



Impact Investing and Government Finance:

Innovations in private
finance and the role of
government

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Outline

- **Impact investing and global financing trends**
- **Impact investing deal structure: example**
- **Links with government financial management & macro performance**

QUESTION:

Does your government currently use private funding for social and environmental programs?

A) Yes

B) No



Impact investing and Global Trends

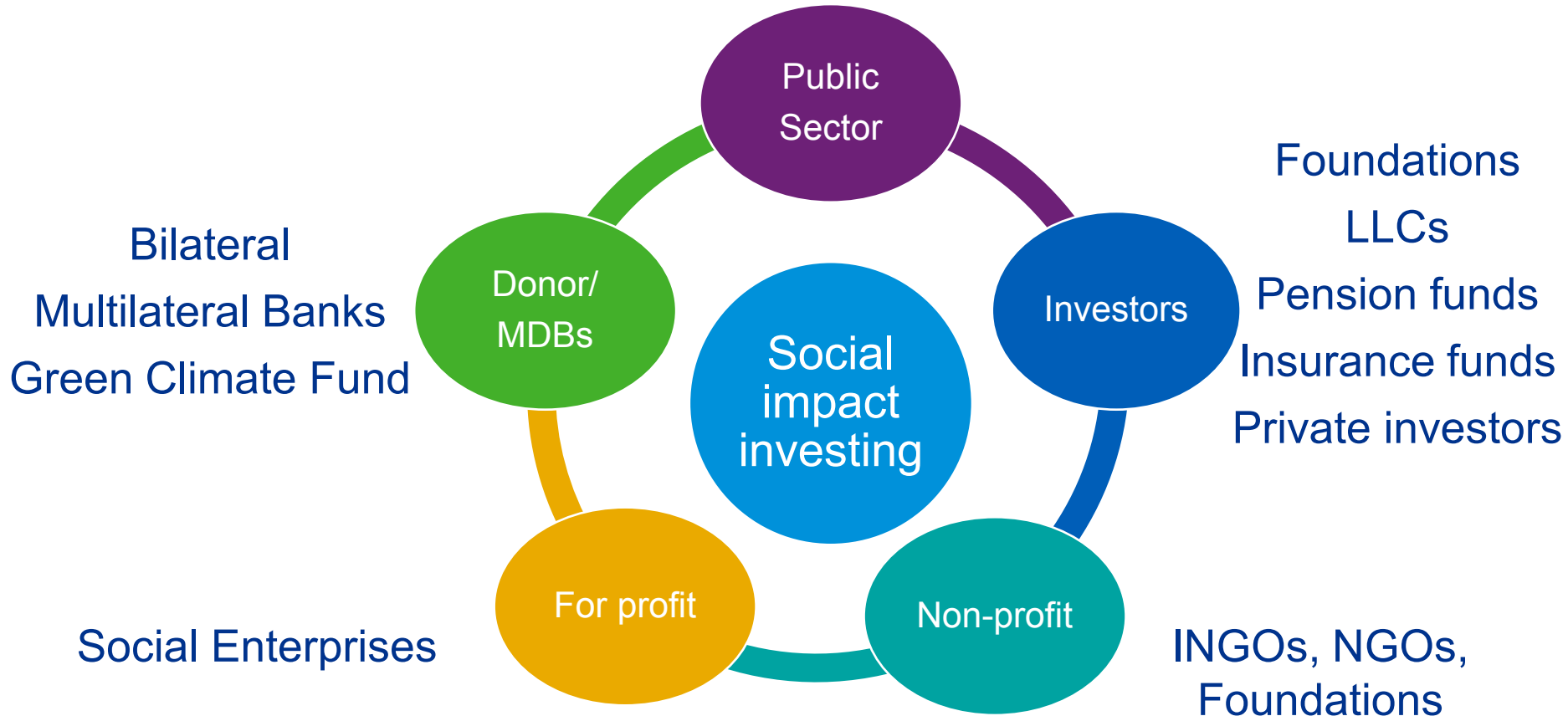
Impact Investing is a new approach to investing that incorporates social and environmental outcomes

- **Defines a universe of investors** that seek social and environmental return, as well as financial return
- **A wide array of investments** from private equity to bonds: varying return expectations, varying impact
- **A range of actors:** private investors, pension funds, businesses, philanthropies, NGOs, governments

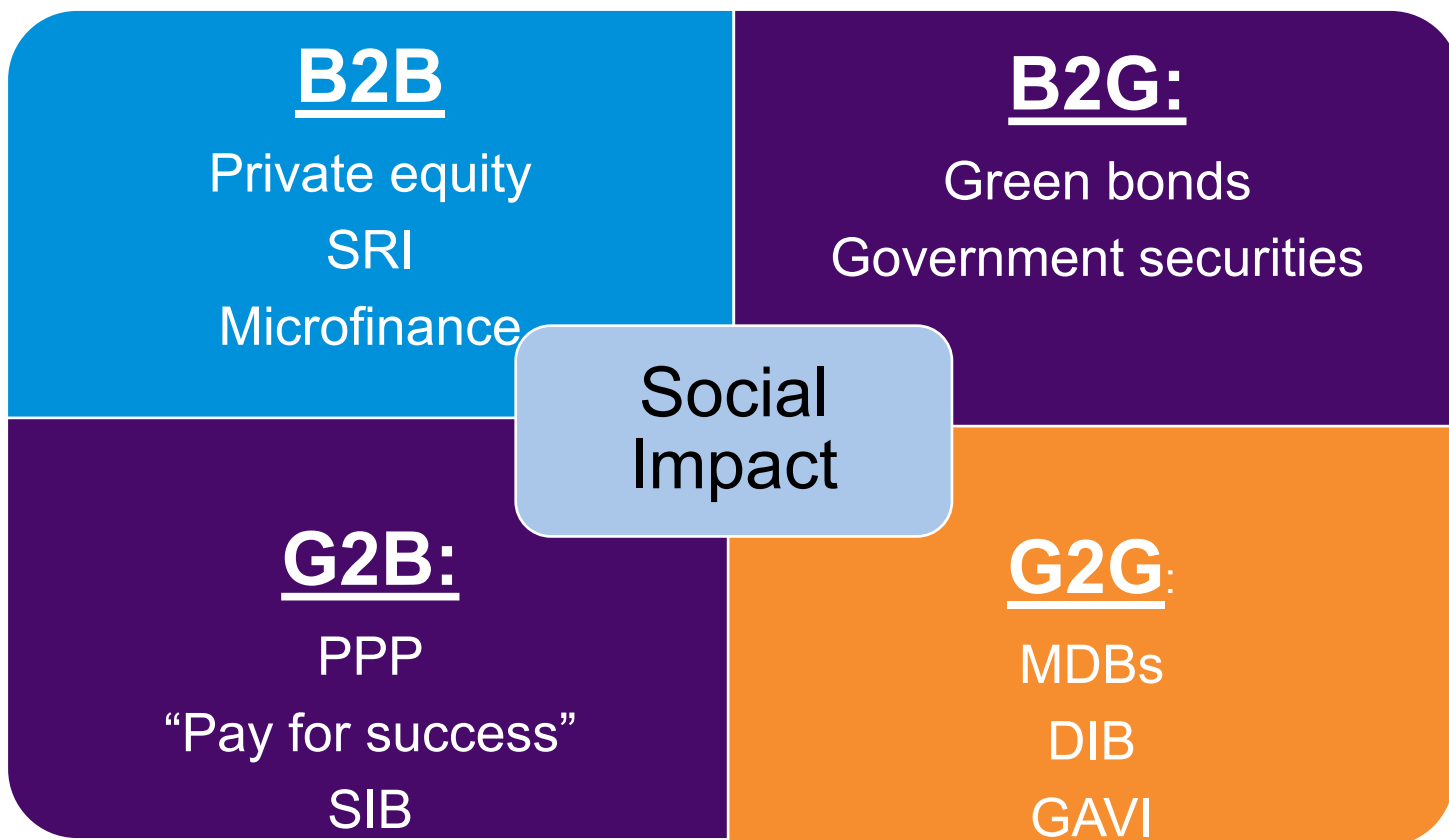
Key Players

Developed/Less Developed

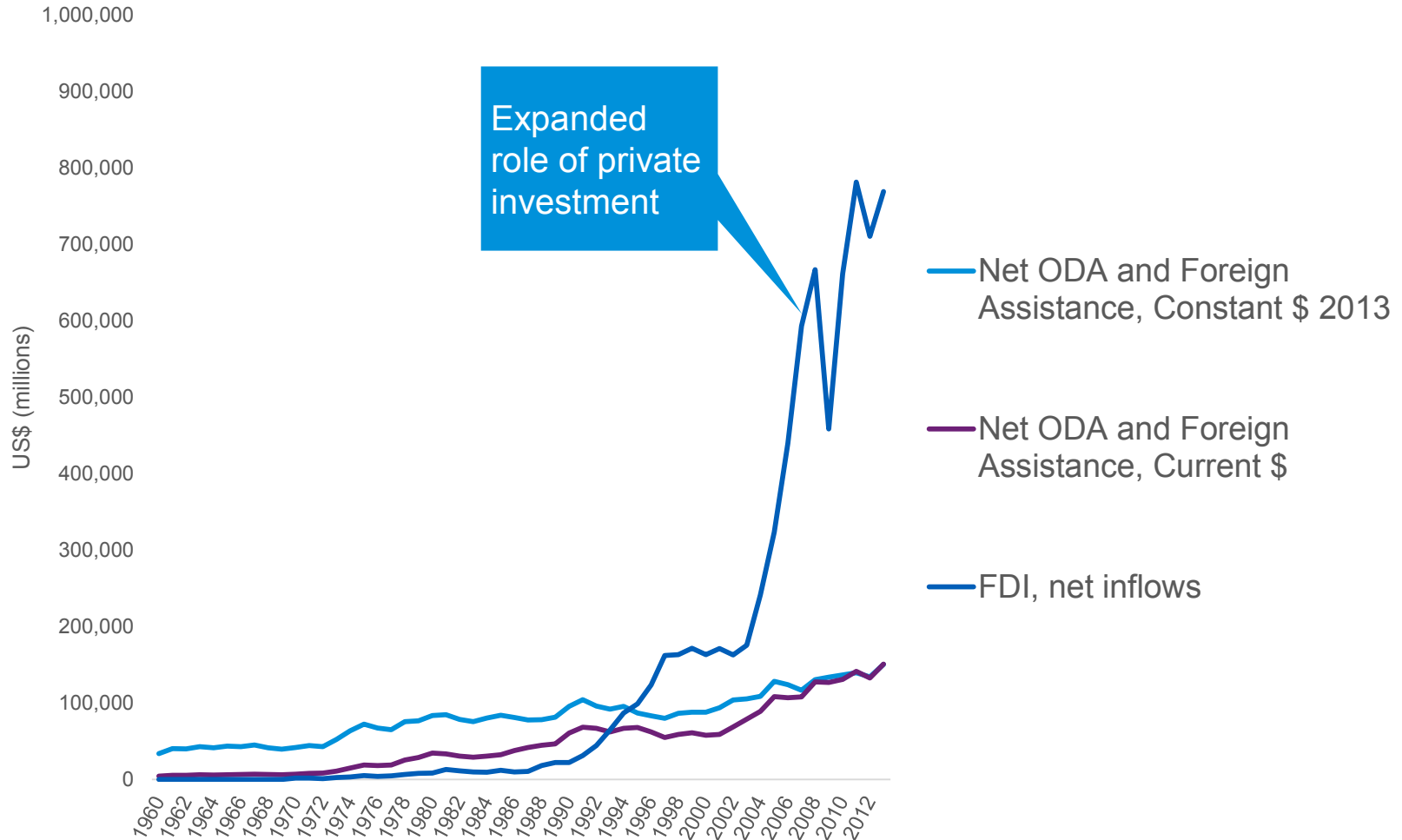
Countries



Impact Investing typology



Supply of funds: public v private external capital

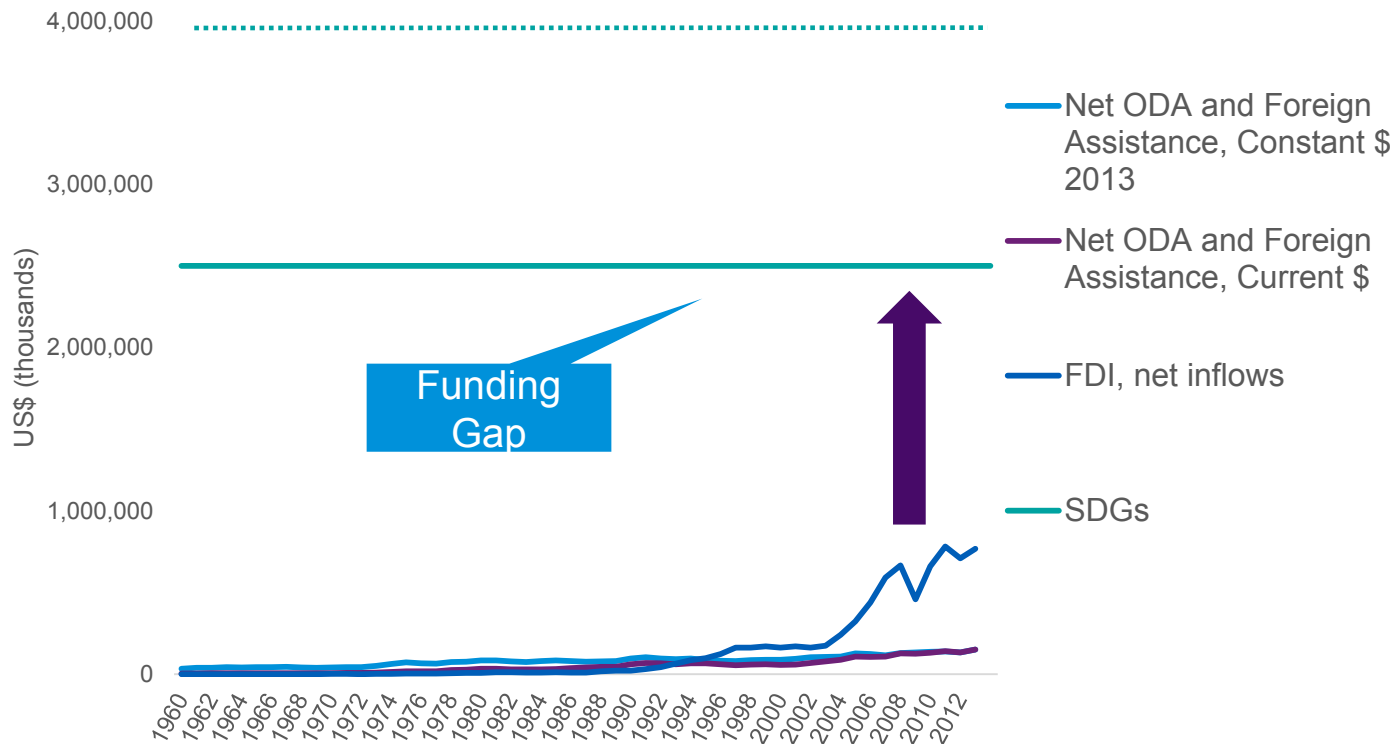


4. Drivers: Financing the SDGs



THE GLOBAL GOALS
For Sustainable Development

- Price Tag: \$3.5 – \$4.5 trillion a year.
- Financing Gap: \$1.5 - 2.5 trillion a year



QUESTION:

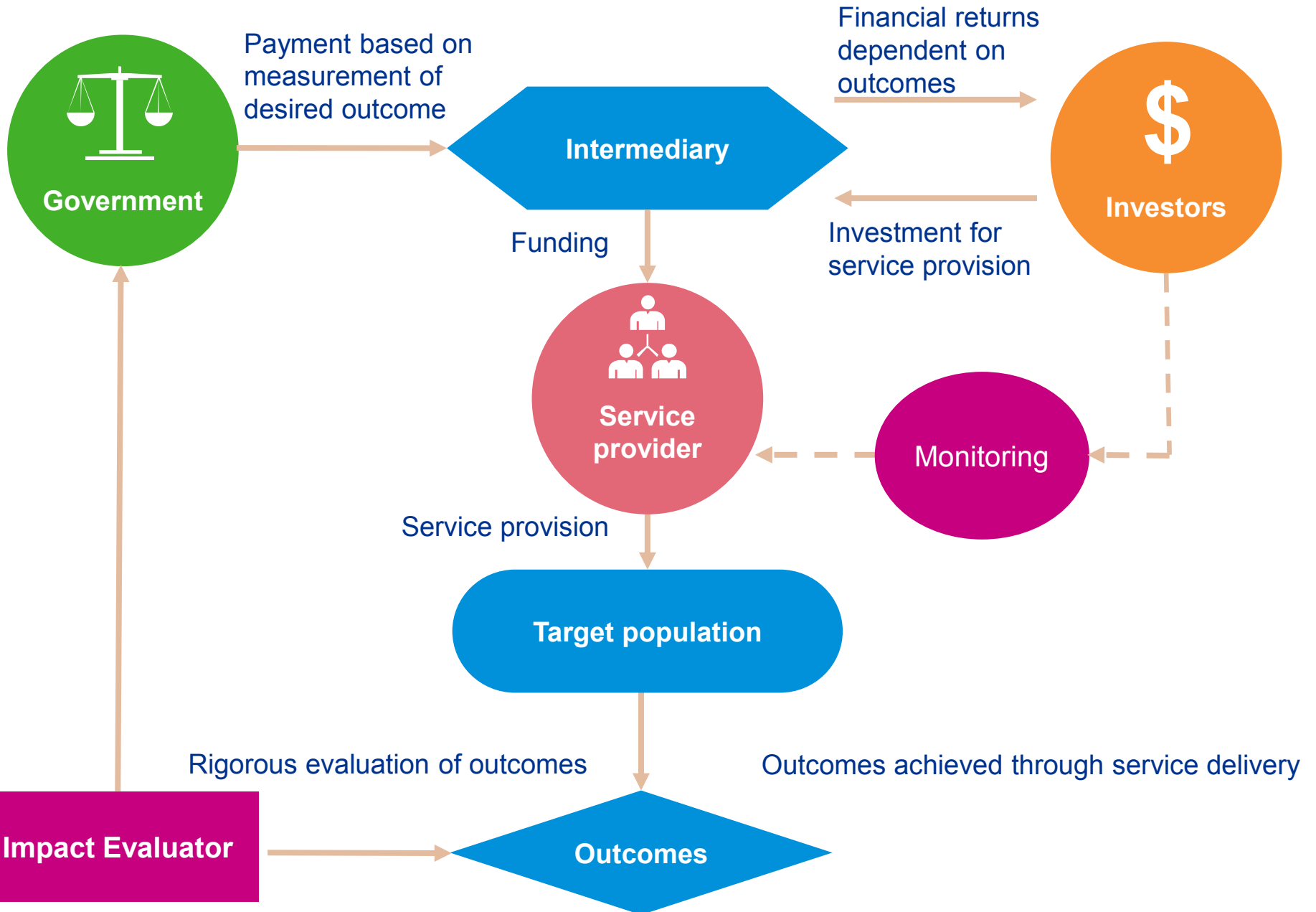
What is the biggest constraint to using private investors to finance social and environmental programs?

- A) Limited understanding of the private sector instruments by government
- B) Limited government management capacity
- C) Resistance from civil society
- D) Lack of interest from private sector



Deal structure

Example: Social impact bond deal structure





Linkages with government finance

QUESTION:

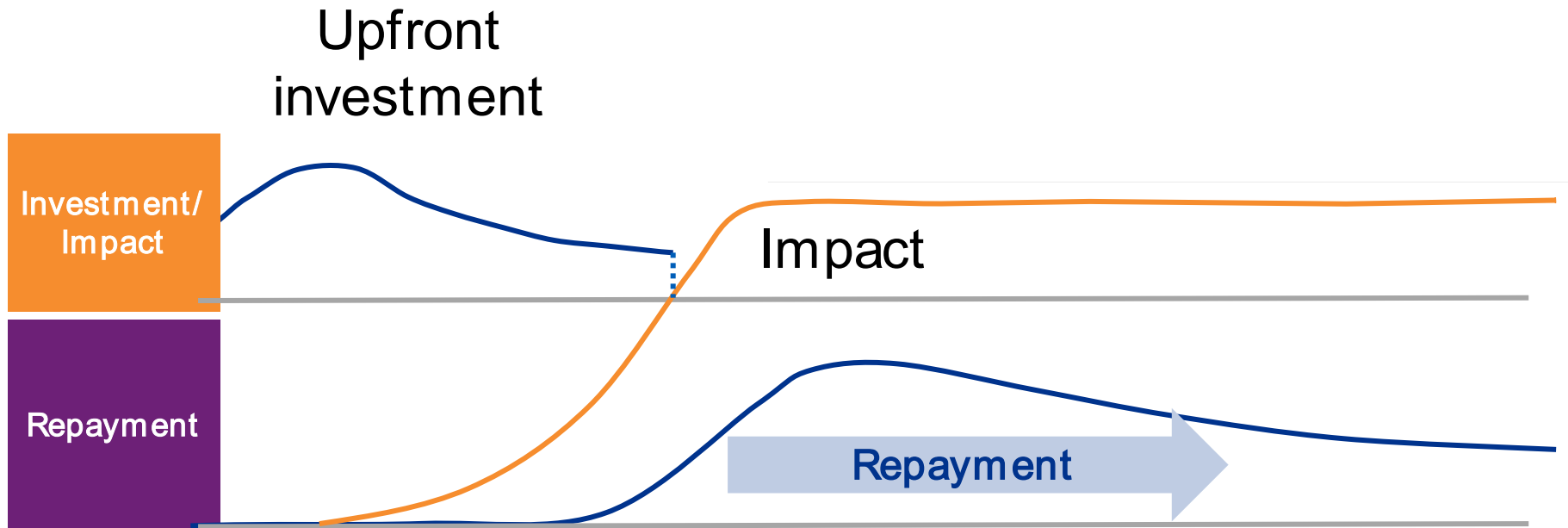
Does your government have adequate budget, accounting and evaluation policies to support private financing of “public goods”?

A) Yes

B) No

The value proposition for governments

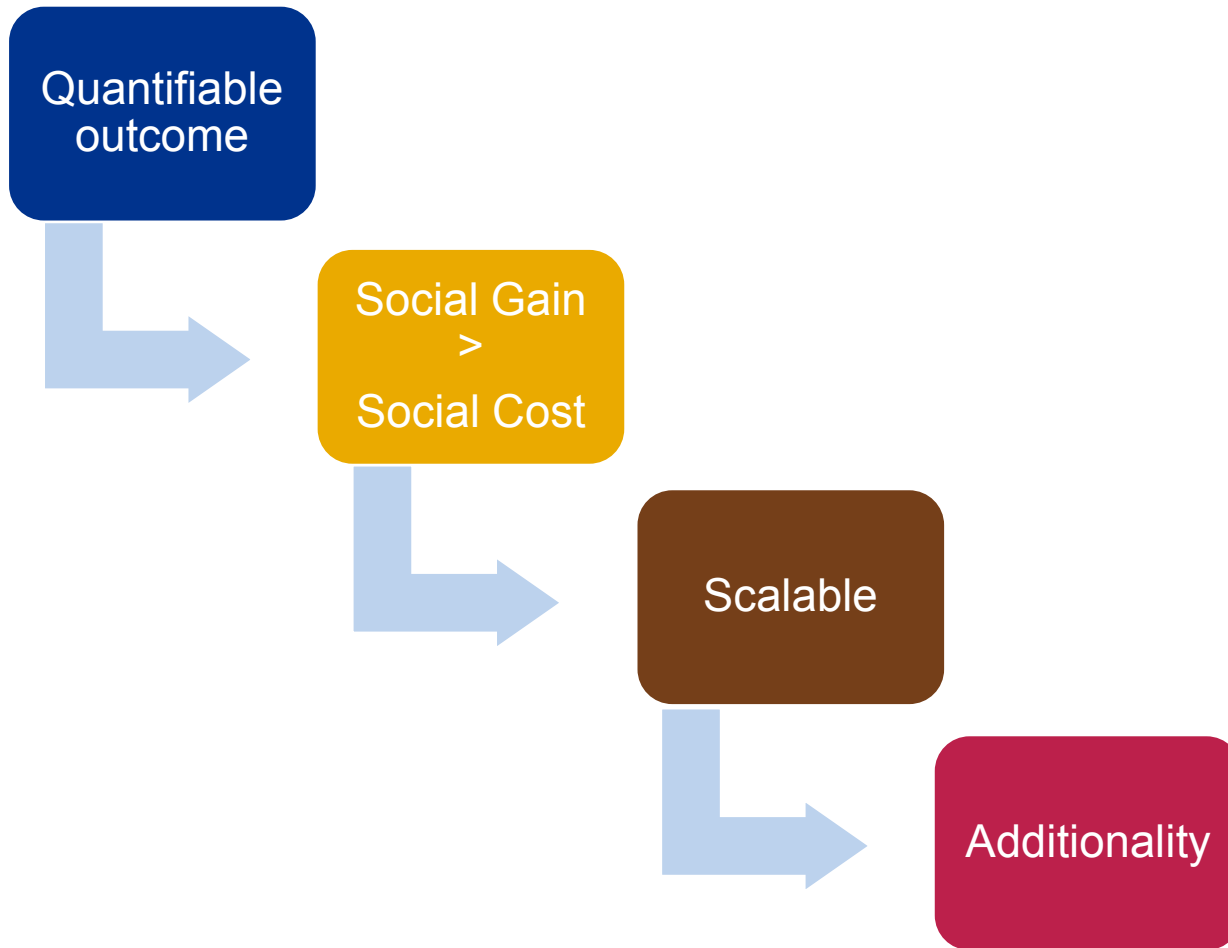
E.g. Capital market issues: Align benefits and costs



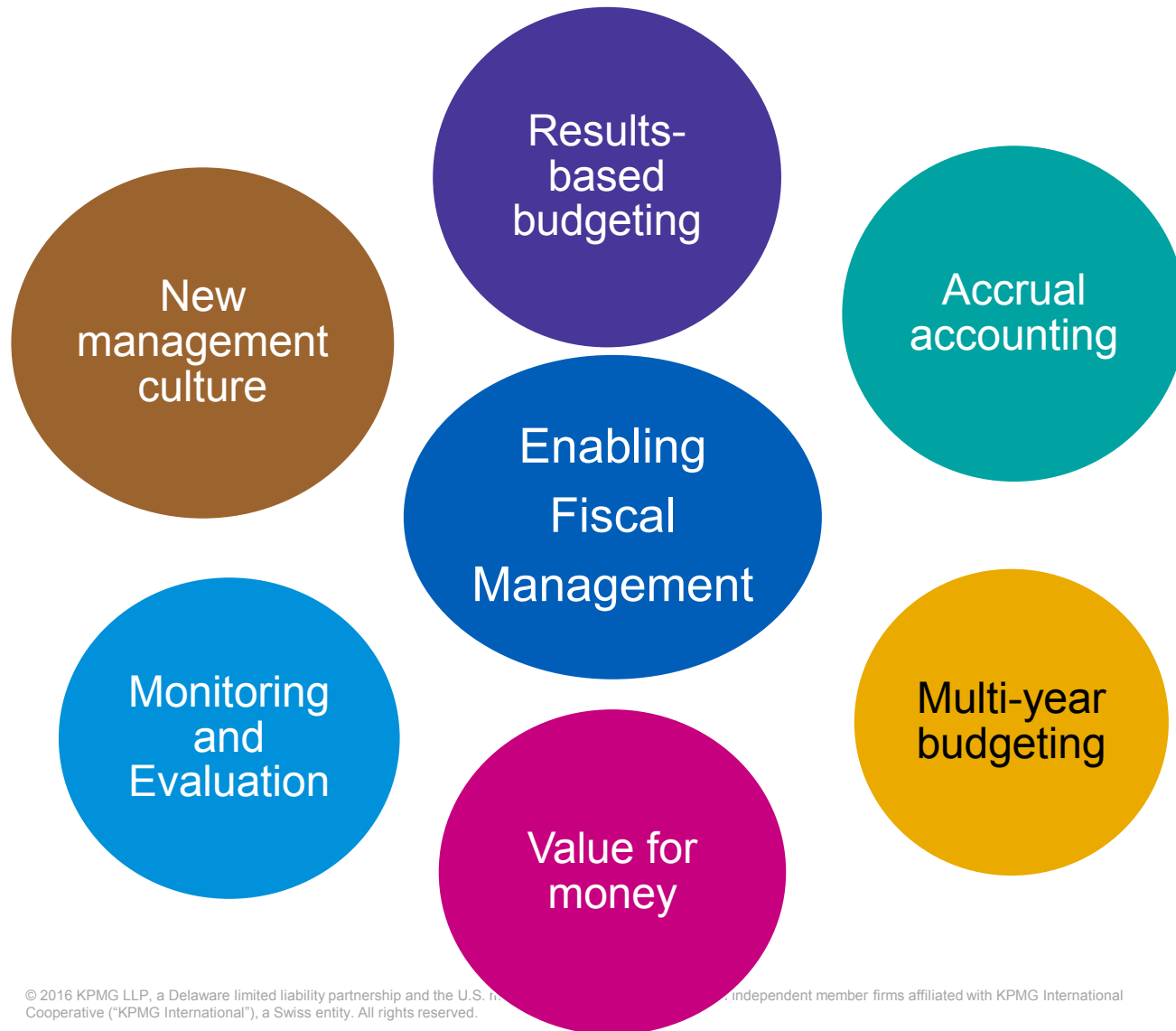
The value proposition for governments

Gain	Cost
Budget saving	- Payout = $Pr(success) * \$$
+ Social benefit	- Social cost ?
+ Externalities (tax, security expense) ?	

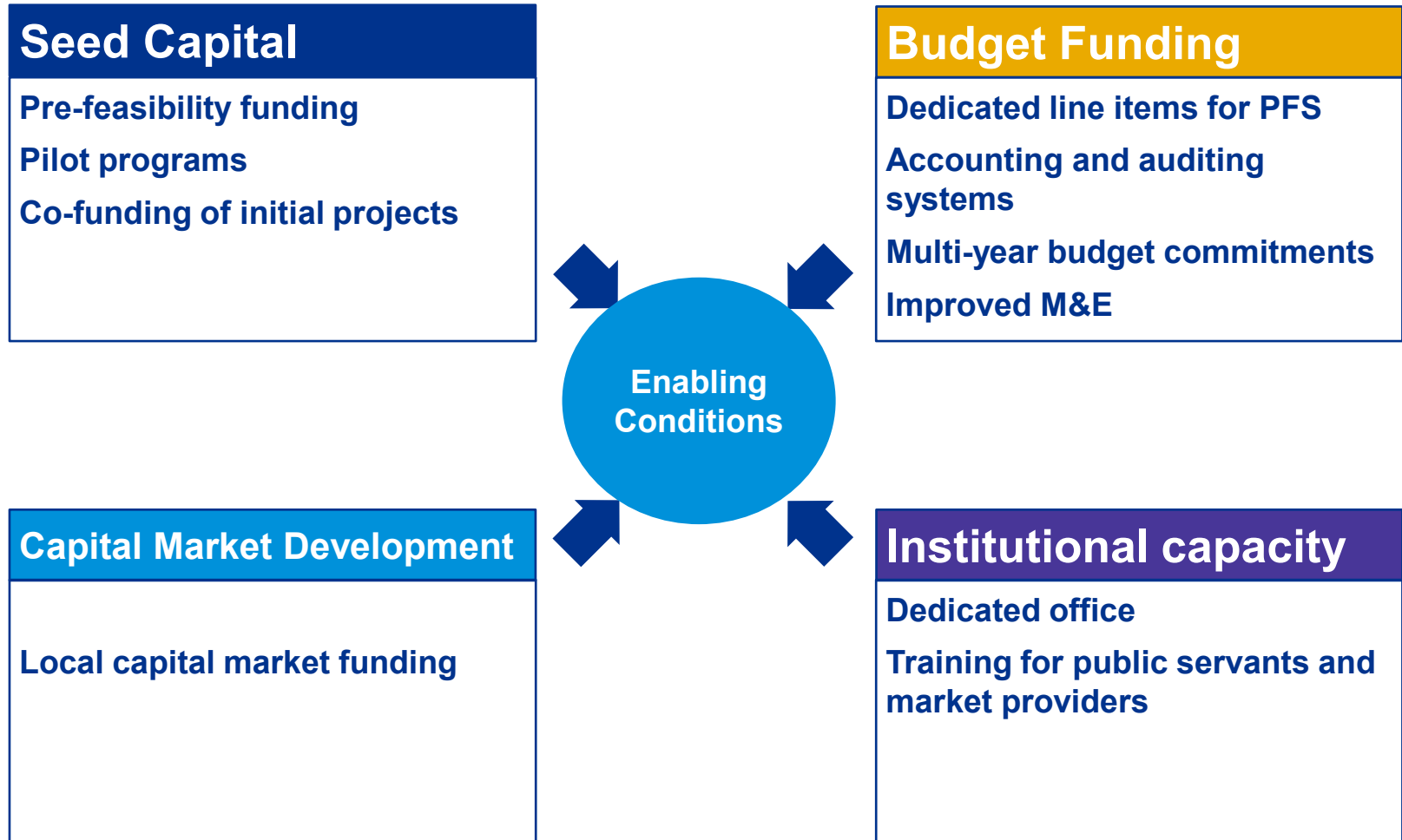
Criteria to Identifying Impact Investing Opportunities



Role of Government in Impact Investing: Fiscal Management



Role of Government in Impact Investing: Market Conditions



Conclusion:

- Not a panacea
- Can mobilize private capital for social/environmental impact
- A tool that may best be used for complex problems
- Government roles: a) create commitment mechanisms for fiscal policy and improve management systems, b) create the enabling environment, b) develop new management culture for risk taking



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