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ANTICIPATED IMPACT
MEASUREMENT & MONITORING

AIMM Sector Framework Brief
Sector Economics and Development Impact Department
International Finance Corporation

FUNDS

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Development Impact Thesis – IFC's investments in funds help address the needs of underserved and financially constrained businesses. These investments focus primarily on attracting institutional equity to fund the needs of early-stage to mid-market companies, develop and attract qualified fund managers who can select these investees, and support them with capital and advice to grow, innovate, deepen institutionalization, and promote more dynamic business ecosystems, which:

→ Increases access to growth capital
→ Grows businesses' operations, footprint and revenues
→ Transfers expertise and know how through a fund manager's active investment strategy
→ Supports underserved groups, including SMEs

⇨ **Project Outcomes**

→ Promotes development of private equity (PE) ecosystem by increasing investments and country-focused, actively engaged managers
→ Increases integration through the introduction of new institutional limited partners (LPs), formation of international trade linkages, and strengthening of the domestic digital economy
→ Supports inclusive business models or practices aimed at underserved/vulnerable groups

⇨ **Contributions to Market Creation**

Development Gaps Targeted

- Lack of growth capital for businesses
- Lack of professional expertise and advice for businesses
- Low private equity or venture capital market activity
- Low presence of equity fund managers
- Lack of developed local PE/VC ecosystems
- Low economic innovation and efficiency
- Low economic growth
- Limited social inclusion

Rating Construct – All AIMM sector frameworks include detailed guidance notes that help define project outcomes and contributions to market creation, aggregating to an overall assessment of development impact.

- For project outcomes, stakeholders effects are the key components for which industry-specific benchmarks define the context in which an IFC operation seeks to drive changes. This gap analysis is combined with a separate set of impact intensity estimates that specify the expected results using predefined indicators.

- For contributions to market creation, industry-specific market typologies define stages of development for five market attributes (or objectives): competitiveness, resilience, integration, inclusiveness, and sustainability. These market typologies, when combined with estimates of how much an intervention affects the development of a market attribute, provide the foundation for IFC's assessment of an intervention's market-level potential for delivering systemic changes.

PROJECT OUTCOME INDICATORS	
Stakeholders	<u>Investee growth</u> • Financial indicators at the investee level <u>Transfer of expertise and know-how</u> • Knowledge transfer and operational value-add to investee (qualitative) <u>Additional considerations for funds with an explicit investee target</u> • Percentage of investees that are SMEs at the time of initial investment • Percentage of investees targeting under-represented groups • Number of investees with women owners or in executive positions <u>Investees' customers (sector-specific)</u> • Access to goods or services for the end customers of the investee companies of the fund <u>Local fund manager teams</u> • Advanced capacity building of fund manager teams
Economy-wide	• Value-add (GDP) • Jobs created
Environmental / Social	• Sector specific frameworks apply

CONTRIBUTION TO MARKET CREATION INDICATORS	
Competitiveness	<u>Market structure</u> • PE investment activity in the given market • Number of country-focused and actively engaged fund manager • Strength of the local PE market eco-system <u>Market regulation</u> • Level of development of the PE related regulation
Resilience	• Changes in PE fundraising trends across economic cycles
Integration	<u>Capital mobilization</u> • New private institutional LPs engaging in the PE market <u>Trade links</u> • New International partnerships/companies established as a result of the intervention <u>Digital economy</u> • Domestic strengthening of the digital economy
Inclusiveness	• Inclusive business models and practices • Diversity in fund's workforce
Sustainability	• Adoption of sustainability practices, technologies by business operating in the market • Financial sector policies and instruments to enable and support ESG and climate-related risk and opportunities

Sector Specific Principles or Issues – The following principles will be applied for projects rated under this framework:

Principle or Issue	Treatment Under Framework
Indirect effects	While IFC's investment is made with respect to a fund manager, the bulk of the development impact will occur at the investee level: investees need risk capital and expertise and are expected to grow as a result of IFC's investment. As such, the assessment focus will include both the indirect effects of IFC's investment on the fund's investees (primary assessment); and, if appropriate, on the fund manager.
Target setting	The PE business model entails investing first in a fund manager, which in turn invests in businesses at a later stage (on some occasions, there can be a significant time lag between the two investments). When IFC considers investing in a fund manager, it needs to contend with significant uncertainties about the actual investees supported, especially in the case of generalist funds and regional funds, even when fund managers offer a pipeline of high-probability investees. The development impact assessment cannot be based on investees' specific growth plans or targets (e.g. final users, prices etc.) – but on general targets on business growth that can be applied uniformly regardless of the type of business or sector. In the case of sectoral funds, certain sector-specific targets can be added.
Cross-border objectives	In the case of regional funds that span countries where PE markets exhibit different levels of development, a key aspect of the assessment will consider whether commitments or country targets can be made. In the case of regional funds that target both developed and underdeveloped PE markets, the effort made by the fund manager in reaching the most difficult contexts will be explicitly recognized.
Differentiated business models	Growth and venture capital (VC) funds exhibit different business models: while the objective of growth funds is to expand the investees' businesses uniformly across their pool of investees, VC funds tend to be riskier and invest at an earlier stage, where the probability of success is lower and the growth trajectories across investees is not uniform. The AIMM framework recognizes the difference in business models explicitly.
Track record	The quality of the fund manager is critical to achieve both financial and development impact. The assessment will consider explicitly a fund manager's track record and skills in delivering these effects, for example in relation to their local knowledge, ability to raise funds, sector-specific or industry-specific knowledge, sufficient local presence, and understanding of the local drivers.
Generalist versus sector funds	Market creation effects from IFC's investment in funds relate to both capital and real markets. Capital markets are affected via the development of the PE markets, while real markets can be affected through the investees' markets of operation. For generalist funds, given the uncertainty and variety of sectors that can be affected by the investment, the AIMM system recognizes that assessing these impacts ex-ante may be more complex or that sufficient scale does not exist for a single investment to deliver measurable outcomes; while for sector funds (including VC funds that focus on technology), these impacts may be captured more clearly.
Strengthening capital markets	Another critical market effect of IFC's investment in funds is through demonstration (and by a reduction in perception of risks) that fund managers provide to other potential market participants, both at general partner (GP) and LP level, and especially in frontier markets where IFC aims to develop first-time fund managers. This effect includes AMC co-investing in certain IFC-invested funds, which helps expose asset managers, typically from developed economies and with high risk aversion, to emerging economies, thus strengthening local capital markets.
Realizing development potential	In tracking and monitoring claims, the AIMM system recognizes that IFC's fund business develops over a longer time frame than direct investments. As such, the AIMM system recognizes that the full extent of the development potential may not be clear until a business is sold by the fund manager.

Project Outcomes – A single funds framework has been developed with the flexibility to assess the different types of funds that IFC invests in, which can be grouped as follows:

- Growth Equity Funds (typically generalist funds; i.e. without a sector focus) provide equity capital for small and mid-cap companies not reached by IFC's direct investment.
- Venture Capital (VC) Funds catalyze entrepreneurship and the local VC ecosystems.
- Small Business Focused Funds target small and medium enterprises ("SMEs"), typically in International Development Association ("IDA") and Fragile and Conflict Situations ("FCS") countries and frontier regions.
- Sector Specific Funds complement IFC's Direct Investment Program and can be mission-oriented, as is the case with climate change funds.
- Funds supported by IFC's Asset Management Corporation (AMC) support the mobilization of third-party investor capital through AMC and large institutional investors, who are just beginning to look towards emerging markets; mainly applicable for growth or sector-focused funds.

The development gap is an estimate of the development challenge that is being addressed by the project and provides context for the project's development outcomes. The gap is sector- or segment-specific and is benchmarked against all emerging market countries. The gap assessment uses data collected by IFC from various public sources. The table below illustrates an application of some of the main outcome gap indicators and their benchmarking. Two types of gaps need to be considered when assessing fund investments, which are namely the gap in PE (or VC, respectively) market activity and the gap in the real sector (for sector funds only).

COUNTRY CONTEXT	Low Gap	Medium Gap	Large Gap	Very Large Gap
Investees	– PE investment volumes and penetration rates significantly higher than EMs, and/or access to capital significantly less constrained than most EMs – Target segment share is at the same level or higher than that of economies with similar overall gaps	– PE investment volumes and penetration rates higher than most EMs and/or access to capital less constrained than most EMs – Target segment share of total market investment below EMs displaying similar overall gap	– Country receives some PE investments but in significantly lower amounts than other EMs, and/or access to capital is limited – Targeted segment share of total market investment significantly lower than that of similar gap countries	– PE not available or negligible, and/or access to capital severely constrained – Targeted segment share of total market investment is nearly non-existent

The core outcome for fund investments is the effect of the project on the fund's investees, with the objective being to combine equity capital and expertise to make investees become more efficient, expand operations and jobs, and achieve higher growth and revenues. Through selected fund managers, IFC supports early-stage and mid-cap companies in emerging markets, to help them grow organically as well as through improvements in operational efficiency and governance standards resulting from the transfer of knowledge by the fund manager. In general, of the stakeholders identified by this framework (investees, investees' customers and local fund managers), effects on investees and investee growth will take priority in assessing project outcomes. In the case of funds with specific developmental targets, development effects will be assessed in relation to the extent to which capital and support is provided to SMEs and businesses run by underrepresented groups (e.g. women, youth). Investees' business growth implies not only direct value added and employment effects, but also indirect economic effects captured under economy-wide impacts, estimated through economic models. Similarly, investments in climate-focused funds will have environmental and social impacts, assessed using the relevant AIMM sector frameworks.

PROJECT INTENSITY	Below Average	Average	Above Average	Significantly Above Average
Financial indicators of investee growth	For financial indicators that measure the expected growth rate of investees, such as revenue growth – intensity ranges have been developed based on: information available on returns at investee level for funds operating in emerging markets, from market analysts' databases; IFC's own fund portfolio data; market expertise. Based on these intensity ranges, as well of a detailed review of a Fund 's track record and strategy, an assessment is made.			
Developmental aspects associated with investees	Based on the strategy or commitment to certain developmental targets by Fund Managers, ranges have been developed along the following dimensions: the percent of investees that are SME at time of investment; the percent of investees targeting under-represented groups; the percent investees with women owners/executives; the percent of investees headquartered in the more underdeveloped areas in a country.			
Knowledge transfer	When a Fund manager possesses superior local presence, unique local business environment and cultural insights, market-recognized frontline technical/sector expertise and unique market connections. These are typically indicators of significantly above average performance for the investees. The assessment is qualitative.			

The AIMM methodology considers the uncertainty around the realization of the potential development impact being claimed, making a distinction between the potential outcomes that a project could deliver and what could be realistically achievable in the project's development context. The table below presents the key types of risk factors assessed.

PROJECT LIKELIHOOD	Operational Factors	Sector Factors
Assessment Considerations	• Fund manager's experience and track record of deal sourcing and exiting, returns in prior PE funds • Pipeline (ability to generate proprietary deal flow) • Prior joint work experience of the fund management team; established team dynamics • Local presence and knowledge of local business environment and culture; existing in-country professional networks • Target sector expertise • Availability of advisory services for either the fund manager or investees, or both • Type of strategy being employed: familiar vs. new • Geographic focus of fund's strategy: one-country vs. regional	• Type of capital invested: Venture Capital vs. Growth equity, and SME • Specific macro-economic risks, if consequential for Fund investees

Contribution to Market Creation – This section assesses the degree to which a project induces systemic changes in the market through demonstration effects, capacity building of fund managers and investees, promoting competition, and potential positive change in regulatory systems. Market outcomes include broader issues beyond individual investee firms, including the strengthening of an asset class that remains largely underdeveloped in most EMs, e.g. through the crowding-in of other various types of fund managers, especially locally-based, other investors (e.g. Limited Partners from developed economies willing to diversify their portfolio) and more generally increase PE activity through different channels. Other market impacts relate to the strengthening of domestic and international trade and value chain links, of the digital economy, and the promotion of advanced business standards and sustainability practices. The most relevant market attributes for fund investments are competitiveness and integration. However, when assessing a specific project, resilience and/or inclusiveness and/or sustainability can also drive the development impact of the specific project. IFC, through its experience, has found that after its initial engagement in a new market and as PE investments are made, there is a gradual build-up of interest in PE for fund managers and investors alike. In addition, IFC brings the asset class to international institutional investors through information sharing (equally applicable to VC) and the dissemination of industry-wide standards on structures and terms. The table below focuses on core market attributes that IFC investment projects typically affect.

MARKET TYPOLOGY	Highly Developed	Moderately Developed	Underdeveloped	Highly Underdeveloped
Competitiveness	– Many investments by Funds have been made in the market; these were of substantial value – A large number of country-focused fund managers are active in the market – A highly functional and wide-spread support network of organizations and individuals, such as associations, lawyers, business advisors – Market regulated in line with global practices/standards	– A number of investments, of sizeable value, have been made by Funds in the market; – A relatively large number of active country-focused fund managers in the market – Functional support network of organizations and individuals, associations, lawyers, business advisors – Market regulated broadly in line with global practices/ standards	– Only a few investments have been made by Funds in the market; investments of limited value – A limited number of country-focused fund managers in market are active in the market – Very limited support network of organizations and individuals, such as associations, lawyers, business advisors – Market regulated well below global practices/standards	– No / very few investments have been made by Funds in market – No country-focused fund managers active in the market – Highly under-developed support network of organizations and individuals, such as associations, lawyers, business advisors – Market has no explicit regulation on PE investments
Integration	– PE market operates with large set of private institutional LPs investing – Market operates with high set of export products – ICT for B2B and B2C transactions activity level is high within market	– PE market operates with moderate set of private institutional LPs investing – Market operates with moderate set of export products – ICT for B2B and B2C transactions activity level is moderate within market	– PE market operates with very limited set of private institutional LPs investing – Market operates with limited set of export products – ICT for B2B and B2C transactions activity level is low within market	– PE market operates with no private institutional LPs investing – Market operates with practically no export products – ICT for B2B and B2C transaction activity level is almost non-existent

In general, most individual projects are not expected to make a significant and immediate systemic market change, unless the project is a pioneer in a non-existent or nascent market. Instead, most projects are expected to have incremental effects on the market. In other words, it takes more than one intervention to move a market to the next stage. This means that integrated and concerted efforts are often needed to generate substantial market effects. For example, cumulative World Bank Group efforts over time will have a stronger effect on markets than non-integrated and non-concerted interventions. Where a project is explicitly part of a programmatic approach, the expected movement induced by the program should be the basis for the assessment where timebound movements, market effects, and indicators are available. The most important market creating effects from IFC's fund investment operations are:

MARKET MOVEMENT	Marginal	Meaningful	Significant	Highly Significant
Competitiveness	The combination of the current stage of the market and of the expected potential impact on this market results in the assessment of the market-creating effect. The demonstration effect of the fundraising and the financial viability of the project derived from IFC's support of successful new players draw in new country-focused and actively engaged fund manager teams. Technical assistance to the fund manager will improve the quality of the fund managers in the market, increasing their ability to source deals (and therefore, increase the number and volume of investments) and improve investees' performance. This will increase financial results and increase PE market activity. Moreover, the number of new market entrants may increase, where a fund's operations can influence positive changes in the regulatory system of a host country(ies), thereby strengthening the domestic PE ecosystem. In relatively developed markets, the contribution to market creation outcomes are stronger when the market movement is significant, while in less developed markets meaningful market interventions can achieve strong ratings. By implication, meaningful projects in more developed markets get a lower premium compared to the same projects in under-developed markets.			
Integration	The focus is on both the PE market and the real and services sectors (on digital markets for VC funds or technology investments), with the aim of measuring the project's contribution to PE market integration through the introduction of new LPs in the market, increased digitalization of economies, and international trade linkages. In the real and service sectors, integration occurs through e.g. the capacity building of fund investees, resulting in the introduction of innovative technology-enabled solutions at the market level, while the institutionalization of investees allows for an increased number and quality of goods and services to reach underserved/underrepresented groups. Innovations, including in value chains, processes, and technologies can also increase trade links which can boost regional integration. Connecting previously fragmented markets in such a way produces a more efficient economy overall and strengthens the digital economy.			

The market likelihood adjustment follows the principles for the likelihood adjustment for project outcome potential. In general, the likelihood assessment includes sector-specific, as well as broad country risks that may prevent potential catalytic effects from occurring, plus political economy or policy/regulatory risks that may constrain market systemic change. Due to the diversity of market creation attributes and channels, most of the likelihood factors are expected to be sector, or intervention specific.

MARKET LIKELIHOOD	Sector Factors	Political / Regulatory / Policy Factors
Assessment Considerations	• Likelihood of achieving the project outcomes • Fund's footprint relative to size and complexity of the market – to gauge strength of the change channel – e.g. demonstration effects • Concerted efforts within a longer term IFC strategy (i.e., more IFC funds active in contributing to same market creation dimension increases likelihood of success).	• Market stability, political, and economic environment • Presence / strength of sector regulations or government policies in support of sector (e.g. existence of legislation, regulatory authorities, etc.)