant considerations in selection of IM<br>• Ensure inclusion of relevant considerations in investment analysis, selection and management processes<br>• Provide support to investee funds especially in improving relevant practices<br>• Design investment mandate to ensure that investment focus and impact objectives align with broader DFAT focus and other activities | • DFAT, supported by the design team during implementation phase<br>• IM during actual fund operations |
| **Failure to measure impact** | • Insufficient impact measurement systems and processes<br>• Failure of counterparties to follow systems and processes | • Establish clear M&E framework, including metrics to be reported on, the frequency and format of reporting and the parties responsible for collecting and collating such information<br>• Require relevant reporting at reasonable intervals<br>• Align remuneration and incentives of IM on the evidenced impact achieved<br>• Allow for the use of third parties to verify impact reporting, as well as to conduct more extensive analyses of impact at specific intervals | • DFAT, supported by the design team during implementation phase<br>• IM during actual fund operations |
| **Investment risks** | | | |
| **Failure to deploy capital** | • Inappropriate structuring of EMIIF<br>• Insufficient capitalisation<br>• Disruptions in operations<br>• Lack of absorptive capacity in market<br>• Inability of IM to find investment opportunities | • Design investment strategy and mandate to focus on market with sufficient opportunity and potential<br>• Ensure that scope and focus of EMIIF is not set too prescriptively<br>• Enable sufficient flexibility in the investment instruments available for use<br>• Implement communication program to increase market awareness<br>• Develop streamlined and effective investment decision-making and disbursement procedures<br>• Appoint IM with extensive market knowledge and expertise in originating investment opportunities<br>• Capitalise EMIIF sufficiently and in a timely manner<br>• Confirm that the IM and trustee are operating out of reasonably secure jurisdictions and premises<br>• Ensure that EMIIF counterparties have instituted and practise sufficient security systems and processes as well as contingency plans, especially relating to information security and staff safety | • DFAT, supported by the design team during implementation phase<br>• IM during actual fund operations |
| **Failure to achieve financial returns** | • Ineffective structuring of investments<br>• Underperformance in investment portfolio | • Appoint IM experienced and skilled in assessing investment opportunities accurately and structuring proposed investments optimally<br>• Conduct rigorous due diligence and overall analysis process<br>• Provide capacity-building support and TA to investee funds and SMEs<br>• Ensure efficacy of investment management processes and implement relevant corrective action<br>• Negotiate exits effectively | • IM, supported by IC |

Below is an illustrative risk mitigation matrix template to be developed by the IM during the implementation phase of EMIIF.

*Figure 49: Illustrative risk mitigation matrix*

| Risk Category | Underlying Risk Factor | Risk Assessment | Motivation for Assessment | Proposed Mitigation |
|---|---|---|---|---|
| **Operational risk - team** | Key person risk | Moderate | | |
| | Strength and depth of investment team | Low | | |
| | Safety and security of staff | Low | | |
| **Operational risk - systems & processes** | Ineffective investment analysis and due diligence procedures | Moderate | | |
| | Ineffective investment management approaches | Moderate | | |
| | Unreliable information collection and storage | High | | |
| | Inaccurate and delayed reporting | Low | | |
| | Insufficient governance controls | High | | |
| | Insufficient controls over investment decision-making | High | | |
| **Organisational risk - investee fund focus and mission alignment** | Change of focus away from that envisaged | Very Low | | |
| | Failure to sufficiently incorporate/adopt impact management approaches | Moderate | | |
| | Failure to sufficiently incorporate GLI approaches | Moderate | | |
| **Deployment of capital** | Insufficient pipeline | Moderate | | |
| | Ineffective origination approach/activities | Moderate | | |
| | Ineffective investment decision-making processes | Moderate | | |
| | Scope creep | High | | |
| | Failure to meet DFI principles (additionality, crowding-in, sustainability, etc) | Low | | |
| | Failure to meet IFC environmental and social standards, and other ethical standards | Low | | |
| | Failure to leverage/catalyse co-investment | High | | |
| **Market risk** | Political risk | Low | | |
| | Regulatory risk | Moderate | | |
| | Industry/sector-specific risk | High | | |
| | Other competitive risks | High | | |
| | Currency risk | Very High | | |

Illustrative

# ANNEX 3 – INITIAL DETAILED MONITORING AND EVALUATION FRAMEWORK

The monitoring and evaluation framework to be adopted by EMIIF will be closely aligned with the ToC as outlined in Figure 5 and Figure 33. For each level of the ToC, the framework outlines relevant performance indicators, the expected baseline, evaluation questions that have emerged, the identification of parties responsible for data collection, key risks to the achievement of the outcomes, targets to be sought, the reporting that would be associated therewith as well as the use of the information provided. An initial framework to be finetuned by the IM looks as follows:

*Figure 50: Illustrative monitoring and evaluation framework for theory of change - Inputs*

| Program logic | 1.Desired result | 2.Two-three Performance indicators | 3.Base-line | 4.Evaluation questions | 5.Identification of parties | 6.Risks | 7.Target | 8.Reporting | 9.Use |
|---|---|---|---|---|---|---|---|---|---|
| **Provision of capital to investee funds** | Funding available for investment | Capital raised and set aside for investment purposes | Zero | | Secretariat; trustee; IM | (i) Failure to secure sufficient funding; (ii) higher cost structures associated with operations of EMIIF; (iii) under-allocation of available funds to investments | n/a | Quarterly reporting to SAG and FAS | Secretariat and SAG, to determine relevant interventions and report on success |
| **Provision of TA support to SMEs through investee funds** | Funding available to support TA activities | Capital raised and set aside for TA purposes | Zero | | Secretariat; trustee; IM; investee funds | | | | |
| **Provision of TA support to investee funds** | Funding available to support TA activities | Capital raised and set aside for TA purposes | Zero | | Secretariat; trustee; IM | | | | |
| **Set-up of EMIIF and governance structures; appointment of trustee and IM** | (i) Establishment of entities, contractual arrangements, governance structure; (ii) appointment of counterparties | (i) Relevant legal agreements in place; (ii) decision-making to establish governance structures; (iii) meetings and engagements of relevant stakeholders | Zero | What are the biggest challenges faced in completing set-up? | Secretariat | (i) Failure to secure internal decision-making and approvals ii) Failure to procure relevant services | Target structures and appointments | Monthly reporting to SAG and FAS | SAG and FAS, to monitor progress and determine need for support/intervention |

*Figure 51: Illustrative monitoring and evaluation framework for theory of change - Outputs*

| Program logic | 1.Desired result | 2.Two-three Performance indicators | 3.Base-line | 4.Evaluation questions | 5.Identification of parties | 6.Risks | 7.Target | 8.Reporting | 9.Use |
|---|---|---|---|---|---|---|---|---|---|
| **Investments made** | Funding disbursed to investee funds | i) Overall amount committed to and # of investee funds which focus exclusively on early-stage SMEs<br>ii) Amount committed to and # of investee funds which focus exclusively on early-stage SMEs<br>iii) Amount committed to and # of investee funds which have first-time fund managers | Zero | | Secretariat; trustee; IM | | n/a | Quarterly reporting to SAG and FAS | |
| **TA funding disbursed** | Funding disbursed to fund TA activities | i) Amount committed to investee funds in terms of TA funding allocation<br>ii) # of investee funds receiving direct TA support (including type of support)<br>iii) # of hours of training sessions held on impact management and gender lens investing | Zero | | Secretariat; trustee; IM; investee funds | | n/a | Quarterly reporting to SAG and FAS | |
| **IM actively managing portfolio** | Ongoing active fund-management activities | i) Frequency of engagements with investee funds<br>ii) Qualitative reporting on nature and content of engagements | n/a | | Secretariat; trustee; IM | i) IM not remunerated sufficiently<br>ii) IM not sufficiently skilled and equipped | n/a | Annual reporting to SAG and FAS | |
| **Training provided to investee funds** | Improved understanding through training delivered | i) # of hours of training programs delivered<br>ii) Categories of training delivered | Zero | | Secretariat; IM | | n/a | Quarterly reporting to SAG and FAS | |
| **Dissemination of information across DFAT…** | Quality information shared with other stakeholders | Information pieces (e.g. memorandii, reports, presentations) made available | Zero | | Secretariat | | n/a | Annual reporting to SAG and FAS | |
| **… through multi-stakeholder fora and other means** | Delivery of multi-stakeholder fora and other channels to share information | Number and types of fora and other channels/events organised | Zero | | Secretariat | i) Insufficient resources committed to Secretariat<br>ii) Insufficient attention devoted to preparation of information and organisation of relevant channels. | n/a | | |

*Figure 52: Illustrative monitoring and evaluation framework for theory of change – Short term outcomes*

| Program logic | 1.Desired result | 2.Two-three Performance indicators | 3.Base-line | 4.Evalua-tion questions | 5.Identifi-cation of parties | 6.Risks | 7.Target | 8.Repo-rting | 9.Use |
|---|---|---|---|---|---|---|---|---|---|
| **Investments made into SMEs** | Investments made by investee funds into SMEs | i) Total amount of EMIIF capital deployed by EMIIF investee funds to SMEs<br>ii) # of SMEs receiving EMIIF investment capital<br>Average ticket size per investment made by investee funds | Zero | | Secretariat; IM; investee funds | | n/a | | SAG and FAS, to monitor progress and determine interventions |
| **TA provided to SMEs** | Successful completion of TA support funded | i) # of SMEs supported by investee funds on TA activities)<br>ii) Amount of TA funding spent for SMEs<br>iii) Qualitative review of types of support offered to SMEs | Zero | | Secretariat; IM; investee funds | | n/a | | id. |
| **Investee fund managers performing well** | Investee funds performing as expected/forecast | i) AuM for each investee fund<br>ii) EMIIF investment as % of total AuM of investee funds<br>iii) Comparison of actual vs forecast performance against key metrics | Unknown at design | | Secretariat; trustee; IM; investee funds | i) External market risks<br>ii) Poor performance of investee fund management team<br>iii) Underperformance of SMEs due to internal failures | n/a | | id. |
| **Adoption of gender lens investing and impact management by investee funds** | Increased adoption of gender lens investing and impact-management approach by investee funds | i) No. of investee funds adopting relevant approaches<br>ii) Frequency of relevant analysis in informing investment process | Unknown at design stage | How effective is EMIIF in changing mindset? | Secretariat; IM; investee funds | i) Lack of buy-in and support by investee fund managers<br>ii) Ineffective training not allowing for effective adoption | n/a | | id. |
| **Collaboration with country Posts and specific initiatives** | Further points of collaboration with country Posts/initiatives | # of new collaborative initiatives proposed and/or launched | Zero | | Secretariat | i) Lack of support and engagement from Posts/initiative<br>ii) Insufficient effort devoted by Secretariat and IM to foster interaction | n/a | | id. |
| **Increased levels of interest shown in EMIIF within DFAT** | Increased levels of awareness among broader organisation | Qualitative reporting on broader dissemination of information and interest shown | Zero | | Secretariat | i) Lack of support from other DFAT departments<br>ii) Information provided not effective in creating interest | n/a | | id. |

***Figure 53: Illustrative monitoring and evaluation framework for theory of change – End of program outcomes***

| Program logic | 1.Desired result | 2.Two-three Performance indicators | 3.Base-line | 4.Evaluation questions | 5.Identification of parties | 6.Risks | 7.Target | 8.Reporting | 9.Use |
|---|---|---|---|---|---|---|---|---|---|
| **Funded SMEs operationally sustainable** | Funded SMEs are financially sustainable and profitable | i) # of SMEs receiving TA support from investee funds with improved business practices<br>ii) Financial performance of portfolio SMEs (e.g., business revenues, profits, sales)<br>iii) # and % of SMEs able to secure follow-on capital following EMIIF's investee funds initial investments | Unknown at design stage | How effective is EMIIF in achieving SME growth? | Secretariat; IM; investee funds | i) External market risks<br>ii) Insufficient financing and other support by investee funds<br>iii) Underperformance of investee SMES due to internal shortcomings | n/a | Annual reporting to SAG and FAS | SAG and FAS, to monitor progress and evaluate long-term value of EMIIF initiative |
| **Increased adoption of gender-equality and impact management by SMEs** | Increased levels of adoption of relevant practices and approaches by funded SMEs | i) # of SMEs incorporating impact management and gender-friendly policies (e.g., flexible working arrangements)<br>ii) # and % of SMEs that are certified by environmental regulations | Unknown at design stage | How effective is EMIIF in facilitating a mindset shift among SMEs? | Secretariat; IM; investee funds | i) Failure by investee funds and/or TA providers to impart sufficient understanding of implicit business value<br>ii) Lack of buy-in from underlying SMEs | n/a | Annual reporting to SAG and FAS | id. |
| **Demonstrated track-record of investee funds** | Proven, verifiable track-record of investment performance by investee funds | i) Amount and # of first-time fund managers (investee funds) receiving follow-on investments<br>ii) # of investments successfully exited (early-stage SMEs)<br>iii) Performance of investment portfolio, based on metrics | Unknown at design stage | How effective is a structure like EMIIF in developing sustainable interme-diaries? | Secretariat; trustee; IM | i) External market risks<br>ii) Poor performance of investee fund management team<br>iii) Underperformance of investee SMEs due to internal failures | n/a | Quarterly reporting to SAG and FAS | id. |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Demonstrated financial and development benefits of impact management and gender lens investing** | Positive financial and impact benefits evidenced through relevant metrics and reporting | i) No. of investee funds with improved investment processes<br>ii) No. of investee funds with improved risk management strategies, incl. social, cultural and environmental factors | Unknown at design stage | Can the benefits of adopting these approaches be proven? | Secretariat; IM; investee funds | i) Ineffective training not allowing for effective adoption<br>ii) Poor implementation by underlying businesses | n/a | Annual reporting to SAG and FAS | id. |
| **Increased funding flows through EMIIF** | Increased size and scale of EMIIF | i) # of additional initiatives launched through EMIIF<br>ii) Size of additional funding committed through EMIIF | Zero | Can EMIIF successfully attract and deploy funding from other Divisions? | Secretariat | i) Lack of support from country Posts/initiative<br>ii) Insufficient effort devoted by Secretariat<br>iii) Underperformance of EMIIF fund | n/a | Annual reporting to SAG and FAS | id. |
| **Information and insights are integrated to inform all DFAT activities** | Integration of learnings and insights into all DFAT activities | Qualitative reporting on broader dissemination of information and integration of learnings | Zero | How best can EMIIF support DFAT's broader PSD/PSE objectives? | Secretariat | i) Lack of support and engagement by other DFAT departments<br>ii) Information provided not effective in creating learnings | n/a | Annual reporting to SAG and FAS | id. |

*Figure 54: Illustrative monitoring and evaluation framework for theory of change – Long-term outcomes*

| Program logic | 1.Desired result | 2.Two-three Performance indicators | 3.Base-line | 4.Evalua-tion questions | 5.Identi-fication of parties | 6.Risks | 7.Target | 8.Reporting | 9.Use |
|---|---|---|---|---|---|---|---|---|---|
| **Benefits to society from SMEs** | Employment creation; improvement in livelihoods; access to goods and services; access to economic opportunities | i) # of equivalent full-time employees employed by SMEs that are paid a living wage<br>ii) # of new jobs created by SMEs<br>iii) SME business revenues generated<br>iv) # of SMEs located in low-income areas<br>Indirect gross value-add to the economy (e.g., through multiplier effect, supply chain analysis, input-output analysis)<br># of SMEs providing access to essential goods and services to low2-income households<br>v) # of low-income consumers / beneficiaries<br>vi) Estimated cost savings to low-income households due to increased access to goods and services | Unknown at design stage | How effective is EMIIF as a tool in driving sustainable positive societal impact? | Secretariat; IM; investee funds; SMEs | i) Failure of underlying SMEs due to internal or external factors<br>ii) Failure to select/invest in right businesses | n/a | Annual reporting to SAG and FAS | SAG and FAS, to monitor progress and determine need for support/intervention |
| **Improved gender equality outcomes** | Improved participation by women within overall economy | i) # of women-owned businesses provided with access to capital (including % of portfolio and AUD amount)<br>ii) Workplace diversity: ratio of M/F staffing<br>iii) Average gender pay gap across SMEs invested in<br>SMEs targeting women as consumers | Zero | How effective is EMIIF as a tool in driving sustainable positive societal impact? | Secretariat; IM; investee funds; SMEs | i) Lack of buy-in from SMEs into gender-equality objectives<br>ii) Cultural/societal hurdles limiting achievement of gender-equality outcomes | n/a | Annual reporting to SAG and FAS | id. |
| **More intermediaries entering the market** | Increased number and broader range of intermediaries active in the market | i) # (and growth therein) of SME funds active in DFAT target countries<br>ii) Estimated value of funds investing in DFAT target countries<br>iii) # of SME funds focused on early-stage SME finance | Unknown at design stage | | Secretariat; trustee; IM | i) External factors that negatively affect supply-demand for SME financing<br>ii) Poor performance of investment portfolios<br>iii) Failure to effectively disseminate learnings and insights | n/a | Annual reporting to SAG and FAS | id. |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Investee funds attracting additional capital** | Increased amounts of funding being made available to SMEs | i) Amounts co-invested in investee funds<br>ii) Amount and # of investee funds and broader industry receiving follow-on capital | Unknown at design stage | and introducing greater levels of interest from entrepreneurs and investors? | Secretariat; IM; investee funds | i) External factors affecting supply-demand of financing<br>ii) Poor performance of investment portfolios<br>iii) Failure to effectively disseminate learnings | n/a | Annual reporting to SAG and FAS | id. |
| **Broader adoption of gender lens investing and impact management in the impact investing market** | Increased adherence and improved adoption of relevant factors within impact investment | i) # of SME funds adopting impact management and/or gender lens investing approaches<br>ii) Use of EMIIF-developed tools and guidelines in the wider industry | Unknown at design stage | How effective is EMIIF in facilitating a mindset shift within the broader market? | Secretariat; IM | i) Absence of proven impact and benefits from EMIIF and similar initiatives<br>ii) Lack f support and buy-in from other impact investors | n/a | Annual reporting to SAG and FAS | id. |
| **Investment-based approach broadly adopted as complementary approach in DFAT** | Entrenchment of investment-based approach within DFAT as an organisation | i) Overall support offered for relevant activities<br>ii) # of initiatives adopting an investment-based approach, and amount of funding committed thereto | Limited | How well can an investment-driven approach be integrated within DFAT? | Secretariat | i) Lack of support and engagement by other DFAT departments<br>ii) Information provided not effective in creating interest<br>iii) Inherent underperformance of EMIIF | n/a | Annual reporting to SAG and FAS | id. |
| **Industry-wide recognition of benefits of DFAT-EMIIF collaboration** | Broader recognition of relevant approach within overall landscape | i) # of new organisations undertaking similar initiatives, potentially informed directly by EMIIF<br>ii) # of initiatives seeking to collaborate with EMIIF | Unknown at design stage | How effective is EMIIF in influencing industry thinking? | Secretariat | i) Lack of support and engagement by other DFAT departments<br>ii) Information provided not effective in creating interest<br>iii) Underperformance of EMIIF | n/a | Annual reporting to SAG and FAS | id. |

# ANNEX 4 – EXAMPLES OF IMPACT MANAGEMENT TOOLS

This annex provides examples of two broad categories of tools that can be used for impact management by both the IM as well as EMIIF's investee funds:

- **Investment tools:** Methodologies for assessing and managing impact during the investment process
- **Evidence collection tools:** Approaches for assessing and measuring impact of the investments. These relate to the evidence management framework as described in *section 6.2.3 Evidence management framework.*

***Figure 55: Example toolkits for impact management (for illustrative purpose only)***

**Key:**
✓ Primary use for EMIIF
~ Of relevance, but not primary use

| Type of tool | Description / purpose | **Planning impact** *(strategy development)* | **Estimating impact** *(due diligence)* | **Monitoring impact** *(investment management)* | **Evaluating impact** *(prove social value)* | Resources |
|---|---|---|---|---|---|---|
| **Investment tools** | | | | | | |
| Social returns on investment (SROI) analysis | • Estimates investment returns based on social, environmental and economic costs and benefits, in addition to traditional financial net present value approach. E.g., SROI = NPV (financial cash flows) + NPV (social benefits) | | ✓ | ✓ | ~ | *"A guide to Social Return on Investment"*, UK Cabinet Office of the Third Sector (Link) |
| Impact scorecard | • Ensures mission alignment prior to and during the investment (e.g., screening or prioritising tool)<br>• Helps consistently track and capture a set of metrics over time (e.g., outputs, outcomes) tailored to each investment; for the purpose of impact investment, this should include information on both impact and financial performance | | ✓ | ✓ | ~ | *"Bridges IMPACT Report – A spotlight on our Methodology"*, Bridges Ventures (Link) |
| TOOLKIT for gender lens investing | • Reframes gender to identify leverage points within the investment process<br>• Provides approaches for including gender data and analysis as part of the investment process | ✓ | ~ | ~ | ~ | *"TOOLKIT for Gender Lens Investing"*, Criterion Institute (Link) |

| Type of tool | Description / purpose | **Planning impact** *(strategy development)* | **Estimating impact** *(due diligence)* | **Monitoring impact** *(investment management)* | **Evaluating impact** *(prove social value)* | Resources |
|---|---|---|---|---|---|---|
| ESG toolkit | • Reference guide for assessing and managing ESG risks, impacts and opportunities. | | ✓ | ✓ | ✓ | *"ESG Toolkit for fund managers"*, CDC (Link) |
| **Evidence collection tools** | | | | | | |
| Logic model / logframe | • Explains the process of achieving the intended social impact<br>• Provides linkages and assumptions between inputs, outputs, outcomes and impact tailored for each investment<br>• Provides a framework for monitoring progress of an investment and illustrating the impact of an investment | ✓ | ✓ | ~ | ~ | *"The Logframe Handbook"*, The World Bank (Link) |
| Market survey / landscaping | • Provides descriptive information about the size and growth potential of a particular market (e.g., sector-specific, impact investment)<br>• May provide information on the stakeholders and market participants involved<br>• May provide an ex-post view of how a market has evolved over time | ✓ | ✓ | | ✓ | |
| Case study report | • A report describing a particular program / investment / situation<br>• Provides a mixture of both quantitative (often correlative) and qualitative data<br>• Can provide directional suggestions on the impact of an investment, but more likely used to demonstrate the impact of a particular investment (ex-post) | | ~ | | ✓ | Case studies of Root Capital investments (Link) |
| Correlation analysis (e.g., pre-/post- tests) | • Provides quantitative evidence of a relationship between two indicators<br>• Can be used as evidence to inform the due diligence valuation process and provide evidence for the impact of a particular investment (ex-post) | | ✓ | | ✓ | |
| Experimental study (e.g., randomised control trials) | • Provides quantifiable evidence for attributing an observed impact with a specific program / intervention / investment<br>• Can be used to inform the potential impact of an investment at due diligence phase as well as provide ex-post evaluation of some investments (most commonly used for the former in the context of a fund of funds such as EMIIF) | | ✓ | | ~ | *"Introduction to Evaluations"*, Abdul Latif Jameel Poverty Action Lab (J-PAL) (Link) |

### *Figure 56: Example of SROI analysis*[61]

**Social Return on Investment – The Impact Map for the worked example** (continued from previous page)

| | | | | | |
|---|---|---|---|---|---|
| **Organisation** | Wheels-to-Meals | | | **Name** | |
| **Objectives** | Provide luncheon club for 30 elderly local residents with additional health and social benefits by bringing residents to meals | | | **Date** | |
| **Scope** | **Activity** | 30 places for eligible elderly and/or disabled local residents 5 days a week, 50 weeks of the year | **Objective of Activity** | **Time Period** | 1 year (2010) |
| | **Contract/Funding/Part of organisation** | Local Authority Grant | **Purpose of Analysis** | **Forecast or Evaluation** | Forecast |

| Stage 1 duplicate | Stage 2 duplicate | Stage 4 | | | |
|---|---|---|---|---|---|
| **Stakeholders** | **The outcomes** | **Deadweight** | **Attribution** | **Drop Off** | **Impact** |
| | Description | % | % | % | |
| Groups of people that change as a result of the activity | How would you describe the change? | What would have happened without the activity? | Who else contibuted to the change? | Does the outcome drop off in future years? | Quantity times financial proxy, less deadweight, displacement and attribution |
| elderly / disabled residents | the mild/therapeutic group exercise sessions made residents fitter, they had fewer falls and ended up in hospital less | 0% | 5% | 50% | £625.10 |
| | | | | | £33,010.60 |
| | | | | | £48,013.00 |
| | the GP practise nurse group sessions helped residents manage their health and symptoms better and they were healthier | 0% | 10% | 10% | £1,539.00 |
| | residents made new friends and spent more time with others through the group activities | 10% | 35% | 0% | £451.62 |
| | residents had nutritious meals with 3 (out of) 5-a-day and they were healthier | 100% | 0% | 0% | £0.00 |
| local authority | material outcomes for residents only (not for council). All outcomes for this stakeholder already considered above. | | | | £0.00 |
| Wheels-to-Meals volunteers (retired) | healthier volunteers (retired) | 70% | 10% | 35% | £175.50 |
| neighbours of elderly/ disabled residents | reduction in neighbourly care/shopping and breakdown of informal community networks | 5% | 0% | 5% | -£1,306.25 |
| Total | | | | | £82,508.57 |

| Stage 5 | | | | | |
|---|---|---|---|---|---|
| | **Calculating Social Return** | | | | |
| | **Discount rate (%)** | | 3.5% | | |
| | **Year 1** (after activity) | **Year 2** | **Year 3** | **Year 4** | **Year 5** |
| | £625.10 | £0.00 | £0.00 | £0.00 | £0.00 |
| | £33,010.60 | £0.00 | £0.00 | £0.00 | £0.00 |
| | £48,013.00 | £0.00 | £0.00 | £0.00 | £0.00 |
| | £1,539.00 | £1,385.10 | £1,246.59 | £1,121.93 | £1,009.74 |
| | £451.62 | £0.00 | £0.00 | £0.00 | £0.00 |
| | £0.00 | £0.00 | £0.00 | £0.00 | £0.00 |
| | £0.00 | £0.00 | £0.00 | £0.00 | £0.00 |
| | £175.50 | £0.00 | £0.00 | £0.00 | £0.00 |
| | -£1,306.25 | -£1,240.94 | -£1,178.89 | £0.00 | £0.00 |
| | £82,508.57 | £144.16 | £67.70 | £1,121.93 | £1,009.74 |
| Present Value* | £79,718.43 | £134.58 | £61.06 | £977.70 | £850.17 |
| Total Present Value (PV) | | | | | £81,741.93 |
| Net Present Value | | | | | £39,366.93 |
| Social Return £ per £ | | | | | £1.93: £1 |

61 *"A guide to Social Return on Investment",* UK Cabinet Office of the Third Sector.

**Social Return on Investment – The Impact Map for the worked example** (continues on the next page)

| | | | | | |
|---|---|---|---|---|---|
| **Organisation** | Wheels-to-Meals | | | **Name** | |
| **Objectives** | Provide luncheon club for 30 elderly local residents with additional health and social benefits by bringing residents to meals | | | **Date** | |
| **Scope** | **Activity** | 30 places for eligible elderly and/or disabled local residents 5 days a week, 50 weeks of the year | **Objective of Activity** | **Time Period** | 1 year (2010) |
| | **Contract/Funding/Part of organisation** | Local Authority Grant | **Purpose of Analysis** | **Forecast or Evaluation** | Forecast |

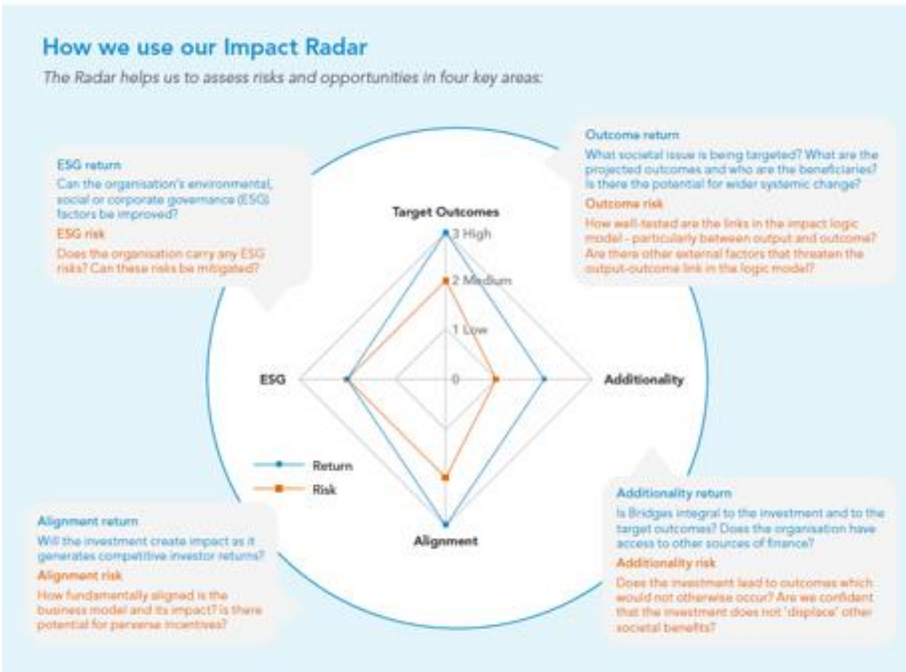
**Stage 1** → **Stage 2** →

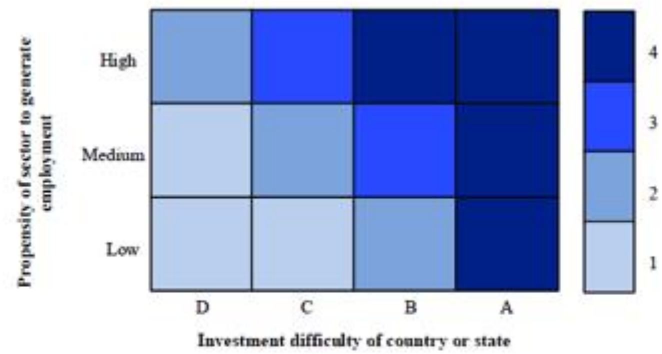
| **Stakeholders** | **Intended/unintended changes** | **Inputs** | | **Outputs** | **The Outcomes** |
|---|---|---|---|---|---|
| | | Description | Value £ | | Description |
| Who do we have an effect on? Who has an effect on us? | What do you think will change for them? | What do they invest? | | Summary of activity in numbers | How would you describe the change? |
| elderly / disabled residents | residents use health services less | time | £0 | luncheon club: | the mild/therapeutic group exercise sessions made residents fitter, they had fewer falls and ended up in hospital less |
| | | | | – group activities (board games, craft, mild/ therapeutic exercise, info and awareness sessions) | the GP practise nurse group sessions helped residents manage their health and symptoms better and they were healthier |
| | residents get out of the house more | | | | residents made new friends and spent more time with others through the group activities |
| | | | | | residents had nutritious meals with 3 (out of) 5-a-day and they were healthier |
| local authority | residents provided with nutritious meal | meals on wheels contract (annual) | £24,375 | | material outcomes for residents only (not for council). All outcomes for this stakeholder already considered above. |
| Wheels-to-Meals volunteers (retired) | keep active | time (at min wage) 4 volunteers x 3 hrs x 5 days x 50 wks x £6 (forecast) | £18,000 | – transport for 30 people | healthier volunteers (retired) |
| neighbours of elderly/ disabled residents | look out for neighbours | time | £0 | – 7500 hot meals annually | reduction in neighbourly care/shopping and breakdown of informal community networks |
| Total | | | £42,375 | | |

**Stage 3** →

| **The Outcomes (what changes)** | | | | | | |
|---|---|---|---|---|---|---|
| Indicator | Source | Quantity | Duration | Financial proxy | Value £ | Source |
| How would you measure it? | Where did you get the information from? | How much change was there? | How long does it last? | What proxy would you use to value the change? | What is the value of the change? | Where did you get the information from? |
| fewer falls and associated hospital admissions/stays annually | oneoff research | 7 | 1 year | accident&emergency | £94.00 | NHS cost book 07/08 |
| | | | 1 year | geriatric assessment inpatient | £4,964.00 | |
| | | | 1 year | geriatric continuing care-Inpatient (average 5 wks x £1,444) | £7,220.00 | |
| fewer GP visits annually (appointments) and residents report improvement in physical health | questionaire and interviews | 90 | 5 years | GP consultation | £19.00 | NHS cost book 2006 |
| new clubs/group activities joined during year and residents report an increase in personal wellbeing/ feeling less isolated | questionaire | 16 | 1 year | average annual membership/cost | £48.25 | current average costs of bus trips, bingo and craft clubs |
| fewer District Nurse visits and residents reporting increased physical activity of 3 hours or more a week | questionaire | 14 | 2 years | District Nurse visits | £34.00 | NHS cost book 07/08 |
| | | | | | | |
| volunteers report increased physical activity of 3 hours or more a week since volunteering | volunteer annual assessment | 4 | 1 year | annual elderly residents swimming pass | £162.50 | local authority |
| fewer instances of neighbours shopping for residents annually | One-off survey | 275 | 3 years | supermarket online shopping delivery fee | - £5.00 | www.tesco.co.uk |
| | | | | | | |

***Figure 57: Example of impact scoring framework[62]***




**Business Sector Categories**

| Low | Medium | High |
|---|---|---|
| Business Services<br>Communication<br>Financial Services*<br>Mineral Extraction<br>Trade* | Agricultural crops<br>Forestry/Fisheries<br>Meat/Livestock<br>Trade*<br>Transport<br>Utilities & Power* | Construction<br>Food Processing<br>Manufacturing (Light & Heavy)<br>Microfinance*<br>Public Services (incl. Health & Education)<br>Renewables*<br>Textiles<br>Trade* |

(*see adjustments)

62 *"Bridges IMPACT Report – A spotlight on our Methodology",* Bridges Ventures; *"CDC Development Impact Potential Grid Summary"*, CDC.

*Figure 58: Database for impact literature*[63]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# Smallholder Impact Literature Wiki- Home

Welcome to the Smallholder Impact Literature Wiki, brought to you by The Initiative for Smallholder Finance.

The intention of this wiki is to serve as a living resource for the smallholder community to capture, organize, and easily access the growing body of literature about smallholder interventions. Users are welcome to add new resources, edit current takeaways, and provide additional knowledge. The wiki uses standard wiki markup language. A short intro is at Help:Cheatsheet. To learn how to see this markup and to save an edit, see: Help:Editing.

THE INITIATIVE FOR SMALLHOLDER FINANCE

The Initiative for Smallholder Finance is a multi-donor effort designed to demonstrate how specific products and services can expand the reach of financing for smallholder farmers. Learn more>>

Literature is organized into 15 assumptions implied in the Universal Theory of Change. These assumptions are then further broken into component parts, with specific studies, literature, and cases noted for each part. While we've worked to evaluate the amount of literature that exists pertaining to each of the 15 base assumptions, actual takeaways and findings are only noted at a deeper level. To begin exploring the literature, click on one of the assumptions in the table below.

| | Assumption | Literature Availability |
|---|---|---|
| 1 | **Providing tailored financial products to farmers** helps them build larger and more productive farms | Medium |
| 2 | **Providing capital to producer organizations and agribusinesses** allows them to build stronger agricultural markets and serve farmers better | Medium |
| 3 | **Providing capital to financial institutions** allows them to on-lend to farmers | Low |
| 4 | **Technical assistance to farmers, both productivity- and business-related,** builds more resilient, productive and sustainable farms | Medium |
| 5 | **Technical assistance to agribusinesses** builds more capable agribusinesses better able to serve farmers | Low |
| 6 | **Technical assistance to financial institutions** allows them to on-lend to farmers | Low |

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*This report has been redacted for public release. It is based on a report prepared for DFAT by D. Capital Partners Ltd.*