

FINANCIAL SCHEMES



CASE STUDY



Capital 4 Development Partners

Capital 4 Development Asia Fund (C4D Asia Fund)

The Capital 4 Development Asia Fund was launched in 2018 to invest in innovative growth stage SMEs that bring positive social, environmental and economic change to underserved communities in India, Indonesia and the Philippines. The Fund contributes to inclusive economies by investing in SMEs that address and solve local challenges and/or industry inefficiencies. Believing in the aggregate economic and social benefits of unleashing women's economic participation, C4D Asia Fund is committed to invest at least 30% of its capital in women-owned and led SMEs and consciously adopt gender lens in its investment practices.

[More details on C4D Partners Website](#)

Organization type	Impact Investment Fund
Country focus	Philippines, Indonesia, India
Type of finance	 Equity  Hybrid financing (convertible debt, debt with revenue share or debt with other forms of performance-linked upside)
Stage of enterprise	Early stage, Growth stage
Sector focus	 Renewable energy  Agri-related activities  Health  Sustainable goods & healthy nutrition  Financial inclusion  Other

Launch date of the fund and fund's maturity date
December 2018 (10 year-fund)

Fund size
USD 50m fund, of which USD 30m has already been secured as of December 2018

Tenor
Average loan tenor of 5 years

Average size of loans
Amounts invested range from USD 200k to USD 2m

Time to complete investment process
3 months on average, depending on the efficiency of the company to provide financial details, projections and other information

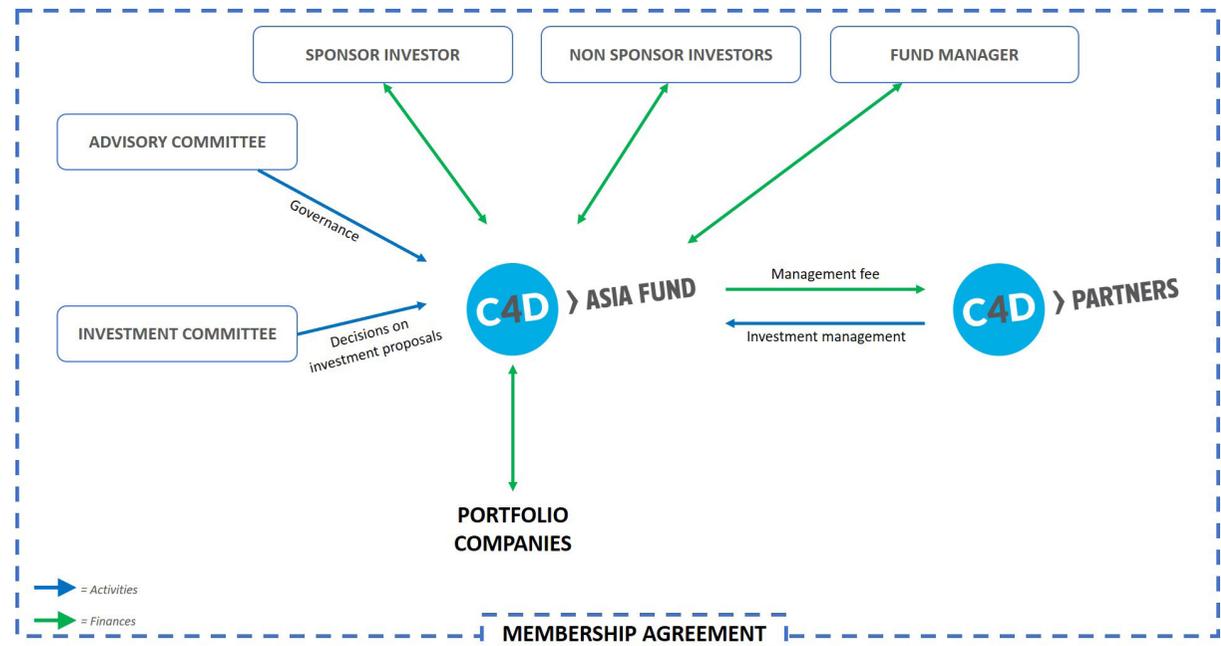
Finance disbursed to date
USD 9 m

Number of investments to date
21 companies in the launching portfolio

The C4D Asia Fund utilizes a variety of financial tools across India, Indonesia and the Philippines.

In India, C4D Fund uses equity for initial investments of USD200K up to USD1M for pre-series A or series A enterprises. Reserve capital (up to USD4M) is available to invest in company growth and subsequent investment rounds. As an active Board member, C4D Partners provides additional support and adds value to portfolio companies.

In Indonesia and the Philippines, C4D Fund uses primarily hybrid financing. As the ecosystem of impact investing is still in its early stages, the Fund applies other financing instruments than conventional equity which requires a clear exit strategy. The Fund structures hybrid finance instruments with a performance-linked upside that liquidate over time and are tailored to the company cash flow projections. Examples of these instruments include convertible debt, debt with revenue share, or debt with other performance-linked kickers. To access this type of finance, an SME must provide robust cash flow projections.





In order to grow and be successful, companies require support beyond capital investments.

Example of investment made

In 2018, the C4D Asia Fund was launched with a portfolio of 21 SMEs of which 11 were based in India, 3 in the Philippines, 1 in Nepal (in process of exiting), 4 in Indonesia and 3 in Cambodia. One of C4D's portfolio companies in the waste management space is Saahas in India.

Company description

Saahas is one of the pioneers in the professional waste management services in compliance with all statutory requirements in India. Company works closely with municipal corporation and government bodies to develop community waste management programs.

Investment purpose

- Support the company to replicate the hub and spoke model to other cities (Chennai, Hyderabad) in India
- Capital expenditure for material recovery facilities, new technology, marketing and build the senior management team

Impact objectives

Total tonnage of waste handled in next five years is 366,986 tons

Total jobs created over the next five years is 2600

Instrument

Compulsory convertible preference shares





Learnings

The following lessons C4D Partners learned, have led to changes in the C4D Fund investment strategy:

1. Too broad geographic focus can reduce the span of control and effectiveness of investments.

Changes in investment strategy

Focus on three countries in Asia only: India, Indonesia and Philippines. Increase focus only when fund size and local presence enable this.

2. Local presence, knowledge and networks are crucial to effective portfolio management and focused investee support.

Changes in investment strategy

Establishment of local C4D Partners teams in all target countries.

3. One size fits all investment strategy doesn't work, as each country and market is characterized by different opportunities, challenges and ecosystems.

Changes in investment strategy

Development of diversified investment strategies, tailored to each of the three target countries. Investment instruments aligned with markets and ecosystems.

4. In order to grow and be successful, companies require support beyond capital investments.

Changes in investment strategy

Establishment of grant-funded Portfolio Support Program Asia Foundation to provide business development services to assist companies to become more resilient, effective and prepared for the next development stage.

5. (Larger) follow on investments are needed to further support and benefit strong portfolio enterprises.

Changes in investment strategy

Fund capital is reserved to support portfolio companies with 3rd and 4th round financing.





Impact Measurement

C4D Impact Framework explained

Throughout the life-cycle of an investment (deal sourcing, due diligence, investment management and exit processes), C4D Partners scores investees on social, environmental and gender impact potential. The due diligence analysis also includes in-depth impact screening and the creation of a visual roadmap. The framework guides and tracks the progress of the investment during the investment period and assesses the total outputs and effects of the investment at the end of the investment period.

Roadmap

The roadmap provides an overview of the impact flow of the investment, detailing how the support of the Fund could lead to the targeted effects. To define the outputs and effects a combination of standardized indicators from IRIS as well as company-specific defined indicators are used. The high-level roadmap is translated in yearly impact projections which guide the investment throughout the loan tenure.

Scoring the impact of the investment

Scoring the key effects of the investment checks if the impact roadmap matches the Fund's ambitions: how likely is it that a considerable effect is created for low-income people? Therefore, investments are scored on depth, scale, and logic of the impact roadmap. The scoring mechanism is a risk-return assessment along the following dimensions: effects, alignment, additionality and environmental social governance. The overall score of the investment is reached by adding the total score from each dimension which are defined in detail below.

Effects:

- Scale of impact: Number of underserved people that are being provided improved access to basic services and/or increased earnings.
- Depth of impact: Is the outcome/effect for the target group sustainable or long-lasting? Does the effect have "leverage" and does it catalyze many positive changes in a person's life?
- Inclusivity: Does the investment have a focus on underserved people?
- Gender lens: How does the investment affect gender balance dynamics?
- Systemic change: Will the effect of the investment create systemic/ wider impact on society at large?





- Logic of the impact roadmap: How well tested is the approach? Is there credible secondary research or examples confirming that the expected effects will indeed occur? Is it a new or innovative approach? Or are there scientific studies demonstrating the causality?

Alignment:

Scoring the alignment, analyzes the alignment between the investment's ability to generate impact (target outcomes) defined in the impact roadmap and the ability to deliver competitive, risk adjusted financial returns:

- Fit with investors' purpose and Fund strategy
- Balance with financial returns

Additionality:

Assesses the positive change of the investment versus changes that would have taken place without the Fund's investment:

- Added value: What is the added value of the Fund in this investment? Is the Fund key to the development / performance / mission of the investee and the investment (e.g. due to specific sector knowledge, country network, type of financing and support)?
- Risk of Displacement: does the investment lead to negative outcomes which would not otherwise occur?

Environmental and Social Governance (ESG):

The Fund uses the ESG Tool developed by FMO based on IFC ESG standards.

- Though each investment is selected based on intended positive effects, C4D recognizes that every investment has the potential to generate other (unintended) societal and environmental effects - both positive as negative. These effects need to be taken into account in order to assess Environmental and Social risks of a specific investment, but as well the positive effects in order to capture the "net" impact of any investment.
- Specific attention is paid to understand how governance is organized in each investee companies. How is the board comprised? Are there sufficient independent members in governance structures that guarantees unbiased and objective steering of the company? Are there any linkages with influential (government) liaised persons? We assist our investees to optimize the governance structures.

C4D Partners are in the process of adjusting the Fund's impact management framework to:

- Integrate a gender lens
- Integrate a planet lens, by rethinking the Environment angle of their ESG assessment





Risks

C4D Partners' local presence comprised of Indian, Filipino and Indonesian professionals enable the fund manager to find promising SMEs, appropriately assess the risks involved, make balanced investment decisions and support and guide the companies on their path to growth and positive impact. The Fund is also strengthened by its Portfolio Support Program Asia which provides business development services to improve the performances of the portfolio companies and increase the chances of success for the companies as well as the Fund. The support offered will be specific to each company, based on its needs and challenges. We have learned that such additional non-financial services contribute to safeguarding our objectives.

In terms of capital, C4D Fund offers various forms of equity, hybrid-debt and venture debt financing to (early) growth stage SMEs. This type of more flexible financing (as compared to the traditional financing through private equity and debt), is on limited offer in the region: and note that many early growth stage companies are trying to fix their need for cash with straight forward equity structures, whereas hybrid-debt products often offer more fitting financing solutions. The Fund gives companies the opportunity to be supported by the type of financing that suits their needs best.

For investors, the Fund's return enhancement features offer a layered fund structure, where a downside protection of up to USD 10m is provided by the Sponsor Investor. In addition, the Sponsor Investor offers a preferred minimum return of 2% to other investors. This combination creates an opportunity for investors with modest risk appetites to invest in this specific SME market segment in order to contribute to the development of local inclusive economies.

C4D Partner's operational set up and experience, combined with the well-designed features of C4D Asia Fund provides a good opportunity to grow the SME space in India, Indonesia and the Philippines in a focused way, which we hope will result in positive impact on value chains and local livelihoods.



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