

PRIVATE SECTOR PEER LEARNING: MECHANISM PROFILES

Impact Investing, Overseas Private Investment Corporation (OPIC)

Description: The [Overseas Private Investment Corporation](#) (OPIC), the US government's development finance institution, has developed a suite of impact investing tools and programmes that deliver social and environmental impacts in emerging economies.

Objectives: OPIC's impact investing tools provide funding and risk mitigation for projects with explicit intentions, from the outset, to create social and environmental returns in high-impact sectors, while earning returns on investments. OPIC expects that its suite of tools will attract new private investors and set global standards for impact investing.

Partners: OPIC's partners range from small entrepreneurs to large institutions with business models that explicitly address social or environmental issues in high-impact sectors, specifically agriculture, education, access to finance, housing for the poor, finance for small and medium-sized enterprises, health care, renewable energy, and water and sanitation. OPIC provides its partners, which would not otherwise qualify for commercial financing, with debt financing (loans), co-financing (access to private equity and grant funds) and risk mitigation (political risk insurance, derivatives and loan guarantees). OPIC also partners with financial and insurance intermediaries to support development-based initiatives. With its Enterprise Development Network, OPIC partners with financial institutions, business consultants, associations, law firms and regional investment promotion agencies.

How it works: OPIC's impact investing tools have maturities from one to 20 years. The Portfolio for Impact programme provides financing, under modified criteria and with a higher risk threshold, to projects that are small or nascent. The Innovative Financial Intermediaries Program provides funding for smaller-scale financial intermediaries and investment vehicles with a variety of structures. Working capital finance – either a loan or a revolving line of credit – helps businesses providing consumer goods for low-income customers to build their inventories and grow. The Aligned Capital programme connects projects that apply for OPIC funding with other US investors and grant providers. Finally, political risk insurance allows investors to support projects in which repayment is performance-based by mitigating the risks of loss of tangible assets, investment value and earnings.

To qualify for impact investing tools, applicants must submit a business plan, a financial model, a feasibility, marketing and sector study, an environmental assessment, and financial statements that demonstrate a history of sound management practices. In addition, proposed projects must include the aspects of additionality and ownership as well as capitalisation or leverage of 50%. The Enterprise Development Network helps small and medium-sized enterprises seeking funding or technical assistance to develop funding application packages, refine marketing strategies, and draft or enhance their business plans.

Monitoring and evaluation: Evaluation has focused on determining which investments qualify as impact investments, rather than which impacts investments have had on beneficiaries. OPIC's intentionality test is based on three criteria – an explicit intention to create a positive impact before the onset of a programme, social and environmental impacts, and servicing a high-impact sector. However, OPIC's existing methodology is inadequate for measuring the outcomes of impact investing or how they perform differently from the rest of OPIC's portfolio. Reviews of impact investing have resulted in recommendations to create a process to assess investors' intentions and a methodology to track investors' performances.

Results: Between 2008 and 2012, OPIC provided impact investing for 129 projects, which resulted in catalysing USD 2.4 billion and creating approximately 10 000 host-country jobs. The projects supported 1 million smallholder farmers, 7 million patient visits, education for 120 000 primary and secondary students, financing for 10 million small and medium-sized enterprises and microfinance borrowers, construction of 60 000 affordable homes and 200 000 home mortgages, the provision of 150 billion litres of water, and power for the equivalent of 3 million homes.

Development Assistance Committee member: United States

Duration: Ongoing since 2008

Budget: USD 333 million for 2008-13

Geographic focus: Open

Sectoral focus: High-impact

Offered: Finance and insurance

Insights: The creation of dedicated funds to support impact investing has allowed OPIC to invest in new partners and higher-risk projects, while still maintaining its regular portfolio activities.

SOURCES:

OPIC (2013), “Annual report 2013”, Overseas Private Investment Corporation, Washington, DC, www.opic.gov/media-events/annual-reports.

OPIC (n.d.a.), Enterprise Development Network website, <https://edn.opic.gov> (accessed 1 July 2016).

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OPIC (n.d.c.), “Impact investing”, www.opic.gov/opic-action/impact-investing (accessed 1 July 2016).