



Building Bridges between Impact Investing and Reproductive Health

Deliverable #2: Final Impact Investing Investment Criteria

AGREEMENT NO. NOD.1841-823544-GRT

Submitted to the Reproductive Health Supplies Coalition (RHSC)

September 8, 2015

FINANCING FOR DEVELOPMENT (F4D) | 1001 G STREET NW, SUITE 800, WASHINGTON DC 20001

Executive Summary

The objective of this Reproductive Health Supplies Coalition (RHSC) Market Development Approaches Working Group (MDAWG) Impact Investing Work Stream Project: Part 1 is **to use a market-based approach to determine, on a preliminary basis, if there is interest in and appetite for impact investment in generic emerging markets contraceptives manufacturers.** This project focuses specifically on contraceptives manufacturers within the broader reproductive health commodities sector as its proof of concept approach.

The purpose of this second deliverable of four is to finalize the earlier draft set of investment criteria. The third and fourth deliverables will present the results of vetting these criteria with impact investing, contraceptives manufacturing, and reproductive health experts, and provide a review of extent of interest and appetite for this investment segment, as well as a dossier of potentially interested investors.

Key findings from this deliverable are: 1) There is no single set of investment criteria that all impact investors currently use. 2) Successfully working with impact investors is best described as a matchmaking process to find a best fit of financial return, social impact expectations, and shared objectives. 3) There are some common first screens or filters that many investors use. 4) The most common, but not universal, set of impact investment performance measures are the Impact Investment Reporting Standards (IRIS). For this project, its metrics were carefully culled to identify those most relevant to generic emerging markets contraceptives manufacturers. In the spirit of “building bridges,” the metrics are tagged as to which RHSC pillar each addresses. Understanding how impact investors approach a potential investment – the impact investor’s lens -- may help RHSC members to obtain investment, while at the same time contributing to RHSC’s four pillars through concerted market development.

Review of Purpose

The purpose of this RHSC Innovation Fund grant project is to determine if there is interest in, and appetite for, investments in the generic emerging markets contraceptives manufacturing sector to enable it to transition from being a historically primarily grant-funded sector to a sector that is able to attract investment capital going forward, and ultimately sustainably contributing to providing increased access to modern contraceptives. Through fostering such investments, RHSC can increase achievement of its four strategic pillars of availability, quality, equity, and choice, while at the same time contributing to impact investors’ social and financial return objectives. By structuring this win-win situation, it may be possible to unlock a new source of capital, and subsequent development, within the reproductive health supplies market.

Overview of Interim Investment Criteria

The list of interim criteria for the first project deliverable was compiled from a wide range of reproductive health, social and environmental impact, financial performance, and manufacturing quality indicators used in a variety of sectors. Each indicator was mapped to the specific RHSC pillar(s) it addressed.

Overview of Final Investment Criteria

The objectives of identifying a set of final investment criteria are threefold:

- 1) To assist RHSC to better convey to its members how impact investors consider, evaluate, and select potential impact investments. This will help to enable RHSC members to “speak the investor’s language” regarding potential investments in emerging markets generic contraceptives’ manufacturers.
- 2) To enable RHSC to make a compelling case to investors how and why manufacturing that is aligned with its four pillars is an additional way in which to demonstrate financial sustainability and social impact.
- 3) To better understand how to identify a best fit match between an impact investor and a generic contraceptives manufacturer. This fit will vary for every transaction.

A number of key points should be highlighted to provide a context to understand impact investing.

- **Impact investments are investments** made into companies, organizations, and funds **with the intention to generate social and environmental impact along with financial returns.**
- The universe of impact investors is very **diverse and heterogeneous.**
- It **continues to evolve and grow**, with an increasing number and array of new players committing to impact investment, including many of the world’s largest financial services providers.
- **Different impact investors define impact differently.** For example, some might define impact based on an organization’s intent, while others may look for outputs, outcomes, and impact resulting from an investment.
- Impact investing is **a matchmaking process** in which the type of capital to be invested must match the investment needs of both the investor and the investee.
- Many investors base their **social impact objectives on their desired theory of change.** This too will vary by investor.
- There is **no single list of impact investment criteria** that all investors currently use. Financial criteria are more consistently defined and used due to the maturity of financial analytic tools used to evaluate investments. Not all impact investment criteria will be relevant in every situation, and there may be additional criteria not included on this list that are.
- There is **wide diversity in the social impact indicators** that impact investors use. The most commonly used indicators are the Impact Reporting and Investment Standards (IRIS) which are “designed to measure the social, environmental, and financial performance of an investment.” IRIS metrics are increasingly used due to a desire by impact investors to use a common taxonomy. However, many investors supplement them with their own additional impact indicators.
- Many impact investors currently use the Global Impact Investment Ratings System (GIIRS) rating for overall social impact benchmarking. It is not an ideal system, but is currently the most widely used. One shortcoming of a GIIRS rating is that it only evaluates social and environmental impact, and does not take into account financial performance.
- There is not yet a ratings system that truly and fully compares impact investments in the way that commercial ratings agencies (such as Fitch Ratings, Moody’s, and S&P) rate firms across industries.
- There are **many forms of impact investment capital.**

- **Investors will vary in their return expectations.** Some want only the return of their investment capital and some will have a target percentage return expectation.
- **Investors may be found across a spectrum** of “patient capital” to fully commercial capital.
- Investors will **vary in their geographic and sector foci.**
- It is **important to understand the impact investor’s lens.** At the same time, it should be emphasized that **any impact investment should be a strategic fit** and address investee’s needs as well as investor priorities.
- **Contraceptives manufacturing investment may result in greater impact than can be directly measured** on a causal basis by the result of the investment, and may map to broader reproductive health objectives such as FP2020. For example, a manufacturer that is exporting extensively to a given country cannot claim credit for that country’s contraceptive prevalence rate, but it could be said that it is contributing to this larger impact.

The following are broad assessment criteria that impact investors often use for initial screening of potential investees:

- business model that is financially sustainable before and after the investment;
- track record of a certain number of years of operation depending on the business;
- excellent management team;
- sustained historical sales growth;
- strong future growth potential;
- current or potential profitability;
- capacity to absorb the capital provided;
- investee seeking an amount and type of capital consistent with that being offered by the investor;
- return expectations that are aligned with those of the investor.

Final Investment Criteria

As noted above, although not all impact investors use it, IRIS is the most commonly used industry-wide taxonomy of social impact metrics. Impact investors may use IRIS standards and supplement them with additional proprietary criteria and indicators. For this reason, this final list of **indicative** investment criteria for use in evaluating emerging market contraceptives manufacturer investees’ impact is sourced from the IRIS Taxonomy 3.0¹. The list, found in Table 1, was compiled by carefully culling the entire IRIS 3.0 Taxonomy and identifying only those metrics that are relevant to emerging markets generic contraceptives manufacturers. Once the culled list was created, each metric was screened to identify and map which of the four RHSC pillars it addresses. Some of the IRIS criteria map to one RHSC pillar, and some contribute to more than one. Another distinction specific to contraceptives manufacturers who may sell much of their product to intermediaries (governments, distributors, doctors, pharmacies) is that they may measure themselves via both direct and indirect impact metrics. Some IRIS metrics can be measured directly from the manufacturer’s sales, while some have second order or indirect benefit when the contraceptive is used by the individual client. Some of the investment criteria could

¹ <https://iris.thegiin.org/metrics>

also be considered as contributing to RHSC's Pathways to Success. Three examples of how an IRIS metric is mapped to an RHSC pillar are provided below.

Examples:

Example 1: IRIS metrics "Quality Assurance Mechanism" and "Units/Volume Sold: Certified" each contribute to RHSC's Quality pillar: "the ability of women and men to have supplies they can trust are both safe and effective." This indicator is based on the direct benefit of the manufacturer.

Example 2: IRIS metric "Units/Volume Sold: Exported" furthers RHSC Availability pillar: "the ability of women and men to obtain safe, affordable supplies that meet their reproductive health needs." It can potentially also address RHSC's Choice and Equity pillars.

Example 3: IRIS metric "Client Individuals: Poor" refers to the client who may gain access to the contraceptives after some intermediary has acquired and in some manner distributed the manufacturer's contraceptives to the poor client. This indicator could address the RHSC Equity pillar: "the ability of women and men to have equitable access to RH supplies, irrespective of their financial well-being." It might also contribute to the Availability pillar.

The indicators in Table 1 should not be considered as a static menu that applies to all emerging market contraceptive manufacturer impact investments, but rather as a dynamic, **indicative set of impact investment metrics**. Each individual investment will be comprised of a subset of most applicable metrics, which will be negotiated and agreed upon by the investor and investee.

The final impact investment criteria below also **include a list of financial metrics** culled from the IRIS taxonomy that are specifically relevant to an emerging markets generic contraceptives manufacturer's business model. While these may not map as directly to RHSC's four pillars, some of them could contribute. Two examples are provided below.

Examples

Example 1: An increase in "Sales Revenues: Certified" could be evidence of both Availability and Quality of products.

Example 2: An increase in "Working Capital" might allow a contraceptives manufacturer to order more input supplies, produce a greater volume of inventory, and ship more contraceptives, which are then used by women in a given country. Thus, this indicator could contribute to RHSC's Availability pillar, as more products are available. Depending on the product, it might also contribute to RHSC's Choice pillar. If provided to those previously lacking equal access to contraceptives, it might also add be a pathway to success to the Equity pillar

Table 1: Indicative Investment Criteria: Selected Relevant IRIS Metrics mapped against RHSC Pillars

IRIS Standard	Definition	Availability	Quality	Equity	Choice	Direct	Indirect
Social Impact Objectives (OD6247)	Note: Although listed as an IRIS metric, this is not really an indicator but rather a description used by IRIS to classify social impact objectives pursued by the organization. The classification relevant to contraceptives manufacturers is: Health improvement	YES	YES	YES	YES	N/A	N/A
Operational Model (OD6306)	Note: Although listed as an IRIS metric, this references the Operational model of the organization. Select all that apply: <ul style="list-style-type: none"> - Production/Manufacturing: Production and/or manufacturing of goods (e.g., farming, construction, manufacturing) - Processing/Packaging: Processing and/or packaging of goods (can include both raw materials, such as wheat, or secondary materials/goods) - Distribution: Delivery of good or service to the target audience, whether through traditional transport (e.g., vehicle, rail, air) or infrastructure (electric grid operator) - Wholesale/Retail: Intermediary organization that purchases goods and sells them to new target customers - Services: Services such as education, health, communication, transportation, social services 	YES	YES		YES	N/A	N/A
Quality Assurance Mechanism (PI3863)	Quality assurance mechanisms that may be in place. Choose all that apply: <ul style="list-style-type: none"> - Peer review/supervision - Audit and feedback - Checklists and logs - Electronic monitoring systems - Communication an education strategies - Guidelines, protocols and registries - Other 		YES			YES	

IRIS Standard	Definition	Availability	Quality	Equity	Choice	Direct	Indirect
Units/Volume Sold: Certified (PI7289)	Amount of the product sold by the organization as certified during the reporting period.	YES	YES		YES	YES	
Operational Certifications (OI1120)	Third-party certifications valid as of the end of the reporting period.		YES ²			YES	
Client Individuals: Provided New Access (PI2822)	Number of client individuals who were served by the organization and provided access, during the reporting period, to products/services they were unable to access prior to the reporting period. (Organizations should New Access to Healthcare)	YES		YES			YES
Unique Individuals: Clients (PI4060)	Number of unique individuals who were clients of the organization during the reporting period.	YES		YES			YES
Client Individuals: Female (PI8330)	Number of unique women who were clients of the organization during the reporting period.	YES		YES			YES
Client Individuals: Poor (PI3193)	Number of unique poor individuals who were clients of the organization during the reporting period.	YES		YES			YES
Client Individuals: Very Poor (PI9835)	Number of unique very poor individuals who were clients of the organization during the reporting period.	YES		YES			YES
Client Individuals: Low Income (PI7098)	Number of unique low-income individuals who were clients of the organization during the reporting period.	YES		YES			YES
Client Individuals Rural (PI1190)	Number of unique individuals in rural areas who were clients of the organization during the reporting period.	YES		YES			YES

² This could refer to WHO or ISO certifications, for example.

IRIS Standard	Definition	Availability	Quality	Equity	Choice	Direct	Indirect
Client Individuals: Urban (PI6751)	Number of unique individuals in urban areas who were clients of the organization during the reporting period.	YES		YES			YES
Client Individuals: Peri-urban (PI3960)	Number of unique individuals in peri-urban areas who were clients of the organization during the reporting period.	YES		YES			YES
Client Individuals: Disabilities (PI6266)	Number of unique individuals with disabilities who were clients of the organization during the reporting period.	YES		YES			YES
Client Individuals: Minorities/Previously Excluded (PI4237)	Number of unique individuals who belong to minority or previously excluded groups and were clients of the organization during the reporting period.	YES		YES			YES YES
Client Individuals: Children/Adolescents (PI1945)	Number of unique children and adolescents who were clients of the organization during the reporting period.	YES		YES			YES
Client Individuals: Active (PI9327)	Number of unique individuals who were active clients of the organization as of the end of the reporting period.	YES		YES			YES
Client Individuals: New (PI8732)	Number of unique individuals who were first-time clients of the organization during the reporting period.	YES		YES			YES
Client Individuals: No Direct Payment (PI1807)	Number of client individuals who received products/services during the reporting period where no direct payment was provided to the organization at the time of service but for which the organization expects to be reimbursed.	YES		YES			YES
Client Individuals: Receiving Free Products/Services (PI9622)	Number of client individuals who received free products/services from the organization during the reporting period.	YES		YES			YES
Units/Volume Sold: Exported (PI9029)	Amount of the product/service exported internationally by the organization, during the reporting period.	YES		YES	YES	YES	

IRIS Standard	Definition	Availability	Quality	Equity	Choice	Direct	Indirect
Units/Volume Produced (PI1290)	Amount of the product/service produced by the organization during the reporting period.	YES			YES	YES	
Units/Volume Sold: Total (PI1263)	Amount of the product/service sold by the organization during the reporting period.	YES			YES	YES	
Purchase Contracts (PI9988)	Number of contracts/purchase agreements that the organization holds for purchase of its products/services.	YES			YES	YES	
Supplier Organizations: Total (PI9566)	Number of enterprises that sold goods or services to the organization during the reporting period.	YES				YES	
Supplier Organizations: Local (PI6385)	Number of local enterprises that sold goods or services to the organization during the reporting period.	YES				YES	
Payments to Supplier Organizations: Local (PI1849)	Value of payments made to local enterprises that sold goods or services to the organization during the reporting period.	YES				YES	
Payments to Supplier Organizations: SME (PI7867)	Value of payments to small-to-medium enterprises (SMEs) that sold goods or services to the organization during the reporting period.	YES				YES	
Units/Volume Purchased from Supplier Organizations: Local (PI8418)	Units/volume purchased from local organizations that sold to the reporting organization during the reporting period.	YES			YES	YES	
Units/Volume Purchased from Supplier Organizations: SME (PI5473)	Units/volume purchased from small-to-medium enterprises (SMEs) that sold to the reporting organization during the reporting period.	YES				YES	
Client Locations (PD2587)	Countries where the organization's products/services are purchased/used.	YES			YES	YES	
Client Type (PD7993)	Types of entities that are buyers or recipients of the organization's products/services.	YES			YES	YES	

IRIS Standard	Definition	Availability	Quality	Equity	Choice	Direct	Indirect
Supplier Location (PD4565)	Countries where the organization's suppliers are located.	YES			YES	YES	
Target Beneficiary Demographic (PD5752)	Demographic groups of beneficiaries targeted by the organization. Select all that apply: Minority/previously excluded populations - Women - Pregnant women - Other at risk populations - Other target populations	YES		YES	YES		YES
Client Savings Premium (PI1748)	Price discount/savings obtained, by the consumer (client) when purchasing a product/service from the organization during the reporting period. This is a ratio of the average price paid by the consumer to the organization compared to the average price that would otherwise be paid for a similar good in the local market.	YES		YES	YES		YES
Client Transactions (PI5184)	Number of sales or client transactions during the reporting period.	YES					YES
Full-time Employees: Total (OI3160)	Number of paid full-time employees at the organization as of the end of the reporting period.	YES				YES	
Full-time Employees: Female (OI6213)	Number of paid full-time female employees at the organization as of the end of the reporting period.	YES				YES	
Permanent Employees: Total (OI8869)	Number of people employed by the organization as of the end of the reporting period. This is the sum of all paid full-time and part-time employees.	YES				YES	
Permanent Employees: Female (OI2444)	Number of females employed by the organization as of the end of the reporting period. This is the sum of all paid full-time and part-time female employees.	YES				YES	

IRIS Standard	Definition	Availability	Quality	Equity	Choice	Direct	Indirect
Permanent Employees: Low Income Areas (OI8266)	Number of people employed by the organization that reside in low income areas, as of the end of the reporting period. This is the sum of all paid full-time and part-time employees residing in low-income areas.	YES				YES	
Child Labor Policy (OI4432)	Indicate whether the organization has a written child labor policy in line with International Labour Organization (ILO) standard		YES			YES	
Occupational Injuries (OI3757)	Indicate the number of occupational injuries which affected any full-time, part-time, or temporary employee of the organization during the reporting period.		YES			YES	

Source: IRIS Taxonomy 3.0, RHSC Four Pillars, and F4D analysis

IRIS Financial Metrics

- Fixed Assets
- Current Assets
- Financial Assets
- Equity or Net Assets
- Retained Earnings
- Accounts Payable
- Accounts Receivable
- Total Liabilities
- Current Liabilities
- Long Term Financial Liabilities
- Loans Payable
- Cash and Cash Equivalents:
Period Start
- Cash and Cash Equivalents-
Period End
- Cash Flow: Net Total
- Cash Flow: Operating Activities
- Cash Flow: Investing Activities
- Cash Flow: Financing Activities
- New Investment Capital
- Net Income
- Net Income Before Donations
- EBIT
- EBITDA
- Total Revenue
- Sales Revenue
- Sales Revenue: Collected
Directly
- Sales Revenue: Collected from
Third Party Payers
- Sales Revenue: Certified
- Sales Revenue: Exports
- Non-Operating Revenue
- Revenue from Grants and
Donations
- Gross Profit
- Total Expenses
- Cost of Goods Sold
- Operating Expenses
- Selling, General, and
Administration Expenses
- Personnel Expenses
- Interest Expenses
- Depreciation and Amortization
Expenses
- Payments to Government
- Revenue Growth
- Gross Margin
- Income Growth
- Operating Profit Margin
- Working Capital
- Return on Assets (ROA)