Impact.is...

A new business model that brings shared value is becoming a compelling reality.

Exits that demonstrate a return on social value will become the norm in the near term.

Emerging Market Private Equity Association report, 2018[1]

Impact.is.the.new.normal.

If investing can generate competitive returns **and** transformational positive impact, who wouldn't want that?

It is this double-barrelled benefit that has driven pension funds, family offices and institutions to double the amount of money in impact investments within a year to at least $500 billion.[2] Despite this progress, $500 billion equates to less than 1% of the $88.5 trillion of assets under management worldwide.[3]

With impact funding in the trillions, we'd be getting somewhere; the United Nations estimates that all of its 17 Sustainable Development Goals – zero hunger, good health, clean water and sanitation – could be achieved with about **$6 trillion** deployed.[5]

Around the world, organisations are starting to try to build consensus around common principles and standards for impact measurement and management. Actis has been an integral part of this process as one of a core group invited by the World Bank's International Finance Corporation (IFC) to provide input to developing Operating Principles for Impact Management, and as a contributor to the Impact Management Project (IMP), a global forum for organisations to build consensus on common standards for disclosure and management.

As part of this, we've developed a measurement framework called the Actis Impact Score (AIS), which enables us to compare different types of impact. In this paper we're going to explain how it works. In a first for our industry, we will show examples of our impact scoring system. We're doing this in the interests of making our process more transparent and to catalyse the drive toward aligned approaches on measuring and managing impact.

[1] Private Equity's Role in Delivering the SDGs, EMPEA ESG Community, May 2018

[2] The Year in Impact Enterprise & Investing, Forbes, December 2018; Sizing the Impact Investing Market, GIIN, April 2019

[3] North American asset management in 2018: The New Great Game, McKinsey & Co., November 2018

[4] Asked whether they would consider opting to put their pension or other savings to be used in investments that positively impact society and the environment, 46.71% said they would as long as their investment return isn't compromised or at risk and remains competitive, while 15.55% said they would even if there was a risk that this might compromise some of their investment return. From a survey of 2,000 people, the results are based on those respondents who knew if they would or wouldn't consider investing in pensions or savings they currently had or will have (numbering 1,428 respondents from the 2,000 polled). The survey was independently compiled by London-based OnePoll between Jan. 17-21, 2019, and was commissioned by New Markets Media & Intelligence

[5] Impact investment to close the SDG funding gap, United Nations Development Programme

Impact.is.the.answer.

“ Now is the time – while the market is still young – to develop common principles of how to manage investments for impact.”

World Bank's IFC CEO **Philippe Le Houérou**

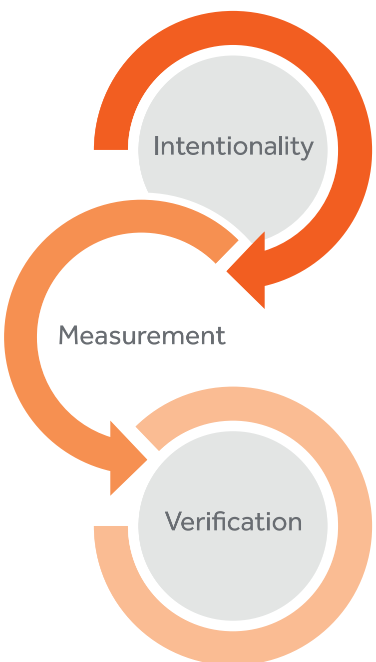
Actis believes “Values drive value”. We have never seen a compromise between responsible investing and delivering competitive returns. Our experience is that investing responsibly creates businesses that are more resilient, more innovative and better able to deliver societal benefits – and are, ultimately, more valuable.

Spun out of the UK government’s development finance institution, Actis has eight decades of experience mobilizing $15 billion of financing from institutional investors – all of it in growth markets.

The hundreds of companies and projects we invest in demonstrate innovative and sustainable ways to efficiently tackle entrenched issues, from lack of access to clean water and sanitation to food security, natural resource conservation and economic inequality. Our portfolio companies are creating new ways to deliver healthcare, education and energy to those most in need, and credit and financial services to the world’s unbanked billions – all the while delivering healthy returns. **This led to Actis being voted “Impact Investor of the Year” at the 2018 Private Equity International awards.**

PRIVATE EQUITY INTERNATIONAL
AWARDS 2018
Impact investment firm of the year

At Actis, here’s where we begin...



1. Intentionality

Explicitly target specific impact outcomes

2. Measurement

Robust framework underpinned by objective, transparent assessment

3. Verification

Credible, independent audit of impact metrics and outcomes

Impact.is.ready.for.takeoff.

“If impact investing is our rocket ship to social change, **impact measurement is our navigation system**; we need to rethink it... The absence of measurement leads to a huge failure of our system to deliver social and environmental improvement, at great cost to the world.**”**

Sir Ronald Cohen,
"Wake up world and embrace the impact revolution,"
Financial Times, December 2018

Investors the world over decide where and how to allocate the money entrusted to their care by comparing performance and the relative value of a multitude of opportunities against their peers.

The key indicators they rely on boil down to a series of numbers, like the internal rate of return (IRR) or multiple of invested capital (MOIC).

Each one of these metrics is underpinned by strict rules on measurement, written into global accounting standards. The framework is designed to be objective, transparent and independently verifiable by auditors.

Just imagine the challenge for investors if, instead of relying on these consistent data and measurement standards, they had to cross-compare against multiple methods and differing data points. Right now, this is what the impact investment industry throws up: a baffling array of unverified, opaque and incompatible metrics.

Effective measurement will empower investors to put more money into impact investing by providing the tools they need to properly select between the increasing numbers of competing providers.[7] Critically, effective measurement and verification will expose "impact washing" – the biggest threat to investor trust.

> **“** We don't see a tension between intentionality and returns. Impact does not dilute commercial performance.**”**
>
> **Shami Nissan**, Head of Impact, Actis

So far, so good. But how do we measure the positive impact of a healthcare provider in Africa, and then compare its benefit to the world against a university in Brazil, or a renewable energy company in India?

scaling.impact.is.about.measurement.

The Actis Impact Scoring framework follows six simple steps:

Step 1: What?

What are the expected impacts ('intentionality') of the investment?

Firstly, we identify up to five material impacts associated with the investment in an enterprise or project that: (a) are generating positive outcomes for people or the planet; (b) are measurable and (c) can be influenced to increase over the life of the investment

N.B. Steps 2 to 6 are then applied in turn to each of the impacts identified during this first step.

Step 2: How Much?

How much social or environmental impact is likely?

The 'How Much' dimension covers the significance of the outcome that is being achieved in terms of depth and duration

marginal & short-term ← 1 — 2 — 3 — 4 — 5 → deep & long-term

Determine whether the investment is likely to achieve both deep and enduring positive change (e.g. sustainable healthcare reducing mortality rates) or something more short-term, shallow or reversible?

Step 3: Who?

Who are the stakeholders that experience the positive social and environmental outcomes, in terms of the number of people benefitting and how well served they were already.

How many people will be positively impacted?

few ← 1 — 2 — 3 — 4 — 5 → many

How well-served were the benefiting stakeholders before the investment?

Well-served ← 1 — 2 — 3 — 4 — 5 → Under-served

N.B. The 'few to many' and the 'well-served to under-served' scores are averaged to give a score for the 'Who' dimension.

Step 4: Contribution

What was the contribution of the investment in achieving the impact outcomes?

Establish how essential the investor and / or management team were to achieving the positive impact. Would it have happened anyway?

zero ← 0 — 1 — 2 — 3 → high contribution

Step 5: Core, Ancillary or Peripheral?

The scores from steps 2, 3 and 4 are added together and multiplied by a 'CAP' factor, depending on whether the impact (identified in Step 1) is derived from a Core (x5), Ancillary (x3) or Peripheral (x1) activity of the enterprise or project

5x factor = Core activity. Example: clean power generated by a renewable energy company, displacing more carbon intensive sources.

3x factor = Ancillary activity. Example: smallholder farmers benefiting from a supermarket that directly procures fresh produce.

1x factor = Peripheral activity. Example: community health camps provided by a gas power plant as part of a philanthropic program

Step 6: Risk

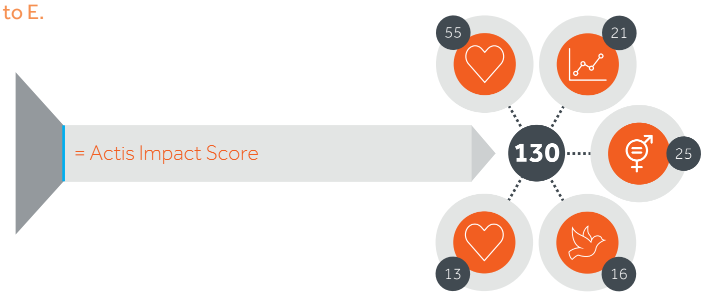
Finally we assess the risk of the investment failing to achieve its intended impact – Low, Moderate or High? This doesn't affect the score but it does help with investment decision making

Calculate the Actis Impact Score

Once all 6 steps are complete, we have a score for each of the material impacts identified in Step 1

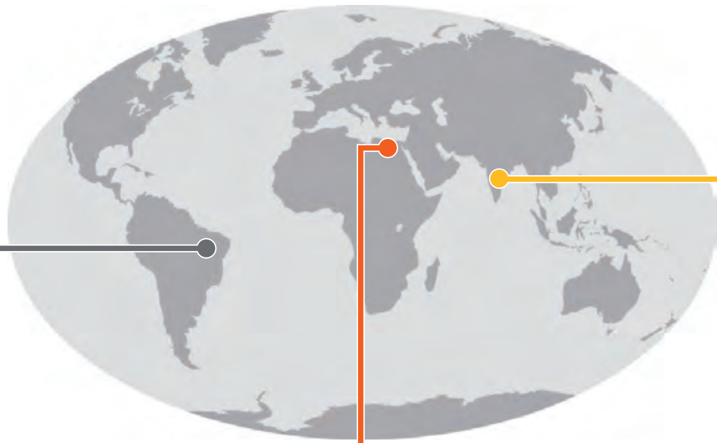
The AIS score for the investment is the sum of impacts A to E.

Impact A = (How Much + Who + Contribution) x CAP factor
Impact B = (How Much + Who + Contribution) x CAP factor
Impact C = (How Much + Who + Contribution) x CAP factor
Impact D = (How Much + Who + Contribution) x CAP factor
Impact E = (How Much + Who + Contribution) x CAP factor



Impact.is.about.comparison.

Actis Impact Score in practice: Comparing impact across contrasting sectors & geographies



Education - Brazil

Universidade Cruzeiro do Sul

Societal need:

A university education can improve social mobility and job prospects; however, universities in Brazil have long been for the privileged few. Only 11% of the working-age population has a degree and such scarcity has brought rich rewards: graduates on average earn 2½ times more than those without degrees. At last, though, the higher education sector is beginning to open up, with opportunities for private sector investors to provide **quality tertiary education to lower and middle-income students.**

Investment Opportunity:

In January 2011, Actis invested US$102m in Cruzeiro, a university serving about 36,000 students across six campuses, primarily from middle and high-income groups. Actis recognized an opportunity for growth of Cruzeiro by providing quality tertiary education to lower and middle- income students through distance learning.

Healthcare - Africa

Integrated Diagnostics Holdings

Societal need:

Without diagnostic tests, healthcare providers are forced to rely on clinical symptoms that often overlap between conditions. The **wrong guess leads to the wrong treatment** and a poor outcome for the patient. This problem is all too common in Africa where, for example, 80% of the people treated for **malaria** are prescribed medication without a laboratory test to confirm the disease. This translates into drastic antibiotic overuse, which in turn fuels resistance.

Investment Opportunity:

In December 2014, Actis invested US$84m in IDH, an Egyptian diagnostics service provider with 288 laboratories, serving 5.6 million patients and conducting more than 20 million tests each year. IDH offered the full spectrum of pathology diagnostic testing.

In addition to Egypt, IDH also had the largest laboratory chain in Sudan and a presence in Jordan.

Actis recognised an opportunity for IDH to reach patients in new markets, such as Nigeria, and with additional types of testing.

Renewable energy – India

Ostro Energy Pvt Ltd

Environmental & Societal need:

Access to electricity has long been recognised as essential for humanity to develop and thrive. Yet, despite recent progress, **200 million people in India still lack access to electricity.** Strong reliance on the traditional use of biomass and a lack of access to clean energy, tempers economic growth and limits a country's ability to achieve the UN Sustainable Development Goals.

From an environmental perspective, developing renewable energy **technologies that exploit the sun and wind** is critical to reducing the carbon intensity of energy production and addressing the global challenges associated with climate change.

Investment Opportunity:

In August 2014, Actis created Ostro From scratch, having identified a need for a scalable renewable power company to meet the rapidly growing energy demand in India. Within four years, Ostro developed into an attractive business with high quality renewable power generation infrastructure and stable long term Power Purchase Agreements (PPAs) spread across Andhra Pradesh, Karnataka, Rajasthan, Madhya Pradesh and Gujarat.

How.increase.in.impact.is.generated.

At the outset of any investment, Actis will target a certain AIS to be achieved by exit, in the same way that it targets a particular financial return.

Healthcare - Africa

Integrated Diagnostics Holdings

In the four years since Actis invested, IDH has opened **95 new laboratories** across Egypt, Jordan, Sudan and Nigeria.

This has increased the number of tests performed every year by **3.4 million**, reaching an additional **200,000 patients** per year.

World-class **anti bribery and corruption (ABC) systems** and processes enabled the first ever IPO for a medical firm operating in Egypt on the London Stock Exchange.

Impact Metric	2018	Outcome
Tests performed (# per year)	25.7 million	15% ↑
Laboratories (#)	383	33% ↑
Patients Served (# per year)	6.4 million	14% ↑
Employees (FTE)	4,739	22% ↑
Female Employees FTE)	1,560	30% ↑
Anti-Bribery and Corruption (qualitative)	From family-run business to listed on LSE	

actis

How.increase.in.impact.is.generated.

Education - Brazil

Universidade Cruzeiro do Sul

Following Actis' investment, total enrolment increased significantly, reaching **161,800 students**.

Female students increased to 62% from 57%, with significant growth in the total number of female students.

Scholarships increased to over 20,000 from 4,500 per year.

A **distance learning** program was introduced which offered quality higher education at less than 50% of the price of campus learning.

Impact Metric	2017	Outcome
Employees	4,700	96% ⬆
Female Employees (FTE)	2,553	113% ⬆
Total Students (Enrolment / year)	161,800	350% ⬆
Female Students (Enrolment / year)	100,316	390% ⬆
Scholarships (# / year)	20,366	350% ⬆

How.increase.in.impact.is.generated.

Renewable energy – India

Ostro Energy Pvt Ltd

Actis determined that significant value and positive impact could be created by setting up a 100% owned platform, and in 2014 backed two highly experienced energy industry managers as CEO and COO.

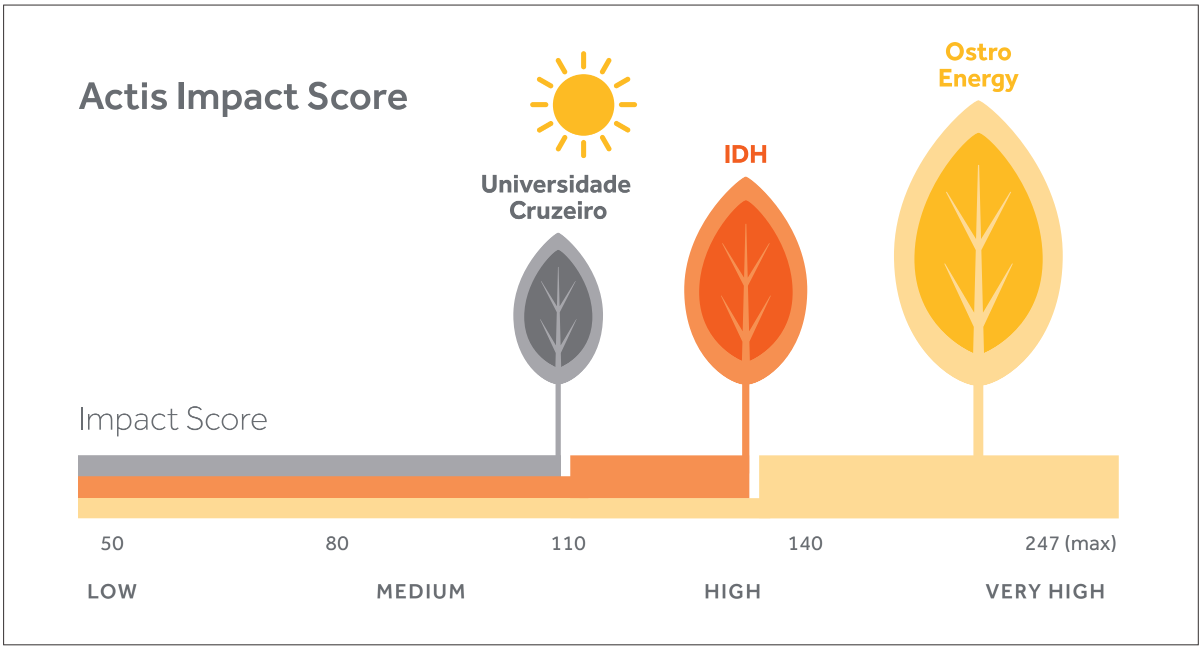
The business grew from zero to **>850 MW of installed capacity** and an **additional 250 MW in construction,** giving a contracted generation capacity of **>1GW,** in only 4 years.

This provides clean power into **states with an electricity shortfall.**

Impact Metric	2014	2018
Installed generating capacity	0 MW	850 MW
Contracted generating capacity	0 MW	>1 GW
Clean drinking water dispensed	0 litres	1.5 million litres
Integrated QHSE management system certification	–	ISO 9001 ISO 14001 & OSHAS 18001
Labour accommodation standards	–	International best practices Implemented at all sites
ESG Capacity	–	Experienced EHS and OHS management recruited

How.much.impact.is.enough?

Just like financial return indicators such as IRR or MOIC, the AIS numbers mean little in isolation. But when compared with each other, they offer an immediate reference point for comparison.



Also, like financial evaluations, the AIS can be measured throughout an investment to see precisely how it is performing from an impact perspective.

The scores of 128 for IDH, or 116 for Cruzeiro and 147 for Ostro are based on the most recent assessments – either current or at the point of Actis' exit. The current score can be compared against the score at the time of initial investment ('baseline') to understand how much impact has been added. This is called the impact multiple; the greater the increase in impact, the bigger the multiple.

Actis Impact Score

		Cruzeiro	IDH	Ostro*
A.	Latest Score	116	128	147
B.	Baseline Score	61	99	26
C.	Multiple (A / B)	1.9x	1.3x	5.6x

*Please note: a detailed breakdown of the AIS framework for the Ostro investment is presented in Annex A.

An Interview with

Torbjorn Caesar

Actis Senior Partner

Why did Actis create the AIS framework?

Numerous conversations with LP's demonstrated that despite extensive awareness and enthusiasm, many investors are constrained from putting money to work in impact investing because they lack a transparent system to cross-compare impact returns in the same way as they would compare financial returns. At its core, the Actis Impact Score is designed to help LPs compare investments across different sectors and geographies.

Isn't impact too diverse and subjective to be boiled down to a single number?

By focusing on the dimensions of impact, we have created a series of underlying metrics that are quantifiable and directly comparable across investments. Each dimension is assessed objectively with reference to established sources. For example, we use World Bank data to determine the extent to which female employees at an investee company should be considered under-served or well-served with employment opportunities. Of course, the framework does rely on such data and evidence being applied fairly and consistently. It's for this reason that each investment's impact score must be signed off firstly by the Responsible Investment team at Actis and then audited externally.

Doesn't Actis lose sight of the bigger picture by breaking down impact in this way?

Actis breaks down the dimensions of impact but ultimately takes a holistic view by adding the various contributors, applying a factor based on whether the impact generating activity is core, ancillary or peripheral to business operations, and evaluating whether the positive impact would have happened regardless of our investment. This provides a clear picture of the overall impact. For example, if a firm won the rights to develop a solar power plant via a competitive auction, it's fair to say that someone else would have done the same thing if that investor didn't win, so the contribution would be scored as zero. However, the investment overall might still achieve a high score by introducing a deep and enduring service to a community.

Shouldn't you assign higher impact scores to less developed countries?

In our initial modeling, we did assign a higher impact score for countries with lower real GDP per capita. We later decided against this, however, because determining a societal need at a country-level can obscure regional pockets of relative poverty and the need for impact investment. We assess this societal need by considering whether stakeholders are well-served or under-served for a particular outcome prior to our investment.

How does Actis deal with negative impact? A power plant generating clean energy might pose a serious safety risk to workers during construction, for example.

We view responsible investment as the combination of a rigorous, systematic focus on environmental, social and governance (ESG) issues and an appreciation of the positive impacts that an enterprise or project generates for society and/or the environment. Actis' strong ESG credentials are the foundation for impact investing. We scrutinise each investment and ensure that ESG risks are well managed and any negative impact is minimised. That allows us to concentrate on measuring the positive, or gross impacts generated by an enterprise or project, rather than the net impact.

What are the limits to the AIS framework?

Our measurement is somewhat conservative in as much as we only consider impacts that are measurable. This means the wider benefits of an investment might not contribute to the overall score. By way of an example, Actis invested in Credit Services Holdings, which included a company addressing financial inclusion in Uganda by providing credit scores on potential first-time borrowers. In order to do this, the company first of all had to create an identity system in the country. Four years on, this biometric system has become the main form of ID for Ugandan citizens, helping with everything from affordable financial services to voting. Such widespread secondary and tertiary impacts, particularly from first-movers in a country or sector, are especially hard to measure empirically and better communicated through qualitative narrative .

How much consensus has been reached so far?

Over the past year we have engaged in IFC initiatives[9] and the Impact Management Project, which established a consensus on operating principles and the "fundamentals of impact" as part of impact investing.[10] We are openly showcasing our AIS framework in the hope that this can form a building block towards a single industry standard. Nothing would please us more than for other investors to work with us to find common ground between our approaches.

When will Actis roll out AIS?

Since January 2019, we have been measuring every new investment using the AIS, as well as back testing the framework against several pre-existing investments.

[9] Operating Principles for Impact Management, IFC, October 2018
[10] Impact Management Project, https://impactmanagementproject.com/

Impact.is.the.way.forward.

The SDGs are a "gift to investors"... "The taxonomy that the UN has provided through the sustainable development goals provides a framework for investors that have long tried to consider what subject matters fall under the environmental and social" categories.

CalPERS' chief investment officer **Ted Eliopoulos**[11]

A significant and growing number of institutional investors have publicly committed to making impact investing and the United Nations' Sustainable Development Goals part of their investment plans, including CalPERS, the largest US pension fund, Cbus Super in Australia, and ABP and PGGM in the Netherlands. Measurement and verification is the essential next step to continue the momentum from growth in impact investment assets and the beginnings of a consensus on shared principles.

The Impact Management Project (IMP) has brought together more than 2,000 enterprises, investors and practitioners to build global consensus on how to talk about, measure and manage impact. After hundreds of conversations, the IMP reached consensus that impact can be deconstructed into five dimensions: What, Who, How Much, Contribution and Risk. The AIS framework forms a practical application of the five dimensions.

" Embedding the five dimensions within different tools and frameworks is an important step that moves us from consensus-building to adoption of these widely-agreed norms for impact measurement and management. We're delighted that Actis has developed its methodology in a way that aligns with the IMP norms, and has now committed to publish this methodology for the benefit of the broader market. This kind of transparency is critical if we want to capture the knowledge of established practitioners, and build on that to enhance best practice over time."

Olivia Prentice, Impact Management Project

No framework is perfect and AIS is by no means a final iteration. Rather, we are seeking to develop industry-wide consensus on impact measurement that builds on the IMP's guidelines. The benefits of aligning impact measurement standards among fund managers reach well beyond the asset management industry because every major global company will ultimately then come under pressure to follow suit.

" Our vision is that every business will know how their activities and the consequences of their activities (even the unforeseen elements), map across to the global goals... SDG impact awareness wouldn't be confined to a specific showcase project, but be embedded in a new way of working that prioritises the impact on SDGs alongside business objectives and business models."

Working in an SDG economy, PwC, 2017

We have made this report an open source document in the sincere hope that other investors – both LPs and GPs – will engage with us. The important point is that we begin to build a single standard that will make it as easy to compare impact as "returns".

" For too long we have measured social impact in ways that are imprecise, inconsistent and incomparable. Many people dismiss impact measurement as impossible. The truth is, we can measure social impact with greater accuracy and rigour than we do financial risk. We just need to be serious about doing it."

Sir Ronald Cohen, Financial Times, December 2018

When we achieve a global standard for measuring impact, then we can truly say that impact *is* the new normal.

[11] CalPERS Examines Adopting SDGs, Top1000Funds.com, January 2018

Annex A

Detailed Example: Ostro. (renewable platform in India)

The Actis Impact Scoring framework follows six simple steps:

		7 AFFORDABLE AND CLEAN ENERGY	8 DECENT WORK AND ECONOMIC GROWTH	8 DECENT WORK AND ECONOMIC GROWTH	7 AFFORDABLE AND CLEAN ENERGY	6 CLEAN WATER AND SANITATION
What	Impact generating activity	**Generating clean energy** Building a pan-Indian renewable energy company with 1GW of generating capacity which helps combat climate change.	**Ensuring decent labour and working conditions** Seeking to ensure safe and hygienic conditions for construction workers in a country with historically poor conditions.	**Creating Jobs (temporary)** Providing employment during construction in rural areas with high unemployment.	**Generating power for economic development** Generating clean energy that stimulates GDP growth and economic development in the states where projects are located.	**Providing Clean, Safe Water** Provide a source of reliable clean drinking water to villages in Rajasthan, reducing incidents of fluorosis
		CORE	Ancillary	Ancillary	Ancillary	Ancillary
	Cap Factor	5.0	3.0	3.0	3.0	3.0
How Much	Marginal/Deep	5	3	2	4	3
	Score	5.0	3.0	2.0	4.0	3.0
Who	Well-served/ under-served	5	4	2	1.76	5
	Few/many	4	4	4	1	5
	Score	4.5	4.0	3.0	1.4	5.0
Contribution	Zero/low/ moderate/high	low	moderate	low	zero	high
	Score	1.0	2.0	1.0	0.0	3.0
Risk	Low/medium/ high	low	medium	low	low	medium
	Total Impact	52.50	27.00	18.00	16.14	33.00

Impact Baseline	26.00
Impact Exit	146.64
Impact Multiple	5.64

Shami Nissan

Head of Responsible Investing

Shami leads Actis' approach to responsible investment + Impact. She is a Steering Committee member of the Emerging Markets Private Equity Association's Sustainability Working Group and co-Head of the SDG Working Group, and was on the Sounding Board of the World Bank/IFC's Operating Principles for Impact Management.

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James Magor

Manager, Responsible Investing

James works across Actis' investment portfolio on the implementation of ESG best-practice to enhance value, alongside the generation and measurement of positive impact. He previously worked at CDC Group Plc and at Ramboll (formerly Environ), and is currently a member of the African Private Equity & Venture Capital Association (AVCA) sustainability committee.

● Actis office
● Countries in which Actis has invested since 1998
● Other Actis target markets since 1998

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Values Drive Value

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