



INTRODUCTION

The Board of the Global Innovation Fund commissioned an independent evaluation of the organisations's progress in 2019 and selected IPE Tripleline to perform this work. We appreciate the extensive work that IPE Tripleline devoted to this independent evaluation of GIF. We were founded with a deep commitment to evaluation and evidence, and this formative assessment was commissioned to tell us where we could improve to deliver our mission better and faster.

This evaluation lays out clearly: **"GIF is a bold initiative and has offered something different and unusual to the development finance space"**. GIF's unique mandate does pose a challenge to anyone having to evaluate it, and IPE Tripeline have navigated that complexity through a combination of desk review, field visits, and key informant interviews.

The DPC recommends to the board that the evaluation be accepted, with the context below. The DPC also recommends that this cover note be adapted to be a response from the Board as a whole that is provided with the evaluation to stakeholders.

Any formative evaluation will uncover where an organisation is a work in progress, and I'm pleased that we have this work to prompt further reflection and operational attention. We use this evaluation as a guide, not a grade, and to help us focus scarce attention and resources for impact.

We concur with key insights included in the report:

- Our approach to measuring impact, Practical Impact, is a promising tool that needs to be applied more broadly;
- Our hybrid investment approach of using grants, debt, and equity fills an unmet need in the development arena and can be even more powerful if tools are blended together;
- There are many merits in the GIF model of bringing together a range of government donors, the private sector, and foundations in a strong governance framework;
- Enhancing the effectiveness and efficiency of the Open Window will amplify our impact and accessibility to a wide range of partners.

There are aspects of this report that represent the evaluators' considered view, and which give us valuable opportunity for reflection, but which we are unlikely to adopt as proposed as they would divert GIF from its fundamental mission, including:

- Moving from our model of open innovation to accepting applications under set sectoral themes at regular intervals;
- Pursuing majority stakes in portfolio companies and seeking earlier exit opportunities.

And there are some excellent elements of guidance in this evaluation that I look forward to supporting management to implement:

- Establishing a standing Decision Panel;
- Maturing our knowledge management processes;
- Better embedding and updating Practical Impact assessments.

I thank the GIF team for their fulsome engagement in the evaluation process over the past year, which means this evaluation can contribute to making GIF more effective. I am confident that we have the CEO and management team in place to deliver the improvements that will make GIF an even more impactful investor in its second five years and beyond.

Kanini Mutooni, Chair, Global Innovation Fund
December 2019



GLOBAL
INNOVATION
FUND

Independent Evaluation of the Global Innovation Fund

Final Evaluation Report

prepared by

Revised
31 October 2019

Executive Summary

1. The Global Innovation Fund (GIF) is a US\$200mn multi-donor funded charity, providing funding for innovations with the potential for social impact at scale. GIF was launched in 2014 with an initial five-year estimated and anticipated funding contribution. At the time of the evaluation, \$110mn has been paid into GIF and there were 39 investments of which 25 are in grants and 14 are different forms of risk capital (loans, equity and blended) amounting to commitments of \$68.2mn at end of March 2019.
2. The evaluation has three core objectives: (i) **verification and assurance**– assessment of GIF’s overall effectiveness, (ii) **assessment of relevance** and unique value proposition within the development landscape, and (iii) **identification of recommendations for the way forward**. This is a formative evaluation and is about seeking to understand what works well and what could be improved in terms of design and operations in preparation for the next phase of GIF. The inception phase started in February 2019 and the Inception Report of 18 April set out the methodology. The evaluation has since completed a comprehensive set of key informant interviews with the GIF Board and staff, investments and benchmark organisations. A survey of GIF investments was undertaken and number of workshops have been undertaken with the GIF staff. Detailed field level case study visits were undertaken of 5 investments: **One Acre Fund**, Rwanda; **Lively Minds**, Ghana; **OnlinePajak**, Indonesia; **EM3** and **El Mindspark** in India.
3. The evaluation report is structured according to the 5 key evaluation questions. A series of sub-questions have also been addressed in each of the relevant sections and a summary and conclusion is presented for each question which is scored with a RAG rating. Chapter 2 is on **results and impact**– *to what extent is GIF progressing towards expected outcomes and impact?* Chapter 3 is on **relevance**– *to what extent is GIF relevant and additional?* Chapter 4 covers **strategy and design**– *to what extent is the strategy and design consistent?* Chapter 5 is on **effectiveness**– *to what extent is GIF’s organisational and governance structure effective?* Chapter 6 covers the **efficiency of operations**– *to what extent do GIF operational systems support successful achievement of outcomes.*
4. There are 13 annexes which contain supporting material for the evaluation and there is a separate standalone document with the 5 case studies.

Table 0.1: Evaluation Questions and Scores

	Evaluation Question and Sub question	EQ	SEQ
EQ 1	To what extent is GIF progressing towards expected outcomes and impact?		
	Do GIF’s distinctive characteristics result in a strong selection of investments?		
	What is GIF’s financial return on investment on the risk capital portfolio?		
	To what extent are individual investments progressing towards the achievement of their outcomes and contributing to the performance of the portfolio?		
	Has there been any demonstration effect?		
EQ 2	To what extent is GIF relevant and additional within the broader development ecosystem?		
	What is GIF’s positioning within the international development financing architecture?		
	What value does GIF bring to partners and stakeholders?		
	Is GIF able to communicate its specific understanding of innovation in development to partners and donors?		

	Evaluation Question and Sub question	EQ	SEQ
EQ 3	To what extent is the strategy and design of GIF consistent with identified programme and organisational objectives?		
	Is the GIF model appropriate to its goals and demonstrated needs?		
	How is GIF positioned to achieve long-term financial sustainability?		
EQ4	To what extent is GIF’s organisational and governance structure effective?		
	To what extent is the governance structure effective?		
	Are GIF’s Staffing structure and employment policies effective?		
	How has GIF learned and adapted over the years?		
	What is the value to GIF of offices in London and Washington D.C.?		
EQ 5	To what extent do GIF operational systems support successful achievement of intended outcomes and impact?		
	Innovation Sourcing and Selection		
	The systems for contracting and managing performance and risk		
	Monitoring and Evaluation		
	Gender Equality and Social Inclusion		

Red—major concerns, **Amber**— scope for improvement, and **Green**—no change required. **Grey**- insufficient data/evidence to make an overall judgement

- GIF has developed an innovative, pragmatic and workable proprietary tool, the Practical Impact Assessment (PIA) to capture the potential impact of an investment. The tool is applied when considering whether to invest in an innovation or not, and measures impact in terms of person years of income (PYI) the **predicted** additional income that beneficiaries are expected to receive over time as a result of the investment). The PYI measure allows GIF to compare very different investments using a common metric, and to aggregate the expected results of these investments into a portfolio-wide measure of impact.
- The evaluation has reviewed the performance data for 17 of the investments in the **grant portfolio** and shows that 12 investments are achieving good progress towards the achievement of target outputs and outcomes. But while this overall performance is promising, GIF has not taken this analysis further to consistently update the assumptions behind the PIA and revise the estimated potential impact on poverty reduction at scale. GIF therefore cannot provide an up to date estimate of the expected **poverty reducing impact of the portfolio**, and there is therefore insufficient evidence to score EQ1.
- For the **risk capital** investments, the evaluation has concentrated on reviewing the structure of the finance provided. The selection of the risk capital instruments seems broadly appropriate to the type and stage of each business although there are a number of instances where alternative approaches could have been used including a greater use of debt, convertible notes and blended finance.

8. In terms of **relevance and additionality**, the most distinctive features of the Fund¹ are its focus on evidence generation coupled with its open approach to innovation (any innovation, in any sector and any geography is eligible to apply for funding through an always-open Open Window). As a result, GIF has a broad, but relatively shallow, portfolio which spans multiple sectors and geographies. This is in contrast to peer organisations which take a narrower but more focused approach, investing not only in individual innovations, but in ecosystem enablers as well. The Evaluation notes, however, that over time GIF has invested in specific topics such as pay-as-you-go technologies to make utilities more accessible; ways to make remittances and cash transfers more effective; services for smallholder farmers; the use of behavioural nudges to drive behavioural change; and platform-type investments to enable change at ecosystem level, but has seen limited evidence of activities to share learning and foster synergies across investments which fall into these categories.
9. While GIF's investment strategy remains on mission (most investments are explicitly or implicitly pro-poor), in many cases the investments themselves are not **additional** in the strict sense that the investment would not have happened without GIF. However, GIF has added value in other ways including providing services not offered by other funders, and leveraging further investment.
10. GIF's **strategy and design** are based on the fundamental principles of independence. Unlike other funds, GIF was set up to be thematically and geographically agnostic, significantly expanding the potential pipeline of relevant innovations eligible for funding. GIF is positioned to pick up innovative ideas which might otherwise fall through the cracks of traditional funding bodies. In practice, however, this openness also points to the greatest weakness in GIF's design, as it has inevitably led to a relatively piecemeal investment strategy. One consequence is that although individual investments may be strong, with high Practical Impact scores, overall the portfolio lacks strength in depth in any particular sector or region. Relative to peer organisations, this means that GIF is less likely to achieve transformative change or impact the wider ecosystem in which different investees operate. The Evaluation notes, however, that the recently adopted GIF 2.0 five-year strategy has set priority themes and countries to give greater focus and depth to the investment portfolio in the future.
11. GIF has a complex **governance structure** which is largely a reflection of its status as a charity which engages in risk capital instruments as well as grants. The structure and supporting organs and policies are appropriate and the decision to operate as UK-based charity has been to GIF's advantage. In terms of organisation, the allocation of staff resources reflects the core processes of the fund. Skill levels at GIF are high.
12. GIF's **operations** have focused on deal sourcing. The Open Window and broad focus components of design have led to operational inefficiencies in the sourcing of innovations. Nevertheless, the evaluation finds that investments have generally been selected on the basis of clear evidence. GIF support to investees has appropriately focused on strategies for scaling but the light touch approach to venture support may be missing the opportunity to enhance the performance of the investments and assist in their transition towards scale. The PIA provides a good mechanism for the aggregation of impact across the diverse portfolio but this is underutilised. The consideration of gender and social inclusion has historically been relatively superficial, but GIF has already started to take steps

¹ Note, name notwithstanding, the Global Innovation Fund is not technically a fund per se, as it does not have a permanent pool of investible capital (because of the way that donor funds are disbursed). It is more accurately referred to as an 'evergreen charitable vehicle'. However, for the sake of simplicity, the Global Innovation Fund is abbreviated to *GIF* or *the Fund* throughout the report.

towards mainstreaming appropriate consideration of gender and social inclusion into its operational systems.

13. **In conclusion**, the evaluation found many merits in the GIF model in bringing together of a range of government donors, the private sector and foundations to fund GIF. The conclusion of the evaluation is that the multiple instrument model of GIF is appropriate as it provides greater flexibility of engagement and is a key part of the unique GIF value proposition. The focus on evidence and the willingness to validate this evidence with RCTs sets GIF apart from most other funds. GIF has also created an opportunity for a wide platform within the international development community to learn about successful pathways to poverty reduction and to disseminate best practice.
14. **GIF is a bold initiative and has offered something different and unusual to the development finance space.** But there is considerable scope for improvement in many aspects of implementation strategy, governance, operational systems and learning which is reflected in the amber ratings for three of the five key evaluation questions. The recommendations in the report are separated between strategic level considerations for the GIF Board and operational recommendations for the GIF executive. The evaluation recognises that the GIF 2.0 Strategy, approved by the GIF Board in March 2019, anticipates the need for many of the changes highlighted in this report and references key strategic proposals where relevant.

Recommendations to GIF Board

15. It is recommended that in the next phase of GIF, **greater focus** on sectors and geography should be introduced and build on the existing portfolio with the use of **thematic** windows. The Board should introduce a **single decision panel** in order to improve the accountability of the Board and consistency in decision making.
16. It is recommended that the Board needs to develop an **investment thesis**– a clearly articulated definition of what it wishes GIF to achieve at portfolio level in terms of risk and return profile. This thesis should be clear to all at GIF and documented in a ‘user friendly’ **governance document**. This document should be a guide and support GIF’s approach to transparency and embed GIF’s culture which will improve the potential for learning and impact from its individual investments.
17. In terms of office presence, GIF’s priority should be to enhance its effectiveness by having a presence in the markets where it is active. GIF should reassess the need for the current structure of its Washington office and to identify which functions and activities are indispensable, and which can be relocated, whether to London or to one of the proposed new hubs in Africa and Asia.

Recommendations to GIF Executive

18. On investment selection, GIF should allocate more resources to undertake **more comprehensive** in-country **appraisals of investments** over and above existing analysis commissioned by GIF. The appraisals should be proportionate to the size of investment and employ appropriately qualified external thematic and country-specific experts. GIF should increase its efforts to mainstream gender, social inclusion and displacement considerations as a core component of both the proposal appraisal selection process and monitoring of performance.
19. In support of an articulated **investment thesis**, GIF would benefit from a clearer articulation of how it wishes to be **additional** in its chosen market. Given that the market for high-impact investments is crowded, there is a need for greater differentiation and for **greater selectivity** in the choice of investments. This includes the terms of financing with a greater use of **debt** and more use of **blended finance** which could support the pro-poor effectiveness of the investment with grants for venture support. The weaker performance of larger investments is a cause for concern, and

consideration should be given to including a greater use of **less risky instruments** (convertibles or debt), and greater focus on securing special rights for minority equity stakes.

20. It is recommended that there is **greater engagement** with investees (from contracting/negotiations stage, or even before) to identify any venture support required to enhance performance or manage risks related to the successful achievement of the investment's outcomes and impact.
21. There is a complete lack of standardisation in **reporting and documentation** across GIF. This applies both to investment selection and the monitoring of performance. **Standardised reporting formats** are needed to provide the basic information to show how the portfolio and individual investments are performing. The Practical Impact should be consistently used as part of an **annual investment progress review**, with regular revisions to PIA projections. The learning activities of GIF need to be supported by a dedicated **knowledge management function** assigning a specific responsibility to collate learning from across the portfolio and to facilitate the sharing of learning to a wider audience.
22. Increased focus on **gender and inclusion** is required at all stages of the GIF cycle from investment appraisal to the monitoring of results and analysed through the 3 key dimensions of **access to assets, voice** and **rules/social norms**.

1. Conclusions and Recommendations

1.1. Conclusions

This formative evaluation has three main objectives: (i) a **verification and assurance** of GIF's overall effectiveness and progress towards impact, (ii) an assessment of the **relevance and unique value proposition** within the development landscape and (iii) identification of **lessons and recommendations** for the way forward. These objectives have been addressed by this report's previous five chapters. The report has reviewed the **progress** of GIF towards impact; its **relevance** within the broader development ecosystem; consistency in the GIF **design**; the suitability of the **governance** and organisational structure, **operational systems and risk management**. Three overarching questions have been posed for the evaluation:

- ≡ Is GIF's model appropriate to its goals and demonstrated needs?
- ≡ How successful or likely to be successful has GIF been in terms of testing and scaling innovations targeted at improving the lives of the world's poorest?
- ≡ To what extent does GIF live up to the promise of its distinct value proposition?

The overall conclusion is that **GIF is a bold initiative and has offered something different and unusual to the development finance space**. The GIF concept and model is relevant and appropriate. The evaluation found **many merits in the GIF model**. The bringing together of a range of Government donors, the private sector and foundations to fund GIF is of itself highly unusual. The focus on evidence and the willingness to validate this evidence with RCTs sets GIF apart from most other funds. GIF has also created an opportunity for a wide platform within the international development community to learn about successful pathways to poverty reduction and to disseminate best practice.

While the GIF portfolio lacks the coherence found in other funding bodies, it has been successful in identifying a number of investments that are progressing well towards reducing poverty, although **there is insufficient evidence to demonstrate the extent to which the whole GIF portfolio of investments is progressing towards achievement of the predicted impacts**. The evaluation has some reservations about the extent to which some investments are pro-poor, and judges that other investments have not adequately considered the displacement effects on marginalised groups. Equally there are some reservations about the extent to which GIF has been additional (in the strict sense) rather than supporting the initiatives of others.

But **GIF has broadly done the right things**. The three-stage process from pilot through to scale as the pathway to impact is appropriate as set out in the Theory of Change. The underlying logic behind the GIF grant portfolio is that it should support pathways to scale that can be taken up by government or other public-sector funders. In this regard, GIF's relatively hands-off approach to strategic engagement is at odds with the underlying investment logic as GIF may miss opportunities to leverage support for scaling.

GIF considers itself to be unique in straddling the grant **making development space** usually occupied by challenge funds and the more commercial **impact investment space**. While GIF is unusual in occupying both spaces, there are plenty of actors in both spaces fishing in the same ponds for good investments. The question is therefore raised as to whether GIF would be better operating in one of these spaces and specialising its resource base. The conclusion of the evaluation is that the multiple instrument model of GIF is appropriate as it provides greater flexibility of engagement and is a key part of the unique GIF value proposition.

While in most cases the structure of finance provided seems broadly appropriate to the type and stage of each business, there are a number of instances where alternative approaches may have been better

aligned with GIF's goals. In particular there has been only limited use of **blended finance with grants for non-commercial activities** that could provide GIF with greater leverage in ensuring that impact objectives remain core to the business. Equally there may be further opportunities to look at the whole range of instruments at GIF's disposal as a package of tools able to shape the direction of investee businesses. This would integrate business and financial strategy in a way that is rare in the development finance world. But of more fundamental need is for the GIF Board to set an overall investment thesis which sets out the risk and return parameters of the portfolio as a whole.

The evaluation considers that the concept of **any** geography, **any** sector and **any** instrument has placed a strain on the extent to which GIF can operate effectively across such a heterogeneous portfolio and takes the view that greater impact and more learning can be derived from innovations with a greater degree of sectoral focus and geography. This is the key lesson from the benchmark organisations reviewed in both the grant and risk capital space and it is noted that this shift to greater focus is a core feature of the new GIF 2.0 strategy.

Overall a key weakness of GIF is to be found in aspects of its **organisational structure and operational systems**. The weakness in the systems starts with the basis on which **GIF identifies and selects investments**. The risk capital market is a relationship-driven business where successful deal selection is based on deep research to identify business models that will address clearly defined objectives. But grants to civil society organisations and NGOs are generally allocated on the basis of a much more competitive selection process and with this in mind, the open window system has not been implemented to good effect.

The absence of a consistent **Decision Panel** to guide the selection of investments goes against best practice for both risk capital and grant selection. The current Decision Panel model limits opportunities to make coherent portfolio-level decisions on investment selection and also opens up accountability issues for the GIF Board.

More generally, while there have been some noticeable improvements recently, the evaluation found that for the earlier investments there was a lack of rigour and consistency of the financial analysis in screening and structuring the investments. Specifically for risk capital, **inadequate financial analysis** and poor monitoring during implementation potentially increases the risk of default and could erode GIF's own financial sustainability.

The recent **strengthening of the GIF team on gender and analytics** is overdue and welcome. This will enable an improvement in the assessment of social exclusion and gender impacts which has not been consistently undertaken to date, either in the selection of investments or in tracking the performance of the investments.

The overall **information management systems** are not up to standard. This applies to the paper trail on investment selection but also to the standardising of monitoring data. GIF has developed an innovative ex ante tool for assessing the development impact of its innovations (Practical Impact) but currently is not collecting data and measuring the progress of the portfolio towards impact on a regular basis. A key part of GIF's mission is the gathering and sharing of evidence for widespread scaling, but knowledge management and collating and sharing learning from GIF's portfolio has been lacking to date.

The following recommendations have been separated between those intended for the Board to implement at a strategic level and more operational issues which are directed towards the GIF Executive.

1.2. Recommendations for the Board

1.2.1. Strategic focus of GIF

The GIF board should consider changing the **any** sector **any** geography positioning of GIF in line with the new strategic direction towards greater thematic and geographic focus. Greater focus will strengthen the learning opportunities across the portfolio and the ability for GIF to engage in influencing Government and the ecosystem. GIF could gain greater traction and influence by directing its new cross-sectoral focus areas towards sectors where it already has a presence: Agriculture, Health or Education. In addition, GIF should look to deepen its expertise in key areas where it already has investment experience, such as the use of pay-as-you-go technologies to provide access to core services to the poor, the use of behavioural nudges to drive positive behavioural change and the provision of comprehensive services to smallholder farmers (amongst other examples).

1.2.2. Establish a consistent Decision Panel

The existing structure of the investment decision-making organs risks exacerbating the challenge of establishing a **consistent** investment analysis methodology, and potentially diminishes GIF's ability to learn from its investment activity. It is therefore proposed to support the creation of a single 'Decision Panel' (DP). The DP² could operate as follows:

- ≡ The DP would be a **standing committee** overseen by the Board (i.e. effectively an Investment Committee). The DP would need to meet as required (e.g. quarterly) to respond to GIF's investment decision-making requirements. The frequency with which it needs to meet could be reduced by appropriate delegation of investment decision-making authority.
- ≡ This would not require significant changes to **GIF's Investment Process**.
- ≡ The Human Resources Committee would be responsible for advising the Board on the appropriate composition of the DP. The DP should be made up of Board members and independent members.
- ≡ As the trustees remain legally accountable for the work of the DP, the DP should include suitably skilled individuals in investment and risk decision-making/monitoring experience as well as experienced Board members.

1.2.3. Portfolio investment thesis

The Board needs to develop a clearly articulated definition of what it wishes GIF to achieve at portfolio level. Currently the operating investment thesis is in practice, to maximise the social value of its investment portfolio, but there is insufficient guidance on what is required for individual investment strategies to be credible. GIF's Investment Memos cover the relevant areas in the section on Investment Criteria, but there is no common standard against which to assess the ability of each investment to contribute to GIF's overall portfolio objectives.

An investment thesis would be a written document defining the concrete benefits expected at portfolio level and the trade-offs that need to be quantified in each deal regarding cost, size, development impacts, learning opportunities and management time requirements. As a minimum the investment thesis needs to articulate thresholds of **risk tolerance, organisational and financial parameters** - effectively a supplementary analysis to the Practical Impact.

² More detail is provided in Annex 10.

Governance document

Given the range of documents that record GIF's governance framework, a 'user friendly' governance framework roadmap to guide users through the documentation could form a useful part of GIF's approach to transparency, and the embedding of GIF's culture. The documents themselves including the GIF Founding Document, GIF Articles, Byelaws and Scheme of Delegated Authorities are all adequate, with minor suggestions for improvement set out in Annex 10. A simple document or guide will be increasingly important when GIF establishes 'multiple vehicles' in accordance with its proposed new strategy.

1.2.4. Review role of Washington office

The evaluation considers that GIF's priority should be to enhance its effectiveness of GIF by having a presence in the markets where it is active. GIF's stated intention to set up hub offices in Asia and Africa (Singapore and Nairobi) signals GIF's commitment to the markets where it operates and to local innovators. The move will create space to hire for local, contextual expertise, to build relationships and networks and create more differentiated pipelines of regional deals.

As long as GIF remains reliant on DFID and USAID for funding, it will need to maintain some presence in London and Washington D.C. GIF should reassess the need for the current structure of its Washington office and to identify which functions and activities are indispensable, and which can be relocated, whether to London or to one of the proposed new hubs. The executive should be requested to produce a detailed cost and benefits of a single headquarter supported by a number of regional hubs.

1.3. Recommendations for GIF Executive

1.3.1. Improve Open Window - thematic focused windows

GIF should consider closing the Open Window in its current format and introducing a more strategic approach to the focussing of **funding rounds** by development theme and/or geography with time-bound calls for applications. Other aspects of GIF's distinct characteristics could still apply (e.g. tiered funding, range of financial instruments, any organisation, etc).

GIF may wish to maintain the open window in order to capture innovations that might otherwise fall between the thematic priorities of thematically-focussed rounds. In this case, GIF should consider automating parts of the application and screening process, e.g. by introducing an initial registration stage with self-assessment checklists which would automatically exclude inappropriate or ineligible applications.

1.3.2. Selection of investments

In addition to the use of a new Decision Panel, the introduction of time-limited and thematically-focused funding rounds calls for theme-specific competitive appraisal judgment criteria and frameworks to enhance the consistency of appraisals and recommendations for investment.

GIF should allocate more resources to undertake comprehensive in-country appraisals of investments, proportionate to the size of investment and employing appropriately qualified external thematic and country-specific experts. The evaluation recognises that GIF currently works with expert network On Frontiers but suggests that this be supplemented by further engagement with in-country experts for an additional perspective, given the complexity of introducing innovations in particular geographic and sectoral contexts, and the ever-present risk of unintended negative consequences.

GIF should continue its efforts to mainstream gender, social inclusion and displacement considerations as a core component of both the proposal appraisal selection processes, as well as other operational processes including transparent and competitive procurement.

1.3.3. Improve risk capital management

(i) Investment practice

In support of an articulated investment thesis, GIF would benefit from a clearer articulation of how it wishes to be **additional** in its chosen market. Financial additionality through greater risk-taking may not be compatible with higher levels of portfolio return expectations. Given that the market for high-impact investments is crowded, there is a need for greater differentiation and for greater selectivity in the choice of investments and the terms of financing.

(ii) Choice of instruments

There has not been a consistent approach to using different financial instruments. There may be further opportunities in the portfolio for GIF to look at **debt-financing** as a valuable investment-management tool alongside equity financing, especially for businesses which have very low debt: equity ratios.

There is an opportunity for GIF to make greater use of **convertible instruments** in future, and perhaps also to include considerations of portfolio-wide exposure as well as the needs of individual investees in the setting of terms. This would enable GIF to have greater control over the management of its downside financial risk and a more coherent approach to managing risk at a portfolio level.

GIF should consider taking advantage of its financial flexibility by making **greater use of grants** as part of a package of **blended finance** in order to support the investments reach and measure the achievement of pro-poor objectives.

(iii) Consideration of exit strategies for equity investments

There is currently insufficient consideration of the pathway to exit from GIF's equity investments. When structuring its investments, GIF should give greater consideration to its exit strategies. Exiting minority stakes in illiquid markets is extremely difficult, and GIF should take this into account when determining the size and terms of its investments.

(iv) Portfolio management

At a portfolio level, the weaker performance of some of the investments should be addressed if GIF is targeting capital preservation. There are several options for remedying this situation in future, including a greater use of less risky instruments (convertibles or debt), and securing special rights for minority equity stakes. The former can be achieved relatively easily. The latter may be more difficult if GIF is a Series B or C funder alongside others, and it may only be possible for GIF to gain more control by taking **larger stakes in its investments**.

1.3.4. Proactive management of grants

There is a lack of consistency in the engagement of GIF and **underspent venture support**. It is recommended that there is greater engagement with investees (from contracting/negotiations stage, or even before) to identify any capacity development support required to enhance performance or manage risks related to successful achievement of the investment outcomes and impact.

There is a need to establish mechanisms for **provision of technical support** to investees, prioritising those that allow investees to identify local providers as part of the funding package.

Consideration should be given to **engaging local support in countries** or regions of benefit to provide more hands-on assistance and monitoring where required, troubleshooting or influencing/disseminating in the ecosystem.

1.3.5. Monitoring, evaluation, and learning

There is a lack of standardisation in **reporting and documentation** across GIF. This applies both to investment selection and monitoring of performance.

Consideration should be given to introducing more **standardised reporting formats** that provide the basic information required to maintain an overview of how the portfolio and individual investments are performing. This will enable the GIF Board to maintain oversight of performance and enable GIF to report more widely on the achievement of the portfolio. All investees should be required to produce a standardised **investment completion report** at the end of the GIF grant or exit by GIF.

The **Practical Impact tool should be updated regularly** for each investment so as to reassess the potential impact from the GIF portfolio on an annual basis.

Develop a **knowledge management function** and consider assigning a specific responsibility for management of learning to collate learning from across the portfolio and to facilitate sharing of learning within the portfolio and more broadly to the ecosystem as appropriate.

1.3.6. Gender and inclusion

A gender focused strategy has been launched with Canadian support and the greater emphasis has been acknowledged for GIF 2.0. A Gender Framework is included in Annex 11 to support the implementation of a gender lens through the management cycle from investment selection to monitoring of results through the key dimensions of:

- ≡ **Assets and services** in the hands of those excluded, improves their condition and also their ability to enhance influence and hold the state and other social actors accountable.
- ≡ **Voice, Influence and Agency**, which provides access to decision making, and is largely determined by representation and organisation building.
- ≡ **Rules of the game:** Norms, policies and institutional changes. They may also be referred to as the broad enabling environment.

MANAGEMENT RESPONSE TO THE INDEPENDENT EVALUATION OF GIF DECEMBER 2019

Background

As an evidence-based organisation devoted to learning, the Global Innovation Fund (GIF) Board of Directors engaged IPE Tripleline to undertake a formative independent evaluation of GIF in 2019. GIF, like its investees, is an innovator. Innovators succeed by seeking feedback and using it to continually improve their efficiency and effectiveness. This formative evaluation provides a valuable opportunity for GIF to reflect on what is working well and on the opportunities for changes that accelerate the delivery of its mission and impact.

GIF appreciates the evaluation's constructive suggestions, many of them already anticipated in the GIF strategy adopted in April 2019. These largely centre on the need for increased efficiency:

- GIF's processes for monitoring investee performance have not kept up with the growth of the portfolio and can be strengthened. This will bolster productive supervision of and support to investees in the portfolio, another area of attention.
- The Open Window can be redesigned to better elicit strong grass-roots innovations while directing worthy but less innovative proposals to other funders.
- There are advantages to setting up a standing Decision Panel that would have a consistent understanding of GIF's goals and operations.
- Without giving up an ambition to be globally inclusive, there are efficiency advantages to some degree of geographic focus of operations, supported by a local presence.

GIF is committed to redoubling its efforts to promote external learning from, and among, its investees, and from its own operations. Now that GIF's earlier investments are beginning to mature, it is beginning to reap a rich harvest of rigorous studies and to develop deep insights into operational challenges, and is able to share these lessons with the development programme and development finance communities.

GIF deeply appreciates IPE Tripleline's extensive efforts to understand GIF's complex operations, though there are three areas where the recommendations made are appreciated but are unlikely to be followed to the letter.

That divergence of opinion aside, GIF welcomes this evaluation – its process and this final report will inform how GIF delivers on its recently approved strategy 2019-24.

GIF Response to the Recommendations:

7.2. Recommendations for the Board

7.2.1. Strategic focus of GIF

The GIF board should consider changing the any sector any geography positioning of GIF in line with the new strategic direction towards greater thematic and geographic focus...GIF could gain greater traction and influence by directing its new cross-sectoral focus areas towards sectors where it already has a presence: Agriculture, Health or Education. In addition, GIF should look to deepen its expertise in key areas where it already has investment experience...

Response:

GIF was founded with a deliberate creative tension in the model. We have a commitment to open innovation in our DNA, but also have limited resources to deploy, which may make specialisation appealing. We embrace this tension, and, as this recommendation suggests, we do look to deepen our expertise in key areas where we have a growing track record.

A sectoral focus, tightly defined, would push GIF toward a challenge fund model in ways that are not consistent with our mission or the unique offering that the evaluation finds that we offer. However, a focus on cross-cutting thematic areas can be equally powerful for supporting focus in a context of open innovation and consistent with the evaluation's finding. We are pleased that in the spirit of this recommendation, in our recent strategy review, the Board directed GIF to focus on three critical

outcomes (improving public services; enhancing markets to support productive jobs; agency for women and girls). We did so while agreeing that we would carefully balance this focus with our commitment to open innovation that is at the heart of the GIF model and embrace this tension by working to improve the quality of the applications received via our Open Window. That work is on-going and we look forward to reporting the results.

7.2.2. Establish a consistent Decision Panel

The existing structure of the investment decision-making organs risks exacerbating the challenge of establishing a consistent investment analysis methodology, and potentially diminishes GIF's ability to learn from its investment activity. It is therefore proposed to support the creation of a single 'Decision Panel' ... to serve as an investment committee.

Response:

In the GIF 2019 strategy review, the Board directed GIF to develop a proposal for a standing Decision Panel. We have delayed implementation of this, but agree with the thrust of the evaluation recommendation. We are pleased that the evaluation notes that it is critical that the Decision Panel be consistent but also that it intentionally should neither be wholly independent nor consisting only of Board members. This strikes the correct balance between continuity and accountability, as well as leveraging the power and best practice of professional investment management. We appreciate that the evaluation notes that our governance frameworks support this approach as well.

7.2.3. Portfolio investment thesis

The Board needs to develop a clearly articulated definition of what it wishes GIF to achieve at portfolio level. Currently the operating investment thesis is in practice, to maximise the social value of its investment portfolio, but there is insufficient guidance on what is required for individual investment strategies to be credible. GIF's Investment Memos cover the relevant areas in the section on Investment Criteria, but there is no common standard against which to assess the ability of each investment to contribute to GIF's overall portfolio objectives.

An investment thesis would be a written document defining the concrete benefits expected at portfolio level and the trade-offs that need to be quantified in each deal regarding cost, size, development impacts, learning opportunities and management time requirements. As a minimum the investment thesis needs to articulate thresholds of risk tolerance, organisational and financial parameters - effectively a supplementary analysis to the Practical Impact.

Response:

GIF has a powerful, if general, investment thesis: to invest (including grantmaking) to accelerate evidence-based innovation that improves the lives of poor people. We measure our impact not by lives touched, nor by financial returns, but by expected welfare gains experienced at scale, using the Practical Impact approach. Our analysis of risks, organisational and financial parameters, documented carefully on a deal-by-deal basis as the recommendation notes, is undertaken in pursuit of this clear goal.

As GIF's portfolio matures, a portfolio-wide assessment of risk and financial performance is an excellent additional element, as scale contributes to our overall impact. The Board has constituted a Portfolio Review Committee as a sub-set of the Audit and Finance Committee to oversee this work. Because of our goal to maximise social value and avoid crowding out commercial capital, the analysis that might be appropriate at a traditional investment fund seeking to maximise profits doesn't take into account GIF's mission and mandate.

Governance document

Given the range of documents that record GIF's governance framework, a 'user friendly' governance framework roadmap to guide users through the documentation could form a useful part of GIF's approach to transparency, and the embedding of GIF's culture...

Response:

We welcome this feedback as well as suggestion to make additional elements of our governance framework publicly available and will seek to implement it in 2020.

7.2.4. Review role of Washington office

... GIF should reassess the need for the current structure of its Washington office and identify which functions and activities are indispensable, and which can be relocated, whether to London or to one of the proposed new hubs. The executive should be requested to produce a detailed cost and benefits of a single headquarter supported by a number of regional hubs.

Response:

GIF's Washington presence strongly supports our strategic engagement with the US-based development finance, development policy, and impact investing communities, and with our partners at USAID, with whom we collaborate closely at several levels.

In line with the recommendation, we continually evaluate whether our structures are fit for purpose and undertake analysis of our costs of operations across for all of the markets in which we have a presence, and will continue to do so.

7.3. Recommendations for GIF Executive

7.3.1. Improve Open Window - thematic focused windows

GIF should consider closing the Open Window in its current format and introducing a more strategic approach to the focussing of funding rounds by development theme and/or geography with time-bound calls for applications...

GIF may wish to maintain the open window in order to capture innovations that might otherwise fall between the thematic priorities of thematically-focussed rounds. In this case, GIF should consider automating parts of the application and screening process, e.g. by introducing an initial registration stage with self-assessment checklists which would automatically exclude inappropriate or ineligible applications.

Response:

In line with the Board-approved strategy review approved in 2019, GIF has reaffirmed our Open Window as part of our commitment to the belief that great ideas can come from anywhere, a commitment that is core to our DNA. In line with that commitment, the Board decided against specific funding rounds on narrow topics during that strategy process.

We welcome the recommendation on improving the Open Window, including the recommendation to automate some aspects, and note that improvements to GIF's website and the Open Window are underway to improve their efficiency and effectiveness.

To further enhance this work, GIF has tasked an implementation group with driving forward changes to the Open Window and the investment team processes around it, as well as appointing an Open Innovation Lead on this agenda internally and externally. It is an agenda where we work closely with colleagues at USAID given our shared commitment to open innovation.

7.3.2. Selection of investments

In addition to the use of a new Decision Panel, the introduction of time-limited and thematically-focused funding rounds calls for theme-specific competitive appraisal judgment criteria and frameworks to enhance the consistency of appraisals and recommendations for investment.

GIF should allocate more resources to undertake comprehensive in-country appraisals of investments, proportionate to the size of investment and employing appropriately qualified external thematic and country-specific experts....

GIF should continue its efforts to mainstream gender, social inclusion and displacement considerations as a core component of both the proposal appraisal selection processes, as well as other operational processes including transparent and competitive procurement.

Response:

We agree with the recommendation concerning the need for deep understanding of local context as core to the sourcing, selecting, and diligence of potential innovations, and we will continue to engage such expertise at all stages of our investment process, getting smarter ourselves over time. Our move to regional offices will grow our cadre of country-specific experts, in addition to those sources through expert networks, and we welcome this challenge.

GIF will continue to mainstream gender, social inclusion and displacement considerations as this is core to our model. We note, as does the evaluation, that our partnership with Global Affairs Canada (GAC), has enhanced our progress in this dimension. This is true in the case of the Innovating for Gender Equality sub-fund, supported by GAC, and across GIF more broadly.

The recommendations concerning time-limited and thematically-focused funding rounds are covered elsewhere in this response.

7.3.3. Improve risk capital management

(i) Investment practice

In support of an articulated investment thesis, GIF would benefit from a clearer articulation of how it wishes to be additional in its chosen market. Financial additionality through greater risk-taking may not be compatible with higher levels of portfolio return expectations. Given that the market for high-impact investments is crowded, there is a need for greater differentiation and for greater selectivity in the choice of investments and the terms of financing.

Response:

GIF thinks of additionality broadly, going beyond the question of whether an investment have happened without us. We prioritise impact and are selective in how our investment can positively influence the structure, risk profile, and/or complementarity of (co-)investment to enhance our commitment to impact, thus increasing the likelihood of operational, financial and impact success.

(ii) Choice of instruments

There has not been a consistent approach to using different financial instruments. There may be further opportunities in the portfolio for GIF to look at debt-financing as a valuable investment-management tool alongside equity financing, especially for businesses which have very low debt: equity ratios.

There is an opportunity for GIF to make greater use of convertible instruments in future, and perhaps also to include considerations of portfolio-wide exposure as well as the needs of individual investees in the setting of terms. This would enable GIF to have greater control over the management of its downside financial risk and a more coherent approach to managing risk at a portfolio level.

GIF should consider taking advantage of its financial flexibility by making greater use of grants as part of a package of blended finance in order to support the investments reach and measure the achievement of pro-poor objectives.

Response:

GIF does, and will continue to, use a wide range of instruments. GIF negotiates minority protections in all risk capital investments and considers financial risks and returns alongside impact risks and rewards in structuring each individual deal and the portfolio. We agree that this not only should result in a portfolio that is a mix of debt, equity, hybrid and blended instruments over time, but also a portfolio that is qualitatively different than a portfolio that maximises financial returns alone.

When investing in India, GIF deploys only equity because of the relevant regulatory regime.

(iii) Consideration of exit strategies for equity investments

There is currently insufficient consideration of the pathway to exit from GIF's equity investments. When structuring its investments, GIF should give greater consideration to its exit strategies. Exiting minority stakes in illiquid markets is extremely difficult, and GIF should take this into account when determining the size and terms of its investments.

Response:

Thanks to our evergreen structure and our investment thesis, we are able to allow our exit strategy to be driven by the goal of maximising social impact and can remain a long-term partner for the investee company when other investors have structural reasons for needing to exit early. We are learning important lessons from this stance, including from the minority investment we exited already, which influence how we structure future investments and perspectives that we can share with broader development finance community.

(iv) Portfolio management

At a portfolio level, the weaker performance of some of the investments should be addressed if GIF is targeting capital preservation. There are several options for remedying this situation in future, including a greater use of less risky instruments (convertibles or debt), and securing special rights for minority equity stakes. The former can be achieved relatively easily. The latter may be more difficult if GIF is a Series B or C funder alongside others, and it may only be possible for GIF to gain more control by taking larger stakes in its investments.

Response:

As the GIF portfolio has grown over the past five years, we have matured our processes, including the introduction of the Financial Review Committee; we may be less likely to make some of our earliest investments now. We appreciate the evaluations recognition of this growth and evolution over time.

We continue to balance our primary aim of maximising social value with the secondary focus on capital preservation, noting that a capital preservation goal across the entire portfolio could lead to unintended consequences of taking less risk, rather than purposefully taking greater risk to fill the financing void to support earlier stage innovators that is core to GIF's mandate.

As noted above, our special rights as minority shareholders are carefully considered in all deals. Proposals to take majority stakes in large deals are inconsistent with GIF's Byelaws and may run contrary to our commitment to invest in such a way that we crowd in private capital, rather than crowding it out.

7.3.4. Proactive management of grants

...It is recommended that there is greater engagement with investees (from contracting/negotiations stage, or even before) to identify any capacity development support required to enhance performance or manage risks related to successful achievement of the investment outcomes and impact.

There is a need to establish mechanisms for provision of technical support to investees, prioritising those that allow investees to identify local providers as part of the funding package....

Consideration should be given to engaging local support in countries or regions of benefit to provide more hands-on assistance and monitoring where required, troubleshooting or influencing/disseminating in the ecosystem.

Response:

Over time we have gained a greater confidence in our ability to provide strategic support to our portfolio, and greater support for this work from key stakeholders. We have learned, and agree with the evaluation, that a key lesson is that this is often a question of bandwidth more than budget. We will continue to work to improve as an active, but strategic, partner to our portfolio. This may evolve over time with an increased local presence for GIF in the markets where we operate.

We agree with the evaluation noting that influencing and disseminating in the ecosystem can be as supportive for portfolio partners as capacity development, and thus that the need for a well-resourced communications and advocacy function is evident. This differs from traditional investment vehicles, but is very consistent with the unique GIF offering and our own theory of change.

7.3.5. Monitoring, evaluation, and learning

... Consideration should be given to introducing more standardised reporting formats that provide the basic information required to maintain an overview of how the portfolio and individual investments are performing. This will enable the GIF Board to maintain oversight of performance and enable GIF to report more widely on the achievement of the portfolio. All investees should be required to produce a standardised investment completion report at the end of the GIF grant or exit by GIF.

The Practical Impact tool should be updated regularly for each investment so as to reassess the potential impact from the GIF portfolio on an annual basis.

Develop a knowledge management function and consider assigning a specific responsibility for management of learning to collate learning from across the portfolio and to facilitate sharing of learning within the portfolio and more broadly to the ecosystem as appropriate.

Response:

We are pleased that this evaluation notes the power and usefulness of Practical Impact and we will act on the recommendations made, including the annual updating of Practical Impact forecasting for each investment in the portfolio that is underway.

The evaluation rightly notes that the next step is for GIF to formalise and upgrade the existing knowledge management system to ensure that we are capturing data in a timely manner, and then sharing lessons learned in our engagement with the broader community of practice, which we are committed to doing and reporting on.

7.3.6. Gender and inclusion

A gender focused strategy has been launched with Canadian support and the greater emphasis has been acknowledged for GIF 2.0. A Gender Framework is included... to support the implementation of a gender lens through the management cycle from investment selection to monitoring of results...

Response:

GIF has built the expertise to apply a gender-lens to each pipeline investment, looking at how and why gender norms, relations, inequalities, roles and expectations are relevant in the context of each innovation.

GIF will incorporate and build on the provided gender framework when considering potential gender equality innovations and particularly for those innovations that aspire to be gender transformative. We have been assisted in this work by external experts and our partners at Global Affairs Canada and Sida, which has allowed us to develop the investment strategy and processes that we are now implementing.