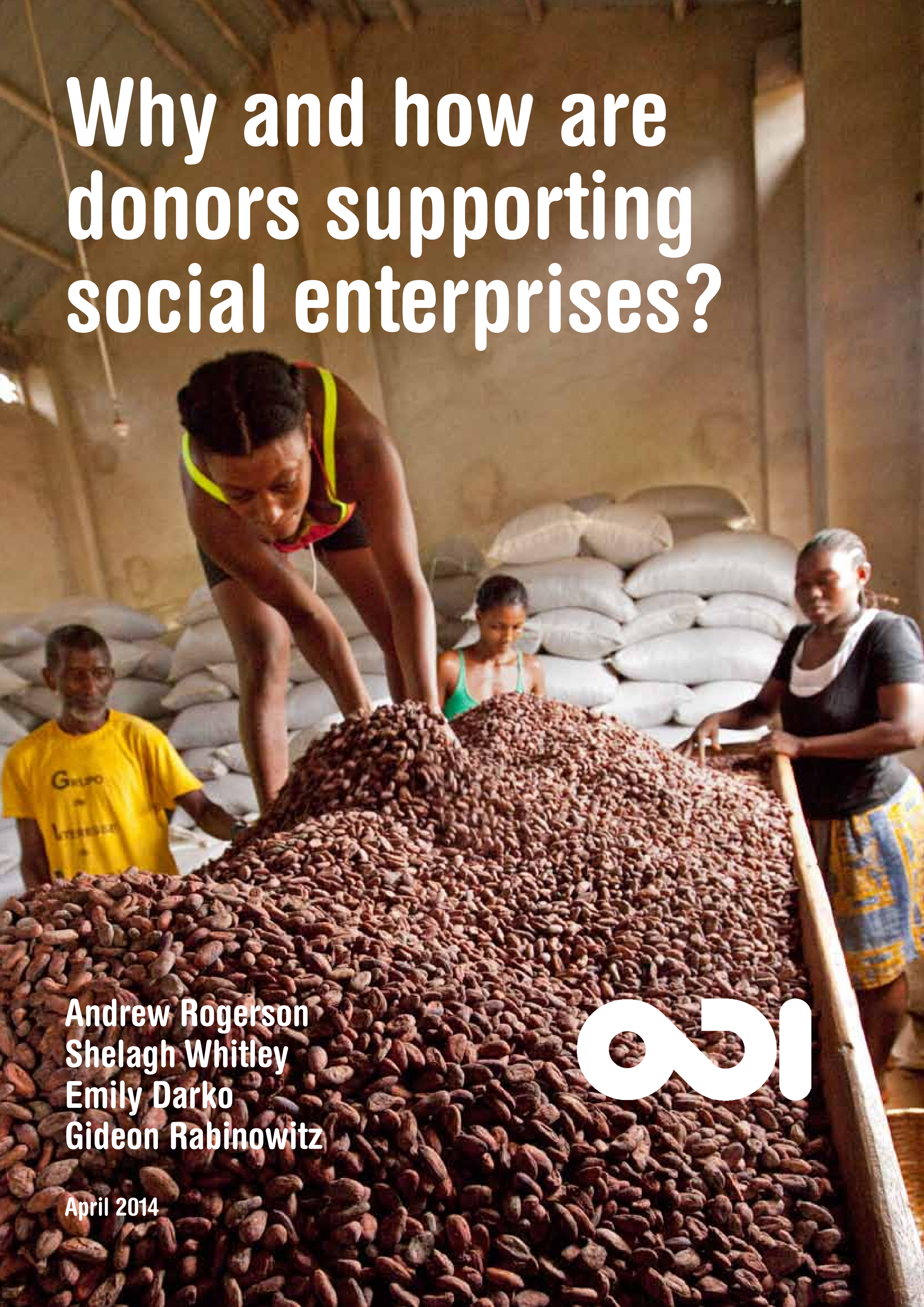

Why and how are donors supporting social enterprises?

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Abbreviations

BoP	Bottom of the pyramid
CSR	Corporate social responsibility
DALY	Disability-Adjusted Life Year
DCED	Donor Committee for Enterprise Development
DFID	Department for International Development (United Kingdom)
EU	European Union
GPOBA	Global partnership on output-based aid
IRIS	Impact Investment and Reporting Standards (Global Impact Investing Network)
LDC	Least developed country
LIC	Low-income country
LMIC	Lower-middle-income country
M4P	Making markets work for the poor
MA-I	Millennium Alliance India
MENA	Middle East and North Africa
MNC	Multi-national corporation
NGO	Non-governmental organisation
ODA	Official development assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
PfP	Payment for performance
PSD	Private sector development
RCT	Random control trials
SE	Social enterprise
SEGP	Social enterprise growth path
SEMI	Social enterprise market infrastructure
TA	Technical assistance
UK	United Kingdom
UMIC	Upper-middle-income country
US	United States of America

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Executive Summary

Key messages

- This is a partial and preliminary stock-take of public donor agency support to social enterprises, or at least, enterprises which may relate to social impact in some way.
- The top rationales for intervention given by interviewees are: improved livelihoods, opportunities or access for the poor; support for women and other vulnerable groups; and increased quality of jobs and access to skills and training.
- Despite such clear rationales, there are striking gaps between the case made for public intervention and approaches undertaken to measure and demonstrate impact.
- Tools to close these gaps would include more rigorous impact frameworks tracing the effect of different institutional models on outcomes; and validating of programme objectives against country-level results and stakeholder views.

This report is part of a wider body of ODI research which seeks to understand and track the rise of enterprise models in delivering social and environmental outcomes in developing countries, a phenomenon associated with terms like 'social enterprises' (SEs), 'social businesses' and 'impact investing'. The report attempts a partial and preliminary stock-take of donor activities in this area.

Four primary justifications are invoked in the research and donor literatures for the use of public funds to support market- and enterprise-based interventions in developing countries:

1. Market failure: intervening where the market alone cannot optimally allocate goods and services in terms of wider societal objectives.
2. Inclusive and sustainable growth: addressing specific access barriers faced by the poor.
3. Contracting-out: buying socially and environmentally desirable outputs cost-effectively.
4. Experimentation and first-mover cost: encouraging innovative technical and business solutions by reducing first-mover costs and scaling up successful experiments.

This is a much broader scope than just the rationale for support to SEs as such (although we deal with this as a subset of the issues). We found that official donors, unlike philanthropic ones did not use SE terminology on the whole. We therefore fell back on the alternative and wider definition of 'enterprise models seeking social/environmental impact as part of their core business', instead of a stricter one, requiring social impact to be the primary enterprise goal, subject to financial viability. We then developed a shortlist of donor programmes for in-depth review.

This study thus focuses mainly on why and how donor support to SEs may relate to social impact as against how they support SEs specifically. The aim of this focus is to understand the links between the stated rationales of donors for supporting SEs and the resulting modes of engagement (see Figure 1). We examined the programme-level designs, intervention instruments and impact metrics of donor agencies, as the basis for a potential future assessment of the effectiveness of the engagement by those donors.

We developed a long-list of over 100 donor programmes that have a general focus on achieving social impact through the private sector.

Donor staff cited the top four rationales for intervention as follows: improved livelihoods or opportunities for the poor; improved access for the poor to specific benefits or services; supporting women and other vulnerable or marginalised groups; and increased quality of jobs and access to skills and training. The relatively strong emphasis on inclusion, compared to the other three main rationales cited in the literature is striking.

The scale of the selected donor programmes is large, with the total budget of programmes reviewed at almost £0.5 billion, and an average size of £24 million. Typical programme commitment periods are for fewer than three years, but are mostly renewable.

Agriculture and food security are the dominant sectors followed by health, financial services, energy and clean technology, manufacturing, and water and sanitation. The regional breakdown is relatively even, with 71% of the programmes covering Africa; 61% covering Asia; and a smaller percentage covering Latin America and the Middle East and North Africa (MENA).

Grants are by far the most common financial instrument, followed by debt, equity and guarantees. Two-thirds of programmes reported providing in-kind assistance such as training or technical assistance (TA), and one-third as paying for third-party contracts in similar areas. Of the 25 programmes which stated their expected financial returns, a large majority expected no return and, where specified, half of the programmes defined themselves as aiming for (social) 'impact first'. The remainder gave equal weight to social impact and financial viability.

The lack of an agreed definition of what an SE is remains a real limitation to analysis in this space (Rogerson, Green, & Rabinowitz, 2013). This has other potential consequences for donor agencies. On the one hand, by staying relatively vague as to the boundaries between 'impact first' and 'finance first' business models, many donors may feel they benefit from more flexibility in shaping their interventions. On the other, this very ambiguity may make it harder for donors to frame (internally) and explain (externally) their objectives consistently. This could later expose them to criticism on demonstrating results obtained with taxpayer funds.

A third of the programmes reviewed do not have an explicit system in place for impact monitoring. A majority did not outline specific impact metrics. We also found that several programme statements on impact measurement were inconsistent with the organisation's impact measurement practices. USAID was alone in completing impact measurement for each of its programmes. DFID and AusAID measure impact for 70% of programmes reviewed, while GIZ/BMZ and SIDA measure only half. There is also a wide diversity of impact measurement approaches being used within donors; for example, DFID references seven different approaches across its 10 programmes.

The early stage of many interventions, as well as the absence of impact metrics for the majority of programmes supporting SEs, meant that we were unable to determine the degree of alignment between donor rationales for intervention, or the resulting impact of their support.

We recommend two standard approaches to close the identified gaps: (1) more systematic impact frameworks tracing through the effect of different institutional models on outcomes; and (2) validation of programme objectives, both to country-level results and to stakeholder views on the value of donor agency involvement.

Finally, we found a similar disconnect when comparing the long-standing literature on public intervention in markets for socially beneficial return with the nascent one on donor – and especially philanthropic – support for SEs and social innovation. This 'cultural divide' leads, among other things, to different approaches to monitoring and evaluation.

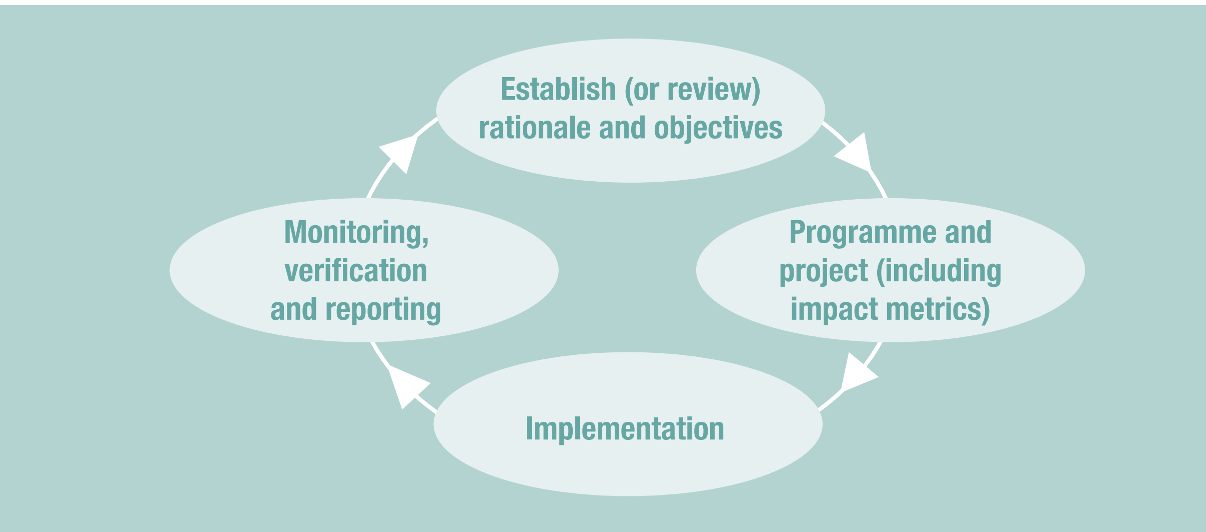
1 Introduction

This report is part of a larger, cross-disciplinary research programme at the Overseas Development Institute (ODI) which seeks to understand and track the growing role of enterprise models in delivering social and environmental outcomes in developing countries: a phenomenon associated with terms like 'social enterprises', 'social businesses' and 'impact investing'. It is a first – and necessarily partial – stock-take of donor activities in this area. Three other ODI outputs are relevant.

1. A methodology and pilot survey to map support to social enterprises (SEs) in emerging markets, including a set of comprehensive typologies to track direct support to SEs and the infrastructure in which they operate. This work was funded by the Shell Foundation (Whitley, Darko, & Howells, 2013).
2. A proposed definition of the term 'social enterprise' (SE), together with a questionnaire-based assessment tool, applied to an initial set of plausible SE cases, supported with ODI core funds (Rogerson, Green, & Rabinowitz, 2013).
3. A review of SE operating environments and activities in Kenya and Vietnam, across two sectors (health and agriculture), with a focus on the obstacles and opportunities for SE activities through qualitative interviews with enterprises and stakeholders in their supply chains and support structures. This work is supported by the United Kingdom's (UK) Department for International Development (DFID), with a report due in March 2014.

The present and fourth research project is also supported by DFID. It draws on the findings of the previous studies and, along with a literature review,

Figure 1: Donor intervention cycle



aims to understand the links between the stated rationales of donors for supporting enterprise models associated with social impact and the resulting modes of engagement. It tries to analyse the programme designs, intervention instruments and impact metrics of a subset of donor agencies, thereby setting the stage for a future assessment of the effectiveness of donor engagement in this space.

This is an initial and necessarily partial stock-taking, We found out early on that donors do not have an agreed common definition (including in some cases within the same agency) of what is an SE, so we pursued a broader enquiry of what motivates how donor support to enterprises and how that support may relate to social impact.

The five donor agencies examined in this study were selected on the basis of their level of engagement (see Section 3). Their programmes were reviewed in detail. Interviews were conducted with over 50 strategy and programme staff and implementing contractors (see Annex 4). We sought to better understand the rationale behind those programmes, and compare these against specific programme designs, interventions and approaches for impact measurement (see Section 4).

The diversity of approaches, both within and across agencies, allowed us to draw some useful preliminary lessons (see Section 5). These lessons potentially benefit not only this group but a wider spectrum of official donors, many of whom do not yet appear to have programmes in this area. We expect that our findings will also prove relevant to other actors providing support to SEs, including development finance institutions, developing country governments, foundations, non-governmental organisations (NGOs) and charities, investment funds, and commercial banks.

This report is organised in four further sections. Section 2 examines the main intervention rationales cited by donors and the concepts behind them, based on published literature. Section 3 summarises how we identified the 30 programmes for review, out of over 100 identified using a wider keyword search. Section 4 analyses findings from donor interviews. Finally, Section 5 considers emerging lessons and future research questions.

2 Rationales and risks for public support, philanthropic views

Our starting point was to consider the current arguments that justify spending Official Development Assistance (ODA) in support of SEs. We identified four main rationales invoked by donors for the use of public funds to support market- and enterprise-based interventions in developing countries, which also covers, but is a broader policy arena than, supporting SEs as such (we return to the narrower SE definition issue in the next section). We make no judgement as to their relative merits, and simply cite these to illustrate donor policy statements on this topic. These are:

1. Market failure rationale: overcoming classic market failures, where the market alone cannot optimally allocate goods and services in terms of wider societal objectives.
2. Inclusive and sustainable growth rationale: addressing specific access barriers faced by the poor within existing markets and by businesses that seek to reduce inequality and promote sustainability.
3. Contracting-out rationale: buying socially and environmentally desirable outputs cost-effectively through enterprise channels, as opposed to producing them entirely within the public sector.
4. Experimentation and first-mover cost rationale: mobilising innovative technical and business solutions by helping to cover first-mover costs and scale up successful experiments.

These rationales start from a common point, namely a consensus that the private sector is the main engine of economic growth and that, within a robust regulatory framework provided by the public sector, such growth can enable poverty reduction and sustainable development (World Bank, 2012).

The first three structures, though often interwoven in donor strategies, arose separately, in rough chronological sequence. The 'market failure' argument has long been established as the dominant rationale for public intervention in private markets, at home or abroad. It also relates closely to the role of industrial policy and state-led development in Organisation for Economic Cooperation and Development (OECD) and emerging economies (Pack & Saggi, 2006) (Breslin, 2011). The 'inclusive green growth' strand addresses subsequently perceived weaknesses in the connection between growth and poverty reduction, and acknowledges the need for additional support to ensure that growth is accompanied by increased equality and sustainability. The 'contracting-out' strand has gained prominence relatively recently, especially in the context of many donors' concerns for value-for-money (in which the private sector is perceived as more cost-effective than public alternatives) and of the growing focus on SEs as a distinct class of actors. We will examine each in turn.

Finally we consider potential downside risks of public intervention, and ways of mitigating such risks, and the somewhat different perspective of non-governmental impact philanthropists.

2.1 Market failure rationale

Donor support for private sector development can be justified when markets fail to allocate resources efficiently (Kurokawa, Tembo, & te Velde, 2008). There are a number of ways of categorising these market failures and the phenomena that give rise to them, but one simplified set is (Miller, 2013):

- externalities and public goods
- information asymmetries
- weakness of support service markets.

2.1.1 Externalities and public goods

Externalities arise when a private sector actor is not covering, or capturing, the full social or environmental cost or benefit of their activity. They invest too much or too little when viewed from the wider societal perspective. Typical examples of externalities are pollution, justifying a regulatory or tax intervention; or knowledge creation, which might justify subsidies for training or research.

Public goods, like law enforcement, also involve such external effects. The principle of public goods is that they are available to citizens on a 'non-rivalrous, non-excludable' basis. One person's enjoyment of their benefits does not encroach on another's, nor can access be rationed efficiently through access fees or licenses. Such goods therefore need to be funded, and sometimes provided outright, by governments as private supply may not materialise spontaneously.

2.1.2 Information asymmetries

These arise where one party in a possible transaction has more information than another, which may lead to sub-optimal outcomes. So, for example, foreign investors who do not know and cannot discover cost-effectively which potential local partners are good or bad credit risks. The result can be lower levels of international investment than is warranted. An appropriate policy response may be for a central credit information service to be funded by the public sector.

2.1.3 Weakness of support service markets

The market for a product or service may be hampered by weaknesses in, or the absence of, markets for necessary supporting services. The most cited case in developing country contexts is financial markets, in which services are simply not available, or are under-represented in some areas or sectors. Unreliable power and transport services, inadequate property rights and the enforcement thereof, as well as an insufficiently skilled workforce, are also common arguments under this rubric.

2.2 Inclusive and sustainable growth rationale

The inclusive growth case for public support is in some ways a variant of the market failure rationale. Those markets may not develop as fast as they otherwise might because of additional structural impediments faced by poorer and/or marginalised groups in accessing available market opportunities. The whole economy can be indirectly affected by such constraints. As an example, people living in extreme poverty have greater difficulty than the general population in asserting their property rights, accessing credit or proving entitlement for benefits. Their physical, financial and human capital is lower and more fragile, so they are often forced to fall back on lower-quality and lower-paid employment (World Bank, 2012). This set of challenges has been taken up in business and marketing theory, notably under the banner of the 'fortune to be found at the bottom of the pyramid' (hereafter BoP) (Prahalad, 2006).

There could be higher political weights (or lower time discounts) attached to improving the welfare of specific target groups, or supporting environmental investments. These weights reflect moral and political judgments, over and above the efficiency arguments made above. They can justify incurring higher costs, some of which the government may have to absorb, as private actors may lack sufficient incentives or foresight to do so. The BoP remains below the waterline, as it were.

At the macro level, if growth is very unevenly distributed or leads to environmental degradation, it can lead to a slower or less sustainable rate of poverty reduction than might otherwise be the case

(Ravaillon, 2001). A private sector-led 'laissez-faire' strategy might therefore not be sufficient to deliver the faster and more sustainable poverty reduction to which many development agencies and governments aspire. In these cases, aid support could be justified to help ensure more equitable and greener outcomes.

2.3 Contracting-out rationale

The permutations between public sector direct delivery of services (in education, health, power, water, etc.) versus public support for private service delivery (through some combination of regulation and/or funding) are not new, though ideology still pervades debates on this set of choices.

The alternative of 'contracting-out' service provision on a for-profit (or at least break-even) basis to the private sector has gained considerable momentum recently. Increasing attention is being paid to 'state failure' as the counterpoint of market failure. Put simply, too many public sectors in developing countries are perceived to have failed to serve their citizens and taxpayers. In some post-conflict country contexts, public sector provision remains very weak or absent and is unlikely to become a reliable option for the majority of the population in the short and medium term, which adds urgency to the search for alternative delivery systems (Slater, Mallett, & Carpenter, 2012).

As a minimum, this rationale draws donor attention to how best they can support developing country governments to get the regulatory frameworks for efficient and equitable delivery of essential services right. But direct financing, to test and expand such channels and frameworks, is also on the agenda.

From a donor agency perspective, the introduction of market-based contractors or delivery channels offers several potential advantages:

- there is, or appears to be, a shorter attribution chain between inputs and outcomes
- it can be easier to measure the cost-effectiveness (or value for money) of such direct interventions than of broader-based investments through multi-tiered public systems
- depending on how the aid contract is structured, the funder can also be seen to 'buy' additional units of output (e.g. pupil attendance or antenatal visits) at lower marginal costs, avoiding overheads that are arguably covered in other ways
- the accountability discipline arguably exerted on private providers by fee-paying customers – who may be able to vote with their feet – may be seen to be superior to the longer and far less dependable feedback loop of user-taxpayer redress via the political system and its oversight of tenured public-sector providers (World Bank, 2004).

Sometimes this approach of 'contracting-out' is combined with large-scale cash benefit programmes which incentivise participation by low-income groups. More recently, innovations in technology (like biometric identification documents and mobile payments systems) have made such options much more feasible, especially relative to the top-down public delivery of benefits in kind, which is arguably open to higher waste and corruption risks (Kharas & Rogerson, 2012).

2.4 Experimentation and overcoming first-mover costs

Related to both the contracting-out rationale, and to one specific element of the market failure rationale (reducing the cost-barrier to first-mover innovation) is the support of private enterprise as a plausibly stronger locus of experimentation and innovation, compared to the public sector. This is also related to the 'market transformation' approach of impact philanthropists (see section 2.5 below).

Using this logic, it is anticipated that enterprise models for delivering social impact will be forthcoming, so long as some of the up-front costs and risks of innovation for first-movers can be mitigated. The aim for intervention here is that successful small-scale experimentation be identified, nurtured and taken to scale, faster than would occur naturally. Similarly, it may be that the demonstrated benefits of such interventions (in terms of demand and value of a given product or service) can ultimately pave the way for widespread uptake in the public and private sectors.

None of the four rationales for intervention listed above holds entirely without qualification, of course, or we would already be diverting the bulk of international aid toward subsidies to private and non-profit enterprises.

2.5 Potential risks of interventions in favour of the private sector

The risk of market distortion is the most obvious problem that can occur when subsidising an enterprise directly. It is an intrinsically anti-competitive policy, and public support to industry comes under the purview of national and European Union (EU) anti-trust rules. It may also create moral hazard by encouraging more risk-taking by the recipient business or group of businesses than may be desirable from the perspective of society as a whole.

Subsidies may promote or preserve non-viable entities over others that are inherently stronger. The assisted business failure to secure alternative commercial funding may reflect weaknesses in its management and/or business model, as much as alleged structural problems in local financial markets. Indeed, aid-assisted grants or concessional loans may also crowd out commercial lending to viable businesses, undermining both sets of institutions.

When invoking the inclusive-growth and contracting-out rationales, the external aid actor needs to consider if and why it is substituting itself for governments in the destination country. For example, if in the donor's view a subsidy that improves market access for specific groups is justified, does the government share this priority? If not, where will the latter direct its own funding? In terms of sustainability, especially for large-scale programmes delivering social services through private channels, who will bear the cost of these contracts? And how will this funding be assured after the donor exits?

There are alternatives to firm-level support that mitigate such problems (Miller, 2013). For example, broader based support to market infrastructure serving a whole market or market segment (such as training or business development services), or help for government regulatory capacity, can reduce or eliminate the distortionary effect. The same is true for challenge funds run as competitions, where funding is contingent on demonstrating innovation. Partial credit guarantees, now in widespread use, can also help diversify risk across sectors and regions and may correct more directly for financial market failure, for instance if the guarantor possesses informational advantages over the lenders.

In the case of firm-level interventions, it is sometimes possible to insulate subsidy streams from the main revenues of the service delivery enterprise/utility, thus facilitating access by the poor without distorting overall price or tariff structures. That is a key principle behind, for example, 'output-based aid' (GPOBA, 2014).

2.6 Role of 'new' development actors

A growing class of non-official development actors, who deliberately invest to achieve social and environmental goals alongside financial ones, has undertaken pioneering work over the last decade to promote such impact via private sector channels. These include charities and NGOs, foundations, venture philanthropists, and self-identified 'impact' investors, among others. They are diverse in terms of their relative reliance on philanthropic donations, their use of subsidies as an instrument, and the level of returns they expect from their investments.

This diversity has stimulated a wider debate about the role of below-market funding terms, including outright subsidies, in supporting enterprises targeting social and/or environmental impact. This debate mirrors the rationales cited by official agencies as summarised above, although some differences have also emerged.

Both official donors and 'new actors' see a role for the private sector in providing important goods and services where governments are unable to do so. They both accept the need for well-structured subsidies in supporting private sector models to enable social impact. They both emphasise the need to mitigate the risks involved in establishing and growing such enterprises, so that subsidies can help them move towards, not away from, financial viability (Koh, Karamchandani, & Katz, 2012) (Bannick & Goldman, 2012).

A wider strategic emphasis adopted by these 'new actors' – and increasingly echoed by some donors – is the more ambitious aim of transforming whole markets and its functioning, as opposed to correcting for perceived failures (Koh, Karamchandani, & Katz, 2012). However it is difficult to predict which enterprises or sectors are likely to become transformative and as such deserve subsidies on this ground alone.

3 Research approach and methodology

For our research, we first identified relevant projects and programmes for analysis in order to understand the links between the rationales of donors and resulting modes of engagement in supporting SEs.

This section covers, (1) how we defined SE for the purposes of this study; (2) how we built up a long-list of over 100 donor programmes with a general focus on social[1] impact through the private sector (3) how we categorised donor programmes found in the database according their degree of relevance to this definition; (4) how we filtered 30 relevant cases, and the five donors[2] accounting for the vast majority of them, for in-depth review; and (5) how we prepared and conducted 54 detailed interviews on this subset[3]. Core interview questions and the full list of interviewees are presented in Appendices 1 and 2 of this report.

1 The term social is used throughout the rest of this report to capture both social and environmental impacts.

2 Several programmes were initially identified for The World Bank Group (WBG). However, in the time available, we were not able to gain sufficient access to programme and organisation level staff to compile a profile for the WBG of comparable quality to the others. We therefore reluctantly decided to omit the WBG from this phase of the project's overall findings

3 46 excluding the World Bank Group, for which we subsequently decided not to present findings.

3.1 Definition of social enterprise

There is a growing literature (Rogerson, Green, & Rabinowitz, 2013) (Whitley, Darko, & Howells, 2013) identifying a class of institutions often termed 'social (or impact) enterprises', which typically combine key features of private sector enterprises (notably financial viability) with a demonstrable additional focus, or indeed a primary focus, on achieving social and/or environmental impact.

Beyond SEs' role in the 'direct' generation of better/more affordable/more sustainable goods, services and employment, there are further claims that they can also empower their main stakeholders, such as smallholder farmers. Such intangibles are notoriously hard to measure against more concrete outputs.

The initial complexity lies in how financial viability and social impact are balanced. For some observers, it is sufficient for a market-based profit-maximising institution to go beyond corporate social responsibility (CSR)-type activities to some extent to contribute to wider social outcomes, as a deliberate part of its core business. For others, it is crucial that the enterprise be set up first and foremost for a social (or environmental) purpose, whilst assuring financial viability is seen as a necessary constraint. Some see an inherent tension between high levels of profitability and retaining a social mission, whereas others do not.

In practice, as Section 2 reviewed, there may be several reasons why donors choose to subsidise enterprises (or their supporting infrastructure), chief of which are: (a) addressing market failures which would otherwise generate sub-optimal outcomes for society as a whole; (b) tackling barriers to greater inclusion of specific social groups; (c) effectively contracting-out the delivery of key social outputs; and (d) lowering the costs and risks of innovation and experimentation. The concept of a strictly defined SE is arguably too narrow in this larger context. Moreover, the terminology is itself relatively recent, and only makes an appearance as such in relatively few donor programmatic or policy statements. It is possible that donors deliberately do something very similar to supporting SEs, while calling it something else entirely.

We argue that in future it would be more useful to also allow and track a relatively narrow definition of 'social' enterprise, for example (cf. Rogerson et al, above) one requiring social impact as the primary enterprise goal, subject to strict financial viability tests, alongside a broader set of stated rationales for intervention. For the interviews we conducted, however, we stayed with the broader definition: enterprise models seeking social/environmental impact as part of their core business.

The absence of an explicit weighting mechanism, contrasting conventional enterprise outputs (such as turnover, employment, and net income) with social impact indicators (measurable improvement in the welfare of the SE's stakeholders, however defined) inevitably creates ambiguities in public intervention goal-setting which will resurface in the subsequent impact evaluation of taxpayer-funded support to such enterprises.

3.2 Long-list: donor programmes for social impact through the private sector

No comprehensive database of donor-funded interventions to support social impact through the private sector has been established to date, irrespective of how these are defined. There were some useful partial inventories, notably in an unpublished review by Monitor Inclusive Markets from 2012. This identified 34 programmes to support impact enterprises serving BoP communities. This group of programmes was delineated based on being grant-providing initiatives by donors with a value of at least $1 million. We could not determine how many other programmes Monitor considered before applying these filters, nor what share of the universe of such interventions the Monitor sample represents.[4]

We started with the Monitor set and then reviewed other ODI research projects, searched the websites of the most prominent donors, and reviewed donor project databases.

Programmes were added to the long-list if they met all of three of the following criteria:

- were funded at least in part by bilateral donors or development finance institutions
- supported enterprise and the private sector in developing countries
- had programme objectives of social or environmental impact (be that defined as reducing poverty, reaching BoP consumers/ suppliers, tackling a specific development objective etc.).

In this first round of analysis we compiled a dataset of over 100 donor interventions which included the following information (where available):

- Programme lead donor, other funders and partners
- Statement of intent

4 A more recent study by the North South Institute (published during our research) surveyed 104 development cooperation actors about their support for private sector engagements in development. These engagements were defined on the basis that they went 'beyond the traditional impacts of the private sector - such as growth, employment and service provision'. Development cooperation actors as defined by North South Institute include: International Financial Institution (IFI), United Nations (UN) and Organization for Economic Cooperation and Development (OECD), Bilateral donor, Development Finance Institution (DFI), South-South development cooperation provider, Foundation, International Non-Governmental Organization (INGO), and think tanks. North South Institute (2013), Investing in the Business of Development, http://www.nsi-ins.ca/publications/investing-in-the-business-of-development/

- Scale (financial)
- Location
- Duration
- Instrument(s) used
- Organisations or groups targeted
- Sector focus
- Beneficiaries.

3.3 Filtering for relevance

We applied three filters to the long-list of programmes to produce a shortlist for detailed review.

The first filter was donor self-reporting that the intervention targeted social enterprises or businesses. All programmes meeting this requirement were provisionally included. This framing excluded, general partnership work with multi-national corporations (MNCs). We recognised we might overlook approaches supporting business models for social innovation. However, we wanted to avoid reviewing the entire field of private sector development.

We then applied a second filter using a list of self-reported donor rationales for intervention (see Table 1). We only included programmes that referenced one or more of these rationales in publicly available documentation. The common feature of all of these rationales is that they assert a more targeted logic for intervention beyond supporting the traditional broad role of the private sector in development (driving growth, jobs, and thereby indirectly social outcomes). This search approach resulted in limited coverage of relevant environment/climate related programmes.

The third filter counted only donors engaged in a minimum of two programmes.

This screening established a shortlist of programmes that conformed to our definition. The final 30 programmes by five donors were considered the most relevant to this study, and were selected for interview. This cohort included the DFID, the USAID, SIDA, AusAID and GIZ/BMZ.

Table 1: Relevant donor self-reported rationales for intervention

Rationale for intervention (filter = 1 or more)
Access to finance / financial inclusion (including microfinance)
Improved access to or quality of goods or services for the poor – includes targeting BoP (consumers, producers or suppliers)
Improvement of living and/or working conditions for the poor
Improved quality or access to health, water or sanitation services
Increased quality of jobs, and access to skills and training
Reduced poverty, improved livelihoods or opportunities for the poor
Improving access to information, and community empowerment
Supporting women and other vulnerable or marginalised groups
Working towards achieving Millennium Development Goals
Improving access to energy and resources (and efficient use)

3.4 Interview Phase

The interview phase gathered perspectives and evidence from donor agency staffworking at different levels of their organisations. The objective was to understand the strategies and activities supporting business models for social impact.

We engaged with stakeholders working at two levels within their organisations:

- Strategy level – to gather details on the rationales for and objectives of their relevant activities.
- Programme level – to gather details on specific projects and programmes (either from regional offices, or outside implementing entities).

- Some programme substitutions and/or additions were made as a result of the initial interviews (see footnote 6).

Interviews were structured using a generic set of draft interview questions (Annex 3), accompanied by a series of typologies and frameworks which were provided to assist participants in structuring their responses. A list of interviewees is given in Annex 4 and the structure is summarised in Table 2, below.

Annex 5 gives a summary of programme data collected.

The typologies and frameworks referenced in the interviews are included in Annex 1.

We used the following typologies and frameworks[6]:

- A typology based on donor self-reported rationales for intervention
- Duration of support (in years)
- Typologies of country types and geographical scope
- Sector typology
- The Social Enterprise Growth Path (SEGP) (grouping phases of SE development supported)
- The Social Enterprise Market Infrastructure (SEMI) Framework (defining market-supporting interventions)
- Instrument typology
- Expected returns typology

Table 2: Number of interviews and team structure information (by donor)[5]

Donor	Number of programmes	Number of interviews	Teams interviewed
DFID	10	12 (of which 3 external)	Private Sector Development, Policy Division, and Civil Society, DFID India, DFID Kenya
USAID	8	16 (of which 2 external)	Office of Innovation and Development Alliances
SIDA	5	5 (of which 1 external)	Private Sector Collaboration and ICT
GIZ/BMZ	4	5 (of which 1 external)	Private Sector Development, Economic Policy Division, Special Business Unit, Africa Facility
AusAID	3	5 (of which 1 external)	Business Engagement, Private Sector Development and Indonesia unit

Note: see also Annex 3 and 4

5 We tried to interview agencies on every programme identified originally. We started with this set of 30 and asked donors to identify further programmes. Also not able to access staff on a few programmes originally identified, though we eventually gathered data (see Annex 5) on a similar set, overall.

6 These build on findings in (Whitley, Darko, & Howells, 2013)

4 Programme and organisation characteristics

We analysed these 30 programmes along several dimensions, starting with their “fit” primary rationales for intervention, duration and budget, geographic and sector breakdown, stages of SE development supported, and instruments used. We also offer here some preliminary impressions of organisation-level differences, built around criteria of clarity, mainstreaming, and partnership. The latter are however based on interviewer perception and volunteered responses, rather than structured questions, as in the case of programme-level results.

4.1 Programme level findings and trends

4.1.1 Primary rationales for intervention

The top four (out of 10) rationales for intervention cited in interviews, in declining order, were:

- Reduced poverty, improved livelihoods or opportunities for the poor
- Improved access for the poor, Bottom of the Pyramid (BoP) approaches
- Supporting women and other vulnerable or marginalised groups
- Increased quality of jobs, and access to skills and training.

The focus on equitable access, opportunity and inclusion stands out quite clearly among the programmes reviewed.

4.1.2 Maturity, duration and budget of programme

The majority of programmes are at the early implementation stage, having been approved since 2009, with several launched very recently. However, the oldest has been running since 1999 and a few for six to eight years. Typical programme commitment periods (over 50%) are for fewer than three years, with the next largest categories three to five years and five to seven years, both of about a fifth of the sample, and only a handful of cases longer still. Many of the three-year commitment periods are renewable, subject to successful review.

The median programme budget for the two larger clusters of programmes, in DFID and USAID, for which comparable information was available, was £10 million and $25 million (£17 million equivalent) respectively. The total budget of the programmes reviewed (where information was available) was almost £0.5 billion, with an average (mean) programme size across a sample of 18 programmes of £24 million at December 2013 exchange rates, and the range was from £115 million to £300,000.

4.1.3 Sector, region and country breakdown (see Annex 1; Tables 1A and 1B)

Donor interventions in the subset of programmes reviewed[7] covered the following sectors (where sectors were specified) : agriculture and food security

7 A number of interventions, such as challenge funds, are not sector-specific by design.

(77%), followed by health (58%), financial services 54%, energy and clean tech (54%), manufacturing, (51%) and water and sanitation (51%).

The regional breakdown was relatively even, with 71% of the programmes covering Africa, 61% Asia, and smaller coverage of Latin America and MENA, as might be expected given the mix of donors.

In terms of country type, only a small minority (13%) operated in upper-middle-income countries (UMICs), whereas nearly three quarters operated in lower-middle-income countries (LMICs) and nearly as many in least developed countries (LDCs).

The DFID's sector focus was more diverse than those of the USAID, SIDA and GIZ/BMZ, which had agriculture and food security in common (see Table 3). The USAID and SIDA stood out from the general Africa-Asia, low-income country (LIC) and LMIC pattern, neither having a specific regional or country-type (by income level) focus.

4.1.4 Interventions to support SEs at different stages of development (see Annex 1 table 1C)

In our sample of 30 officially-supported programmes there was an even distribution, with the larger relative focus of support to enterprises at the Validate stage, followed by those in the Operationalise/Grow stage. However, information from 11 programmes was insufficient to make these distinctions.

At donor level, while the overall pattern of programmes reviewed was relatively balanced across the four stages, the USAID and DFID focussed on the middle stages (Validate and Grow); SIDA and AusAID on the earliest two stages (Seed and Validate); and GIZ/BMZ on the final stage (Break Even/Sustainable) (see Table 3). This may be a quirk of the small sample, as against revealing institutional preferences for, among other things, risk and support of proven, as opposed to unproven, business models.

4.1.5 Interventions to support market infrastructure for SEs (see Annex 1; Table 1D)

Our review found development of products and services was the most significant focus of the 17 programmes which had sufficiently detailed information on this dimension, bearing in mind again this is not necessarily representative of the whole portfolio. Of these, nearly half addressed product or service development needs, about a third each demand generation and access to finance, but only a few programmes sought to address regulatory and policy issues.

The majority of donors are supporting product and service development. USAID also focussed on generating market demand and GIZ/BMZ on access to finance. No donor gave as much emphasis to policy and regulatory framework support.

4.1.6 Instruments used and return expectations (see Annex 1; Table 1F)

The most common financial instrument is grants (68%), followed by debt (19%), equity (16%) and guarantees (10%). In addition to these instruments, 68% of programmes reported providing in-kind assistance such as training or technical assistance (TA), and one-third as paying for third-party contracts in similar areas.

Of the 25 programmes which stated their expected financial returns the large majority (61%) expected no return, while a minority (39%) sought either a return of capital invested or concessional (below market) or market returns.

The prevailing instrument across donors was grants coupled with TA (see Table 3). USAID and DFID also deployed debt and equity, and DFID and GIZ/BMZ also used loan guarantees.

4.1.7 Financial vs. social impact (Annex 5)

At the programme level, just over half (16) of the reporting programmes gave some specific indication of where they stood in the continuum of 'impact first', versus 'balanced', versus 'commercial viability first' priorities. Half of the programmes defined themselves as aiming for (social and environmental) 'impact first', with the rest roughly equally divided (a quarter each) between giving equal weight to social impact and financial or commercial viability, versus giving absolute priority to the latter.

4.1.8 Impact definition and metrics

A third of the reporting programmes (nine) do not yet have an explicit process in place for impact monitoring or measurement, and the majority of programmes reviewed did not outline specific impact metrics. This makes it difficult to determine the fit between donor level rationale for intervention, programme design, and the results achieved through the programme. Our review also found that a number of donor statements on impact measurement in private sector programmes were inconsistent with the organisation's impact measurement practices (see Table 1). Though all donors have made statements in

Table 3: Key programme level findings and trends by donor

Donor	Focus within Social Enterprise Growth Path (SEGP)	Focus within Social Enterprise Market Infrastructure (SEMI)	Instruments (and combinations)	Regions and country types	Sectors
DFID	Validate And Operationalise / Grow	Supporting development of products and services	Grants with technical assistance (non-financial support), Debt and Equity with technical assistance (non-financial support), and loan Guarantees	Focus on Sub-Saharan Africa and Asia, LICs and LMICs	Working across multiple sectors
USAID	Validate and Operationalise / Grow	Supporting development of (and demand for) products and services	Grants with technical assistance (training) (non-financial support), Debt and Equity	No specific regional or country type focus (though less emphasis on UMICs)	Focussed on agriculture and food security, energy and clean tech, and health
SIDA	Seed/ Blueprint and Validate	Supporting development of products and services	Grants with technical assistance (training)	No specific regional focus, programmes in LMICs and LICs	Focussed on agriculture and food security, education, manufacturing and services.
GIZ/BMZ	Breakeven / Sustainable	Supporting access to finance	Grants with technical assistance (non-financial support), and trialling loan Guarantees	Sub-Saharan Africa, India and China, focus on LICs	Focussed on agriculture and food security
AusAid	Seed/ Blueprint and Validate	None	Grants with technical assistance (non-financial support)	Asia, focus on LICs and LMICs	Working across multiple sectors

official documents with regard to impact measurement within their programmes supporting private sector models for development, the USAID was the only donor found to be completing impact measurement for each of its programmes. DFID and AusAID are measuring impact for 70% of programmes reviewed, while GIZ/BMZ and SIDA are measuring impacts for only half of the activities covered by our research.

There is also a wide diversity of impact measurement approaches being used by individual donors (see Annex 2). For example, DFID references seven different approaches across its 10 programmes, with no programme using the same impact measurement methodology. DFID and USAID are deploying a variety of benchmarks and metrics, including some industry standards (e.g. IRIS (Impact Reporting and Investment Standards: DCED (Donor Committee for Enterprise Development, DALYs (Disability-Adjusted Life Years saved, a standard health impact measure, etc.). In the case of the DFID, some internally generated measures (log-frames and business cases) (see Annex 2). Many of the donors reviewed are relying to some degree on external evaluations and third party-impact assessments that are not linked to an industry standard.

A number of the programmes reviewed are new initiatives or pilots, which may yet develop more robust metrics than now appears to be the case. Several interviewees referred to independent evaluations that would develop their own metrics, and an equal proportion suggested detailed log-frames would soon be developed by outside experts.

Our research sought to understand the level to which impact measurement was directly incorporated into the design of the programme, using ‘innovative’ models such as payment for performance (PfP). The US was the only donor found to be using such approaches, in two of its programmes, the Millennium Alliance India (MA-I) and Development Innovation Ventures (see Annex 2). These two programmes have milestones for mid-term review, and plans for exit of support if these milestones were not successfully met. In particular, the MA-I programme is making use of randomised control trials (RCT) to assess the impact of half of its grantees. It is possible that such reviews are being contemplated by other donors, in forms yet to be determined, but these were not identified in our review.

4.2 Donor/organisation level characteristics

In addition to the programme information in Tables 1 and 2, we have summarised a number of qualitative top-level characteristics at organisation level for donors below. As with all other findings, these are to be taken in the context of the restricted number and types of programmes reviewed, and in this case, the smaller number of respondents with whom we discussed organisation-wide issues (Annex 5).They are therefore impressionistic more than definitive.

4.2.1 Organisational Clarity

The degree of organisational clarity and cohesion around support for SEs appeared most obvious in the cases of the USAID and DFID, which have each deployed considerable staff and programme resources to this end. Relatively smaller and/more recent programme portfolios of the remaining three donors spoke to a somewhat lower level of overall strategic engagement, also when compared to other priorities of the organisation. AusAID has been experimenting with such programmes increasingly of late, but without an overarching organisation level vision as yet, though this priority will likely be developed further by the present administration.

4.2.2 Mainstreaming and outsourcing

In most cases, there is an intermediate level of mainstreaming of private sector/business model approaches in the organisation, with wide (but not universal) geographic reach and specialist advisors deployed both at headquarters levels (often in dedicated teams), and across several field locations. In no case, however, is ‘mainstreaming’ of SE (or equivalent by other definitions) approaches yet to be completely achieved.

In contrast to the moderate levels of 'mainstreaming' within donors, a majority of the programmes reviewed (18 of 30) were subcontracted to external executing agents (such as business consulting companies). This practice was prevalent in the cases of USAID and AusAID, pronounced in DFID and, to a lesser extent, SIDA, but absent GIZ/BMZ.

4.2.3 Partnerships

There currently appear to be relatively limited partnership and co-funding activities between donors in this space. We did not include programmes where the donor was a junior partner or co-funder to another donor's lead (see methodology), but there are anyway relatively few of these as yet. DFID has established partnerships mainly with USAID; the smaller bilateral programmes are mostly home-grown or in partnership with nongovernment actors (such as GIZ's partnership with the Gates Foundation).

5 Conclusions: emerging lessons and future research

5.1 Emerging lessons

5.1.1 Social enterprise: what's in a name?

In the context of public-sector donor interventions, we found significant limitations to framing research specifically in terms of 'social enterprises'. The official agencies we interviewed do not yet use this term to describe any significant subset of their activities within the broad arena of private engagement for development. As a result, for the purpose of our interviews we fell back on a wider framing of donor support for 'enterprise models seeking social/ environmental impact as part of their core business'.

This lack of a common definition is a real limitation to analysis in this space (Rogerson, Green, & Rabinowitz, 2013). It has other potential consequences for donor agencies. On the one hand, by staying relatively vague as to the boundaries between 'impact first' and 'finance first' business models, many donors may feel they benefit from more flexibility. Their approaches can therefore appear opportunistic and adaptive, as against systematically following a single coherent strategy. On the other, this ambiguity may make it harder for both groups to frame (internally) and explain (externally) their objectives consistently and could expose them later to criticism on the results obtained with taxpayer funds.

This underlying problem holds notwithstanding private actors' strongly held preference for using real-time data to make continuous management adjustments, rather than more formal frameworks which generate 'acid tests' of evaluated impact and focus more on value-for-money of public actors, including donors.

A related problem is that the general literature on public intervention in developing country markets for socially-beneficial results does not yet connect strongly with the nascent literature advocating both philanthropic and official donor support for social enterprises, and indeed "social innovation" more broadly.

5.1.2 Prevalent rationales: the importance of inclusion

Across the programmes reviewed, the most frequent intervention rationale cited is 'inclusion' (this is sometimes expanded to 'making markets work for the poor' (M4P), which is more of an operational approach than a rationale as such).

Whereas donor policy statements on the broader case for private sector engagement are, as expected, full of references to market failure in developing country contexts, at the programme level we found the greatest emphasis placed on improved market access (as consumers and/or producers) for the poor and other vulnerable groups. We considered this to be a distinct second – albeit related – rationale. The third broad rationale (contracting-out public services cost-effectively to private channels), features in only a minority of the programmes reviewed, in particular those centred on health and education outcomes. The fourth rationale (supporting innovation and experimentation), was frequently alluded to as a complementary argument to one of the three above.

We cannot be certain whether M4P represents a compelling framing logic in its own right, or rather a label of convenience under which disparate approaches aimed at inclusion can be grouped. We note, however, that if this whole category of programmes is indeed primarily justified in terms of impacting significantly on the living standards of defined groups, the programmes will stand or fall on quite specific impact data broken down by target group.

5.1.2 Business vs. government models for development: assessing results?

It is challenging to demonstrate that business models work better than government models, regardless of how intuitive that proposition may be. We received multiple favourable opinions from interviewees on the merits of relying increasingly on private sector channels for, in particular, innovative approaches to achieving social impact by market-based means. Whilst this belief is widespread and plausible, even inspiring for some interviewees, substantiating it may be surprisingly hard as there is often no counterfactual, as the enterprises delivering those outputs cannot be compared directly to a state-based alternative.

Without that comparison, there is a tendency to conflate the focus of the publicly subsidised spend and the specific extra advantage captured by delivering it through a private, as opposed to a mixed or public, institutional set-up. For example, we can count how many workers are trained and whether they then get and retain productive jobs, and whether or not such an investment has a high intrinsic return, but identifying rigorously the added value of a private as against public training school, with a like-for-like trainee base, is another matter.

Only one of the programmes reviewed incorporated a PfP approach where impact measurement was included in the programme design using RCTs, which could potentially allow for comparison with public sector approaches. As these 'innovative' results-based models, including Social/Development Impact Bonds, are increasingly discussed in development circles, it will be important to understand how far one can rely on these approaches.

A final point about evaluation methods relates to the 'cultural divide' that arguably exists between the standard evaluation practices of public-sector agencies, on the one hand, and the much more fluid model of 'continuous learning' and fine-tuning of management practices based on real-time information to which many SEs and private impact investors ascribe. Comparing and contrasting these approaches would be instructive, but may not be feasible as much of the data in the latter approach is strictly proprietary.

5.1.3 Implications of limited impact measurement

The early stage of many interventions and the absence of impact metrics for the majority of programmes supporting SEs meant that we were usually unable to determine the degree of alignment between donor rationales for intervention and the resulting impact of their support.

We recommend the following tools to help close these gaps: (1) more systematic use of rigorous impact frameworks, tracing the effect of different institutional models on outcomes; and (2) ground-truthing of programme objectives, both to country-level results and to stakeholder views, including on the value of donor agency intervention.

A significant number of programmes reviewed were found to have limited frameworks for impact measurement. This finding may be symptomatic of broader disconnects within donor agencies between high-level institutional rationales or narratives for intervention in this area, versus specific programme designs and choice of instruments, and actual implemented results. It may be very difficult to test models and approaches against rationales, and to assess subsequent programme and project impact, where there is no clear framework for impact measurement.

The current review and most of the publicly available information on donor programmes we have seen allow mainly for transparent identification of ideologies and models, as opposed to objectives and impacts. More resources and time would be required for the latter analysis – though the work we have done thus far is a useful starting point. Without clear impact measurement, it remains to be determined how alternatives, such as safeguard policies or investment guidelines, can be used as proxies for impact. It is also difficult to see how mere cost containment, for instance using private sector channels rather than public ones, is the same as cost-effectiveness (or value for money), in the absence of a systematic focus on outcomes.

5.2 Possible next steps and future research

The main immediate research priority following on this project would be a country-level validating of a sample of the programmes reviewed in this study which have established impact metrics, as well as a track record of implementation.

This next phase of project and programme review would include site visits and a detailed consideration of performance findings and third-party evaluations, where available. This should be combined with interviews with different stakeholders in and around the enterprises (e.g. company management, investors, employees, customers, civil society and local and national governments). Interviews could focus on the perceived role of donor interventions and the fit (or lack thereof) with donor rationales for intervention. This information would then be utilised to strengthen the 'accountability loop' from the programme rationale, to the model of intervention and its objectives, through to impact measurement and its influence on subsequent policy in this area. Other official agencies active in this area (including the World Bank Group, who were partly interviewed but not reported on here) could also be included in a subsequent research phase.

Additional research could also include a comparative study of official donor approaches in supporting SEs, as in this report, with those of the philanthropy sector or other actor groups operating in this space.

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Annex 1: Methodology

Table 1A: Geographical scope and country type (typologies)

Geographical scope	Middle East and North Africa (MENA)
	Sub-Saharan Africa
	Latin America
	Asia
Country type	Upper-middle-income countries (UMICs)
	Lower-middle-income Countries (LMICs)
	Least developed countries (LDCs)

Table 1B: Sector (typology)

Agriculture and food security
Education
Energy and clean technology
Financial services
Forestry
Health
Housing
Information and communication technologies
Infrastructure
Manufacturing
Services
Water and sanitation

Table 1C: Social Enterprise Growth Path (SEGP) framework

Seed/blueprint **Business ideas developed**	**Validate** **Business models tested and refined**	**Operationalise/grow** **Business operational and in growth phase, moving to scale**	**Break even/sustainable** **Business established and financially sustainable**
Identify market opportunity An opportunity has been identified and initial market analysis is underway.	**Detailed business plan operational** Business plan agreed and put into practice. Evidence includes: financial statements.	**First 2-3 years of operation** Early stage of business operation. Evidence includes: Financial statements and business plan audited by third party.	**Financially stable business model established** Achieving break-even financial results. Evidence includes: Financial statements and break-even point audited by third party.
Initial business plan Business idea developed into basic plan. Evidence includes: Business plan.	**Refining and testing business model** Market trial, test/refine business model. Modify and improve product/ technology. Evidence includes: Market opportunity identified andoperational business plan.	**Track record achieved** Business achieving strong customer base and effective supply chains. Evidence includes: Financial statements and business plan audited by third party.	**Moving model to new geographies and client groups (where relevant)** Seeking commercial finance to develop into new geographies and client groups. Evidence includes: Audited by a third party.
Demonstration technologies and product prototypes developed Basic and applied research, initialproducts and technologies created and tested. Evidence includes: Feasibility studies etc.		**Building capacity** Business developing assets, talent, manufacturing capabilities,support functions, systems and processes, links to market andestablishing firm networks.	
Business registered/ incorporated Business legally registered. Evidence includes: Certificate of incorporation etc.		**Building demand** Consumer demand for the business' goods or services is growing.	

Source: (Whitley, Darko, & Howells, Impact investing and beyond: mapping support to social enterprises in emerging markets, 2013)

Table 1D : Social Enterprise Market Infrastructure (SEMI) Framework

Supporting development of products/services (at industry level)	**Supporting demand for products/services and access to customers** (at industry level)	**Supporting access to finance** (for all aspects of the supply chain, from social enterprises to distributors)	**Supporting creation of legal, political and regulatory frameworks**
Market research	Social marketing campaigns and other marketing links to customer base	Piloting and scaling new types of consumer financing	Policy research
Research and development (R&D) and transfer of R&D (technology/products)	Supply chain development (physical infrastructure)	Piloting and scaling new financial instruments (including carbon finance)	Establishment of industry bodies/groups to support coordination, advocacy and outreach
Workshops or training on external issues: navigating statutory and regulatory requirements and accessing finance	Supply chain development (distribution channels etc.)	Working capital facilities (for distributors, etc.)	Establishing industry/ product standards
Workshops or training on internal issues: human resoures, governance business processes and operational tools	Product piloting or testing with consumers		Establishing assessment or monitoring and evaluation procedures (including ratings etc.)

Source: (Whitley, Darko, & Howells, Impact investing and beyond: mapping support to social enterprises in emerging markets, 2013)

Table 1E: Instruments

Instrument	Definition
Grant	Capital provided with no requirement to reimburse the donor.
Debt	Money or goods loaned at a stated interest rate for a fixed term on a secured or non-secured basis, including bonds and investment notes as well as forward payments for carbon credits, or other assets.
Equity (including mezzanine, quasi-equity and equity-like investment)	Full equity involves purchasing shares of stock in anticipation of income from dividends and capital gains, alongside voting and residual rights (share of profits or assets if the company fails). An equity-like investment is typically a long-term, deeply subordinated loan, often used in the context of impact investing where debt financing is too risky and share capital is not possible.
Guarantees and Insurance	Guarantees to take on debt should the borrower default (in the form of grant or debt), lender or third-party insurance on debt.
Non-financial business support	Non-financial support to social enterprises may include support in human resources, assistance with finance, management, systems and processes, routes to market, R&D, governance, legal issues, strategic advice and business planning, business model development and technical development.
Payment for third-party service contracts	Payments for professional services to be delivered through a third-party contract, to benefit the social enterprise. These funds are not received by the social enterprise (as then they would be classed as grants or investments) but by the third-party consultant.

Source: (Whitley, Darko, & Howells, Impact investing and beyond: mapping support to social enterprises in emerging markets, 2013)

Table 1F: Return expectations

Definition
No resturn expected
Return of capital invested/capital preservation (zero loss, zero gain)
Below market rate (concessional) return
Market rate return
No return expected

Source: (Whitley, Darko, & Howells, Impact investing and beyond: mapping support to social enterprises in emerging markets, 2013)

Annex 2: Impact measurement as compared to donor policy statements

Donor	Donor statements – impact measurement for private sector programmes	Findings – impact measurement of programmes supporting SEs	Integration of impact measurement in programme design (Payment for Performance etc.)
United States	*Results Measurement – How clearly can the beneficiaries of this investment be identified and the expected economic benefit from the investment measured?*	All programmes completing some form of impact measurement: IRIS, RCTs, bespoke indicators, and DFID log-frame (for joint programmes)	Development Innovation Ventures (DIV) and Millennium Alliance India (MA-I) *Progression through staged funding / applying for higher stages requires concrete evidence of impact.* *(DIV) Every project undertaking an impact evaluation as part of programme; want to get beyond outputs to look at development outcomes; use milestone grant approach (tranches released on reaching target), including targets on reach to beneficiaries.* *(MA-I) About half their grantees carrying out RCTs as part of their programmes; such testing built into programme, as required to progress; use milestones for grants, including progressive meeting of reach targets; looking for transformative not incremental development impacts.*
Australia	Indicative indicators (outputs) » reduced regulatory burdens and transaction costs for business » better educated and more healthy workforce » improved efficiency of state-owned enterprises » reduced trade barriers (DFAT, 2012) (DFAT, 2011)	2 out of 3 programmes are using or plan to use the DCED standard*. 1 programme completed detailed independent audit (in part to test existing approaches against DCED).	None - 1 programme is a challenge fund, based on matching funds, 'challenge' not linked to project or programme impact.

* The DCED Standard 'At a Glance':1. Articulating the Results Chain, 2. Defining indicators of change, 3. Measuring changes in indicators, 4. Estimating attributable changes, 5. Capturing wider changes in the system or market, 6. Tracking programme costs, 7. Reporting results, and 8. Managing the system for results measurement

Donor	Donor statements – impact measurement for private sector programmes	Findings – impact measurement of programmes supporting SEs	Integration of impact measurement in programme design (Payment for Performance etc.)
United Kingdom	*We will back approaches that have systemic impact, that reward results rather than processes that harness competition to stimulate innovation and drive value for money, and that catalyse private investment for the benefit of poor people.* *We will measure our impact, particularly in the 27 countries in which DFID will focus. We will measure our impact on private investment, the availability, quality and cost of services and the efficiency and effectiveness of our programmes that benefit poor women and men.* (DFID, 2011)	7 out of 10 programmes completing impact measurement using a range of approaches - DALYS, DFID log-frame, DCED Evaluation Tool, MDG measures, ILO measures, IRIS and GIIRS	None - 6 out of 10 programmes include challenge fund components, based on matching funds – 'challenge' not linked to project or programme impact.
Germany	*The sustainability of investments made by the private-sector actors is enhanced and underpinned by quality assurance measures (e.g. environmental and social impact assessment) of the implementing organizations.* (BMZ, 2011)	2 out of 4 programmes completing third party audits (based on quantitative and qualitative information) – including relevant metrics for Gates Foundation	None
Sweden	No direct reference to monitoring of impact – though 'impact' of private sector used to justify intervention. *Cooperation with international and domestic private companies to leverage the positive impact of their core business on development.* *Engaging with business and encouraging companies to develop new approaches to extend their core business and have a transformative impact on the lives of the poor can be done in many sectors, Health, Education, Agribusiness, Forestry, Environment, Energy and Infrastructure.(SIDA, 2010)*	1 out of 4 programmes completing impact measurement (using company data)	None

Annex 3: Interview questions

Example questions at organisation level:

- Does your Department / Ministry have formal rationales for using (and/or supporting) private sector models for achieving social and/or environmental impact? (see Table 4)
- What are the projects and programmes that your Department / Ministry has or is undertaking that use private sector approaches to achieve social and/or environmental impact impacts?
- What is the organizational structure through which these projects and programmes are undertaken?
- Please provide contacts relevant project / programme (or respond to the questions below).

Example questions at programme level:

A) Programme background and rationale

- What was the rationale behind the establishments of the programme / project? Are the current objectives and goals of the project / programme aligned with the original rationale or objectives? If not, what are current objectives? (see Table 4)
- How does this programme reflect your organisation's future priorities in this area (i.e. one-off project, piloting of approach that may be scaled up, first in existing pipeline of a number of similar programmes)?
- What benefits and outcomes can this approach achieve from other more traditional modes of private sector development?
- How has the design of this programme built on learning from previous work in this area?

B) **Modalities of support**

- Can you provide information on the duration of the programme, geographical scope, sector and organisational structure (e.g. implementing entities, partners etc.) (see Tables 5, 6 and 7)
- Can you describe the modalities of direct and/or indirect interventions (along the Social Enterprise Growth Path) (Social Enterprise Market Infrastructure)? (see Tables 8 and 9 – SEGP and SEMI) (Whitley et. al. 2013)
- What instruments are used to provide support? (see Table 10)

C) Social and environmental impacts

- What balance between social and financial impacts is pursued by your programme and why?
- What level of financial returns and types of social / environmental impacts are you looking for your partners to achieve? (see Table 11)
- Over what timescale are you looking for your partners to achieve these impacts and why?
- What type of social and/or environmental impacts are you looking to achieve (improved price, quality of products; employment opportunities; improved services)?
- What tools / metrics are you / your partners using to monitor social and environmental returns (e.g. IRIS, PULSE, and GIIRS)?
- To what degree do you feel existing tools and measures are sufficient for your needs?
- Will your programme be working to develop new methodologies to monitor impacts?

D) Exit and future aspirations for partners

- Over what timescale do you intend to provide support to your partners?
- What are milestones for project review / exit?

Annex 4: Interviewees

	Name	Title and Programme
UK	Rob Davies	DFID, Head of the Policy Team, Private Sector Department (PSD)
	David Elliot	DIFD, Head of Profession, PSD
	Mark Winters	DFID, PSD
	Karen Johnson	DFID, RAGS Programme Manager
	Shailesh Kumar	DFID India
	Adrian Green	DFID, PSD Advisor Kenya
	Rachel Grant	DFID, Social Development Adviser, Civil Society Team
	Martin Wright	Triple Line Consulting
	Jay Bagaria	DFID, Health Adviser, PSD
	Simon Calvert	DFID, Evaluation Adviser, PSD
	Nicky Goh	DFID, Innovation Hub, Policy Division
	Caroline Ashley	DFID, Director, Ashley Insight Ltd.
	Jack Newnham	DFID, PwC Assistant Director Sustainability and Climate Change
Australia	Tim Kendall	AusAID (DFAT) Business Engagement
	Ewa Wojkowska	Kopernik, Indonesian NGO
	Kane Preston-Stanley	AusAID (DFAT) Food Security Policy and Rural Development, Sustainable Economic Development Branch
	Greta Nielson	AusAID (DFAT) Indonesia Team, Canberra
	Eric Johnson	AusAID (DFAT) PSD Adviser, Indonesia
Germany	Julia Schütz	Kompetenz Center Zusammenarbeit mit der Wirtschaft, Afrika Projektmanagerin
	Helma Zeh-Gasser	Gruppenleiterin, Business Unit Private Sector Cooperation
	Wolfgang Bertenbreiter	Vice Project Director, COMPACI
	Rita Weidinger	GIZ, Executive Director African Cashew initiative (ACi)
	Stefanie Bauer	GIZ India
	Susanne Dorasil	BMZ, Head of Division, Economic policy; financial sector
	Alexandra Oppermann	GIZ, Sector Project "Innovative Approaches for Private Sector Development" Advisor

Sweden	Jenny Åkerbäck	SIDA, Programme Manager Business för development (B4D)
	Lena Eriksson Åshuvud	PwC Sweden
	Anna Rosendahl	SIDA, Head of Unit, Unit for Private Sector Collaboration and ICT
	Sofie Berghald	SIDA, Programme Manager Collaboration with the Private Sector
	Sara Spånt	SIDA, Private sector collaboration and ICT
The World	Casper Edmonds	IFC, Donor Relations, Sustainable Business team
	Drew Von Glahn	WB, Team Leader, Development Marketplace
	Aleen Walji	WB, Director Innovation Labs
	Alexis Diamond	IFC, Evaluations
	Wendy Teleki	IFC, Head, SME Focal Point Team
	Kruskaia Sierra-Escalante	IFC, Global Lead Counsel for Climate and Blended Finance
	Bradford Roberts	IFC, Senior Operations Officer, GAFSP Private Sector Window
	Alexis Geaneotes	IFC, Inclusive Busniess Models Group

United States	Christopher Jurgens	USAID, Division Chief – Global Partnerships (IDEA)
	Rob Schneider	USAID, Senior Alliance Advisor - Global Partenrships (IDEA)
	Christopher Lee	USAID, Head, Strategic Transactions Group, Development Credit Authority
	Kristen Gendron	USAID, Development Innovation Ventures
	Afeefa Syeed	USAID, Senior Culture and Development Advisor
	Raymond Guthrie	USAID, Private Enterprise Officer, India
	Lawrence Camp	USAID, Private Enterprise Promotion Division Chief, Office of Microenterprise and Private Enterprise Promotion
	Bob Rabatsky	USAID, Director of Feed the Future - Partnering for Innovation (Fintrac)
	Marguerite Farrell	USAID, Private Sector Health Team Leader
	Jasmine Belva	USAID, Private Sector Technical Advisor
	Tom Adlam	CEO, Pearl Capital Partners
	Laura Cizmo	USAID, Private Enterprise Officer
	David Ferguson	USAID, Deputy Director Science and Technology Office
	Avery Ouellette	USAID, Private Sector Engagement Officer

Annex 5: programmes reviewed

Detailed results of the review can be found at:
www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8889.xlsx

Annex 6: Programme documents reviewed

United Kingdom

Competency Framework – Private Sector Development Advisory Cadre Read

The engine of development: The private sector and prosperity for poor people Read

Operational Plan 2011-2015: DFID Private Sector Department Read

Private Sector Development Strategy Prosperity for all: making markets work Download

Africa Health Markets for Equity (AHME) 4 page programme overview Read

Business Innovation Facility (BIF) Annual Review 2012 (Received from donor)

Business Innovation Facility (BIF) Strategic Review Report 2013 Download

Business Innovation Facility (BIF) 2 logframe Download

Business Innovation Facility (BIF) Briefing Note 2 – How BIF Supports Companies Read

Business Innovation Facility (BIF) Inception Report. Received copy from donor

Business Innovation Facility (BIF) Inside Inclusive Business Read

Food Retail Industry Challenge Fund (FRICH) Annual Review 2013 Download

Global Poverty Action Fund (GPAF) Annual Review 2012 (Received copy from interviewee)

IMPACT Programme FAQs

(Received copy from interviewee)

IMPACT Programme Request for Proposals - (Received copy from interviewee)

Responsible Garments programme (RAGS) Logframe 2013 - (Received copy from interviewee)

Responsible Garments programme (RAGS) Annual review 2012 - (Received copy from interviewee)

Sweden

A Working Future in Uganda Read

Policy for Economic Growth Read

Market Development in Swedish Development Cooperation Read

Private Sector Development Read

Private Sector Growth Programme Read

Business for Development: Programme for Sida's cooperation with the business sector 2010-2012 Read

Innovations Against Poverty: Business for Development – B4D Read

Innovations Against Poverty: Supporting entrepreneurs for global solutions Read

Sida's Business for Development Program Update January 2012 Read

Germany

Private Sector Development Programme: promoting local business Read

Creating an enabling environment for private sector development in sub-Saharan Africa Read

Forms of Development Cooperation Involving the Private Sector Read

Shaping Cooperation with the Private Sector Read

Development Partnerships with the Private Sector: Ideas competitions Read

Africa Facility Africa Facility Fact Sheet Read

Case study of the African Cashew Initiative – Focus: Ghana Read

COMPACI Fact sheet Read

DeveloPPP brochure Read

Australia

AusAID and Private Sector Development in the Pacific Read

Sustainable economic development: Private sector development Read

Study of how the Australian Aid Program can Strengthen Links with Business and the Private Sector Read

United States

Presidential Policy Directive on Global Development Read

Quadrennial Diplomacy and Development Review Read

USAID Forward Read

Private sector engagement – A primer Read

Broad Agency Announcement (BAA) for Powering Agriculture: An Energy Grand Challenge for Development Competition Read

Broad Agency Announcement (BAA) for Securing Water for Food: A Grand Challenge for Development Competition Read

Global Development Alliance (GDA) Annual Program Statement (APS) Read

Feed the Future Partnering for Innovation Program Request for Expressions of Interest Download

FY2012 & FY2013 Development Innovation Ventures, Annual Program Statement Read

Strengthening Health Outcomes through the Private Sector – Fact Sheet Read

Millennium Alliance – Innovation Solicitation Document 2013 Read

Impact Committee of the African Agriculture Capital Fund – Terms of Reference

(Received copy from interviewee)

Africa Agriculture Capital Fund - Private Placement Memorandum (Received copy from interviewee)

Impact investment – Understanding financial and social impact of investments in East African agricultural businesses Read

World Bank Group

Accelerating Inclusive Business Opportunities: Business Models that Make a Difference - Read

Inclusive Business Models: Guide to the Inclusive Business Models in IFC's Portfolio - Read

Blended Finance at IFC Read

GAFSP 2012 Annual Report Read

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