



REIMAGINING SOCIAL CHANGE

Shell Foundation | 

Building Effective Market Institutions

Key Lessons from Shell Foundation's Experience

STUDY FINDINGS | MAY 2020



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Introduction

Rationale for this work

- FSG and Shell Foundation have long-standing commitments to supporting positive social and environmental impact through market-based solutions
- Over many years of work, both FSG and Shell Foundation have seen and grappled with the need to address market-level challenges that inhibit the development and large-scale potential of new impact solutions
- Despite the advances made by a number of successful institutions working to address these challenges ('market institutions'), and increasing awareness of the need for them, it remains difficult to garner support and funding for these types of actors
 - There is also a limited base of knowledge and understanding in the public domain about how best to set up and work with such market institutions
- This study has been conducted by FSG to begin to address the above challenges, drawing heavily on Shell Foundation's experience in establishing and working with a portfolio of market institutions over the past decade

Introduction

Shell Foundation's partner market institutions

This work is based on learning from Shell Foundation's experience, and that of a number of its partner market institutions



*Uganda Off-Grid Energy
Market Accelerator*

*Nigeria Off-grid Market
Acceleration Program*

*Ethiopia Energy Market
Accelerator*



FSG and Shell Foundation thank participating partner market institutions for their invaluable contributions to this work

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The Case for Market Institutions

Impact enterprise success requires an ecosystem

This wide array of ecosystem building blocks represents a challenge, particularly for nascent business models and sectors

Growing Supply

- Differentiated Incubation
- Market Pioneers: First Mover Disadvantage
- Business Support vs Technical Assistance
- Attract & Retain Talent
- Effective Governance



Institutional Support

- Supportive policy environment
- Standards & regulation
- Industry benchmarks
- Interface with public utilities
- Transparent Market Data
- Impact Measurement / M&E

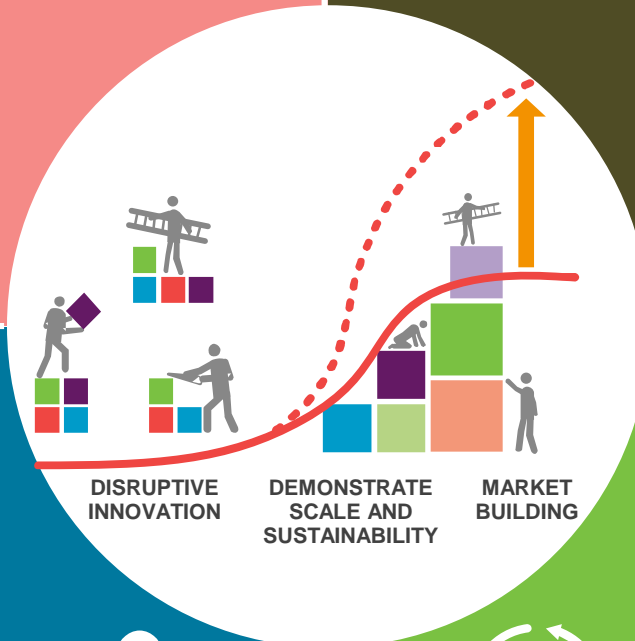
Building Demand

- Map consumer preferences
- Social Marketing
- Willingness & ability to pay
- Supply Chain Management
- Distribution Partnerships
- Quality Assurance



Structured Finance

- Risk & Growth Capital for ALL stages
- Blended Finance
- Enablers to Offset Risk (Grant to PRI)
- Working capital in value chain
- Project Finance /Asset Finance
- Impact Monetisation



The Case for Market Institutions

Enterprises themselves struggle to overcome barriers

There are many reasons why enterprises cannot and will not address these barriers

Enterprises cannot address ecosystem barriers because of..

- **Lack of financial resources** to address large-scale challenges such as building out new distribution networks
- **Lack of knowledge and skills** needed to address challenges such as incubating new value chain actors, investing in R&D, and restructuring the enterprise to become investment-ready
- **Lack of relationship networks and influence** to put their case across to governments effectively and with credibility
- **Lack of neutrality**, as firms are viewed by other stakeholders, such as governments, as having vested interests

Even if they could, enterprises typically will not address ecosystem barriers because of...

- **Lack of 'big picture' perspective** to fully identify and comprehend the extent of ecosystem barriers
- **Free rider problem**, where the benefits of addressing barriers would diffuse across the sector to competitors
- **Competitive instincts and mutual lack of trust** mean that co-operative efforts between firms are unlikely to succeed
- **Inadequate and/or uncertain return**, where a large and risky up-front investment is needed, e.g., with 'push products' where there is minimal ready customer demand

The Case for Market Institutions

Example: Microfinance Institutions (MFIs) in India (1/2)

Market building by SIDBI, FWWB and others helped to build the ecosystem for MFIs in India

Growing Supply

- FWWB facilitated exposure visits for MFIs to Bangladesh, which enabled entrepreneurs to leverage their extensive grassroots experience to appropriately adapt the Grameen model to the India context
- FWWB, Grameen Foundation, SIDBI seeded a number of early MFIs, some of which (e.g., Spandana Spoorthy) went on to become key industry players



Institutional Support

- SIDBI contracted EDA Rural Systems to develop and deliver training content suited on improving managerial and technical systems, bolstering institutional capacity
- Transformation loans transformed NGO MFIs to non-bank finance companies, enabling scale
- Removal of interest-rate cap following successful advocacy by industry association Sa-Dhan helped make the model financially sustainable



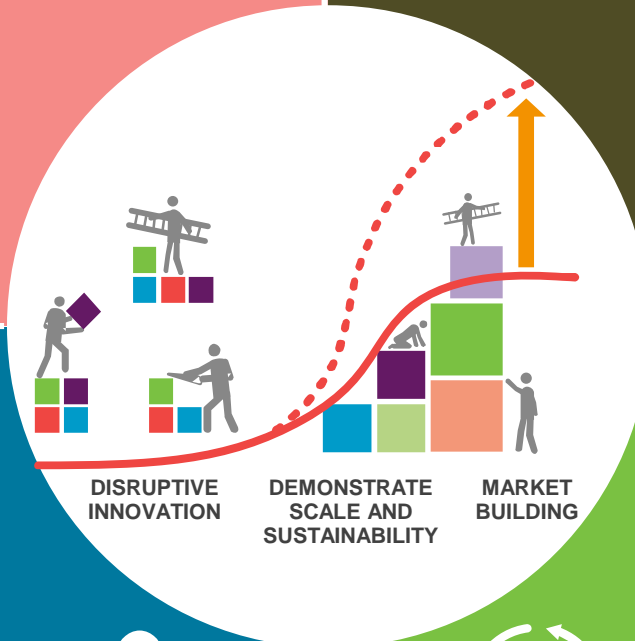
Building Demand

- Prevalence of SHGs in India had already ingrained the concept of group finance into borrowers' minds, so the product was easily explained to customers



Structured Finance

- SIDBI and others provided soft loans at early stages to MFIs for on-lending, which enabled them to scale sustainably and eventually access commercial capital
- Advocacy efforts secured inclusion under Priority Sector Lending (PSL) regulations, attracting commercial capital
- M-CRIL was seeded to provide standardized rating services, which enabled commercial capital flow

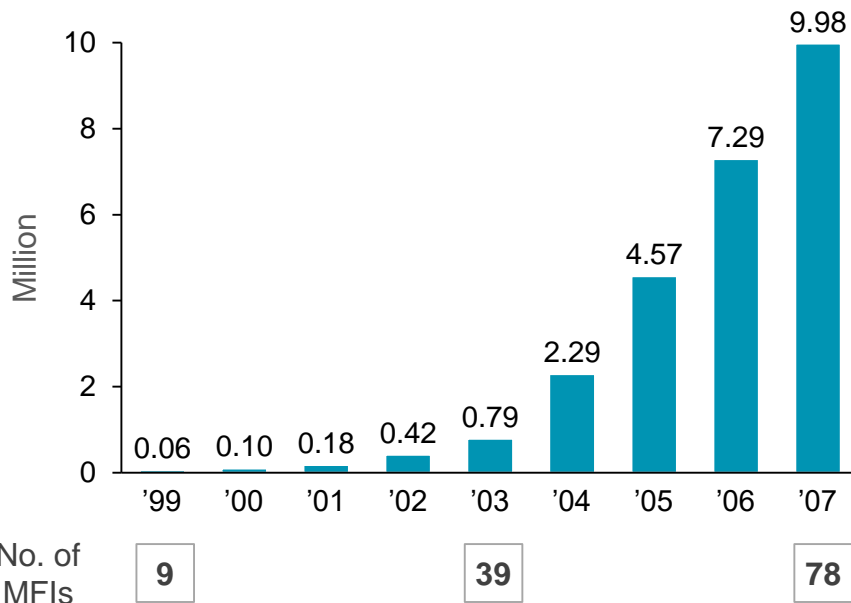


The Case for Market Institutions

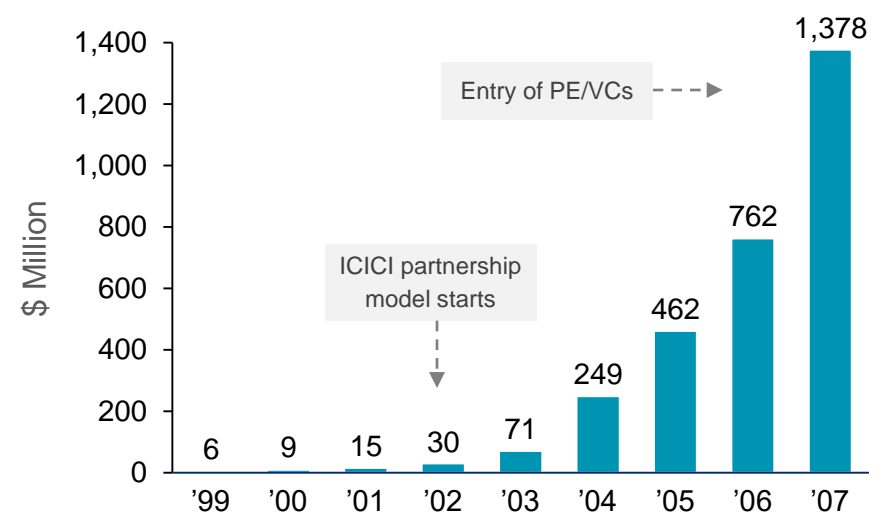
Example: Microfinance Institutions (MFIs) in India (2/2)

Market building helped to create the conditions for the MFI model to scale quickly

**Number of Active Borrowers
(1999 – 2007)**



**Gross Loan Portfolio
(1999 – 2007)**



- **Commercial capital** to the sector, including \$12.6M² under ICICI's partnership model (2003-06)
- **Private equity / venture capital** such as Sequoia, Temasek Holdings
- **Ecosystem pieces** in place such as MCRIL (ratings), Sa Dhan (industry Association), EDA (Training) by 2006
- **Variety of product offerings** from MFIs: Insurance, water and sanitation loans, solar energy loans

Note: ¹ The number of MFIs includes both –NBFCs and NGOs/ Section 25 companies; ² INR 550,000,000 converted at \$ 1 = Rs. 43.5

Source: Koh, Hegde, Karamchandani (2015) *Beyond the Pioneer*

The Case for Market Institutions

Shell Foundation examples: more established partners



The Voice of the Off-Grid Solar Energy Industry

Established 2012



Smart Freight
Centre

Established 2013

RESULTS TO DATE

- **Market information to enable investment:** With partners, GOGLA produces robust sales data and market information that has unlocked investor confidence, enabling **over \$1.5Bn in investment inflows** to the sector since 2012
- **Evidence to enable policy and funding:** GOGLA research provided first-of-its kind **evidence on improving quality of life and incomes** due to solar off-grid solutions, influencing policy makers, donors and impact investors
 - Off-grid solar is now seen as a key contributor to energy access: the World Bank is currently discussing funding for off-grid solar with **over 30 countries**
- **Standards:** GOGLA created the sector's code of conduct on consumer protection, endorsed by 15 investors / facilitators, and signed up to by **26 leading industry players**
- **Policy:** GOGLA, together with other key stakeholders, convenes the "Community of Champions" in which **16 country governments** work to advance relevant policies

- This has helped accelerate the sector from an almost standing start in 2010, to **30% annual revenue growth today** – the industry has delivered **over 180 million products**, benefiting **420 million people** globally

- **Industry engagement:** SFC established the **Global Logistics Emissions Council (GLEC)** with over 50 companies, associations, programs, experts and other stakeholders
- **Standards:** SFC developed the GLEC Framework to standardize calculation and reporting for logistics emissions – this has now been **adopted by 40 multinational corporations (MNCs)**
- **Wider influence:** 20 of these MNCs have been recognized for leadership in reporting and reducing emissions, **encouraging others to adopt these higher standards**; 22 institutions beyond the private sector have also adopted or aligned with GLEC
- **Mobilisation:** SFC has supported initiatives in target-setting, procurement, carrier training – **today, 116 carriers are following SFC action plans** and have trained fleet managers across China, Ireland, South Africa, Brazil & Uruguay.

- Companies who have adopted the GLEC framework **reduced their CO₂ emissions by over 3 million tonnes** between 2016 and 2018

The Case for Market Institutions

Shell Foundation examples: more recent partners



Est'd 2017



Est'd 2018



Est'd 2018

RESULTS TO DATE

- **Business pilots:** UOMA enabled **15+ innovative business pilots** to reach underserved areas of Uganda, already achieving **125,000 new energy connections** among the poorest and hardest-to-reach
- **Informing policy:** UOMA informed **key government policies** through analysis (e.g., on fiscal policy options) and revising key sector policy documents, at the request of senior officials at key Ministries and the Rural Electrification Agency
- **Training to facilitate lending:** UOMA provided training on deal-focused TA and sector due diligence, helping off-grid-solar-focused lenders **deploy \$30M in fresh capital**
- **Market information:** UOMA publishes an annual market map, now an **industry-standard, landmark “go-to” document** relied upon by businesses, investors, and government to coordinate initiatives

- **Payment integration pilot:** NOMAP designed and is funding a pilot of a payment aggregator solution for unbanked customers, leveraging 20,000+ rural agents – this is already helping SHS companies **expand into 100+ new communities**
- **Market information:** NOMAP’s market intelligence with verified, granular data, is supporting industry expansion across Nigeria:
 - **Over 9,000 communities identified as viable** for mini-grids and SHS, resulting in companies expanding into new locations
 - **Supported the Nigerian Electrification Project**, the country’s largest off-grid electrification project, by directly surveying 150+ communities
 - Supported the Rural Electrification Agency in **electrifying over 100,000 MSMEs**, by conducting energy audits and verifying coverage in clusters

- **Design and pilot of funding facility:** AMDA played pivotal role in design and pilot of the **Universal Electrification Facility**, now being taken forward by SEforALL and due to launch in 2020
- **Informing policy:** AMDA has been a key policy advisor on the new mini-grid regulations as part of **Uganda’s revised 2020 National Energy Policy**
 - AMDA has also played a key role in policy improvements in Tanzania and Zambia
- **Market information:** In a first for the sector, AMDA has gathered industry-wide data and is publishing these in a **State of the Market report** for donor, investor and government learning

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Designing for the Need

Fundamental, enabling conditions need to be in place

Market development is not feasible in all situations – it is advisable to assess whether enabling conditions are in place before taking any other steps

Shell Foundation's Four Key Pre-Conditions for Market Development



Potential for business models to scale: Enterprises with potentially scalable models are the key delivery mechanism for market development efforts, and their presence in the market is an important pre-requisite for any market-building effort.



Buy-in from local donors: Shell Foundation can take the initial risk of seed-funding new organizations, with a view to other funders joining in once impact has been demonstrated, but this is helped by securing local donor support and buy-in even at the initial stages.



Traction with key ministries and government agencies: Having buy-in from national and local governments ensures that efforts are aligned with the goals of the public sector, so that public and private sector can work in tandem towards scale.



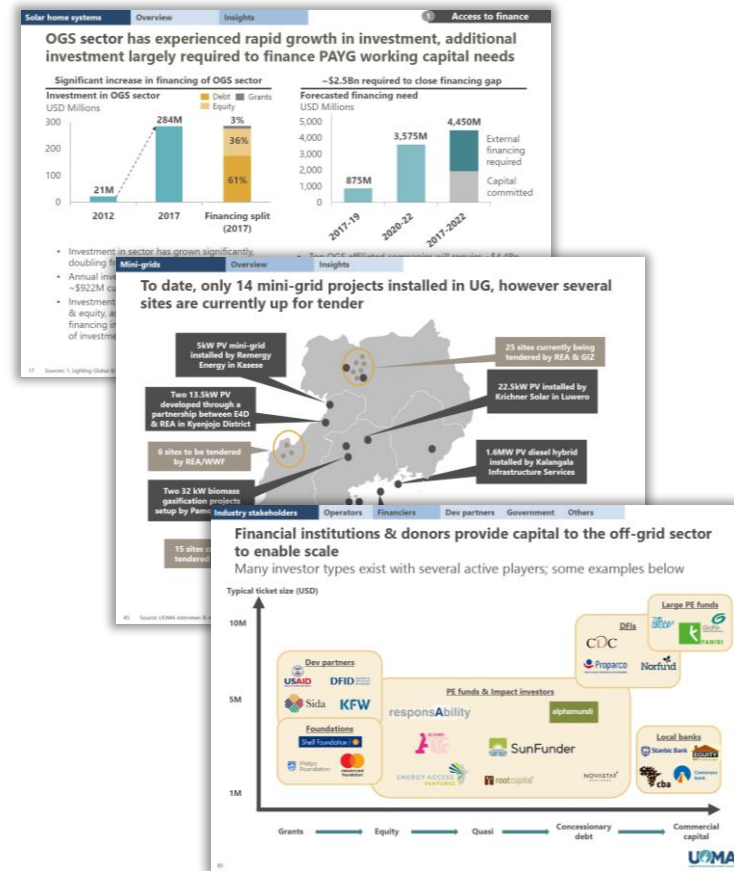
Strength of local implementation partners: Shell Foundation seeks to build the capacity of strong local partners who can provide context-specific support to a new market / model, and to transition ownership of market development initiatives to them in the long run.

Designing for the Need

Up-front market analysis helps anchor to context and needs

- Robust market analysis is needed up-front in order to **establish a foundational understanding of market context, and specific needs** for market development
- These could cover:
 - Sector landscape and trends, in terms of products, projects, technologies, providers and channels
 - Business models and underlying economics
 - Understanding of under-served consumers and issues around access
 - Enabling environment, e.g., fiscal policies, regulatory frameworks
 - Finance needs, current provision and gaps
 - Overall analysis of key challenges facing the sector
 - Existing ecosystem support infrastructure and interested stakeholders
- In addition to informing market development strategy, these analyses could be released (and periodically refreshed) as a **public-good resource** for industry, investors, donors and government

Example content: UOMA Market Map of off-grid energy in Uganda 2019



Designing for the Need

Choosing the right model – key considerations

There is no 'one size fits all' in the world of market institutions – instead, the design should consider three critical questions about where and how the institution will work

- 1 At which **geographic-level** should the market institution intervene? How many markets should the institution cover, and are there synergies between these markets?
- 2 What is the type of **change objective** for the market – market-building or market-shaping?
- 3 Which **constituency's interests** should the market institution be fundamentally aligned with?

Designing for the Need

Design Choices by Geography

Global and regional market institutions bring in cross-country learnings while in-market institutions are better placed to influence policy and government actors

| | Global and Regional Market Institutions | Country-level institutions |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Objectives and Advantages | <ul style="list-style-type: none">• Represent the interests of enterprises who have a footprint in multiple markets• Platform for cross-pollination of ideas and sharing best practices across geographies• Broader potential scope of impact attracts funding from donors and private foundations• Provide access to a larger pool of international investors, which is particularly important for smaller and medium-sized markets• Well-positioned to set global standards e.g., consumer protection standards, product standards | <ul style="list-style-type: none">• Leverage in-market presence, specific local context to regularly engage national governments and policy formulation• Engage deeply and regularly with in-market stakeholders such as vendors, customers and other value chain actors• Have access to local networks and market information, allowing them to thoughtfully allocate resources and investment |
| Limitations | <ul style="list-style-type: none">• Lack of in-market presence, context and regular engagement is a barrier to engaging national governments and policy formulation | <ul style="list-style-type: none">• Lack of access to large, international investors is a barrier to attracting new investments to a local market• May be viewed as beholden to national governments, making a 'neutral positioning' especially crucial |

Designing for the Need

Design Choices by Change Objective

Market-building institutions focus on unlocking growth while Institutions working to re-shape markets focus on changing existing practices or standards

| | Market Building Institutions | Market Re-shaping Institutions |
|---------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Objectives and Advantages | <ul style="list-style-type: none">● Intervene in nascent or early-stage markets populated by start-ups and high growth enterprises● Are designed to address ecosystem barriers to scale● Implement interventions that are intended to unlock growth | <ul style="list-style-type: none">● Implement interventions that involve changing existing practices or standards within the industry● Intervene in mature markets populated by multi-national corporations or well-established businesses● Are designed to bring robustness to an industry which is already at scale |
| Limitations | <ul style="list-style-type: none">● May become exclusively growth-focused and fail to develop a vision for a robust industry at scale | <ul style="list-style-type: none">● Work with enterprises which may not have sufficient incentives or resources to fuel long-term change in practices, which mean that change takes significant amount of time and investment● Have market shaping objectives that may be in conflict with market growth objectives for certain stakeholders |

Market building institutions can over time, as the market matures, evolve to take on some market-shaping work such as setting standards and sharing best practices

Designing for the Need

Design Choices by Constituency

Independent institutions can position themselves as neutral, while industry representatives can be powerful conveners and amplifiers for their stakeholders

| | Independent | Trade associations | Multi-stakeholder partnerships |
|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Objectives and Advantages | <ul style="list-style-type: none"> • Act as ‘mediators’ between market actors who may have conflicts of interest, and help them work together • Viewed as trustworthy repositories of data and market information • ‘Neutral’ positioning enables them to convene a diverse set of actors in a market through events and conferences | <ul style="list-style-type: none"> • Created when enterprises with similar business models organize themselves – have a membership criteria • Surface a collective agenda, and communicate the needs and viewpoints of enterprises to relevant market actors such as policy makers, investors, etc. • Convene enterprises to take collective action • Regularly in touch with market needs and dynamics | <ul style="list-style-type: none"> • Diverse set of market actors included in the governance structure, e.g., as Board members, enable a ‘neutral’ positioning • Surface a collective agenda among relevant market actors such as enterprises, policy makers, investors, etc. • Convene all relevant stakeholders in a market to take collective action |
| Limitations | <ul style="list-style-type: none"> • Can lose touch with market needs and dynamics if regular sensing exercises are not conducted | <ul style="list-style-type: none"> • Interests of member enterprises are prioritized over those of other stakeholders • Smaller enterprises may view them as beholden to the interests of larger, more powerful organizations • Not appropriate for nascent markets with very few players | <ul style="list-style-type: none"> • Multiple different or competing interests can lead to unfocussed objectives and interventions • May take a significant amount of time to build relationships with a large and diverse set of stakeholders |

Designing for the Need

Different market institutions for different levels / contexts

Because of differences in context and model, sectors in the real world can have multiple market institutions all doing useful work at different levels and contexts

Example: Greenlight Planet's engagements with various market institutions

Engage in Kenya, on policy, country-specific issues



Engage in Tanzania, on policy, country-specific issues



Other national renewable energy associations

greenlight[™]
planet



Engage across all markets on policy, quality standards



Engage in African markets



Engage across all markets on market data, trends

However, it must be acknowledged that such an ecosystem carries costs in financial terms as well as engagement bandwidth from enterprises and others, so new institutions should only be created where there is clear and compelling additionality

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Setting Up for Success

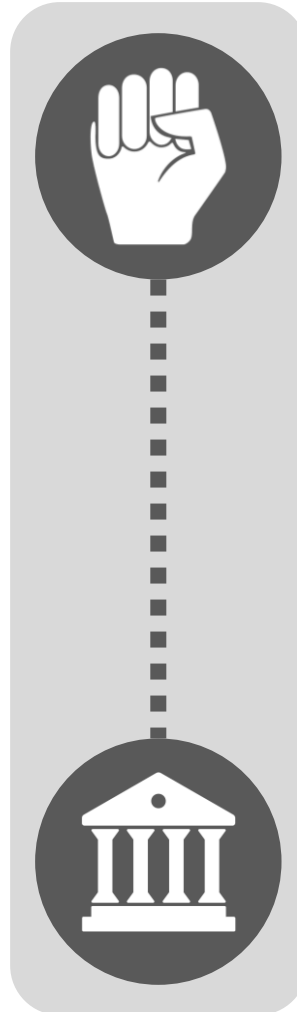
The importance of ‘anchoring’ to established partners

‘Anchor partners’ can lend power and clout, and help new market institutions be more effective

- Even with the right intentions, design and resources, new market institutions **do not automatically acquire the credibility and influence** they need to be effective
- We have observed that successful market institutions **leverage the power and clout of established institutions** in the market system, by **‘anchoring’** to one or more of those institutions
 - These ‘anchor partners’ have typically been key development actors such as major donors

“It’s very important to note who the funder is and what clout they have with the local government before we approach a market institution on an issue. Different funders are strong in different countries.”

– Enterprise



How anchor partners can help

The right anchor partner can

- Lend credibility to new market institutions with enterprises, investors and other actors in the market, helping the institution establish its standing more quickly and smoothly
- Facilitate access to key stakeholders such as government bodies and other donors who are interested in the market
- Contribute knowledge and insights from past experience to inform and guide the work of a new market institution
- Connect to wider networks of resources and assets such as expertise, talent and funding

Setting Up for Success

Examples of beneficial anchor partnerships

Market Institution

Anchor Partner(s)

Relationship



- The IFC's Lighting Global initiative handed over to GOGLA over time many of its 'trade-association-like' activities, which helped to provide credibility and networks



- World Bank helped convene the industry, AfDB, and researchers which allowed AMDA to quickly establish itself as the representative of the sector
- DFID subsequently helped bring in donors which was especially critical support in a sector where subsidies are key



- The Alliance was housed initially at the UN Foundation, which helped with visibility, convening a truly global membership, and mobilizing resources for the sector



- DFID and USAID, who were already working with the Ugandan Government, helped to establish a relationship for UOMA



- The World Bank was closely working with central government in Ethiopia and helped to establish a relationship for EMA

Setting Up for Success

Local links with government and informing public policy

The experience of SF's market institutions highlights the importance of formal links with relevant national governments, especially if the intention is to inform public policy

Country-level Market Accelerators

- Within a few short years, country-level accelerators such as UOMA and NoMAP have been able to **effectively inform and guide the development of national policies** relevant to market development ¹
- All four country-level accelerators in the SF portfolio have a formal **Memorandum of Understanding** with the relevant national government, and/or an **Advisory Board** with representatives from government, donors, local investors and enterprises
 - Their experience suggests that these linkages, combined with the anchoring strategy described earlier, has helped them get traction with government stakeholders

Regional and Global Trade Associations

- Market institutions with a regional or global mandate have found it more challenging to influence developments at the national level, unless they **cultivate effective in-country partnerships or presence**
- GOGLA has set up **regional offices** in East Africa and India, and has developed **partnerships with national-level solar associations**, to whom it provides technical assistance and capacity building grants
 - This has helped facilitate greater traction with national energy and finance ministries, as well as stakeholders at the regional East African Community level
- AMDA has found that its efforts to inform national-level public policy have been more productive when done **in conjunction with national chapters**, as has happened in Tanzania

Note: 1. Described earlier in this document, on page 11

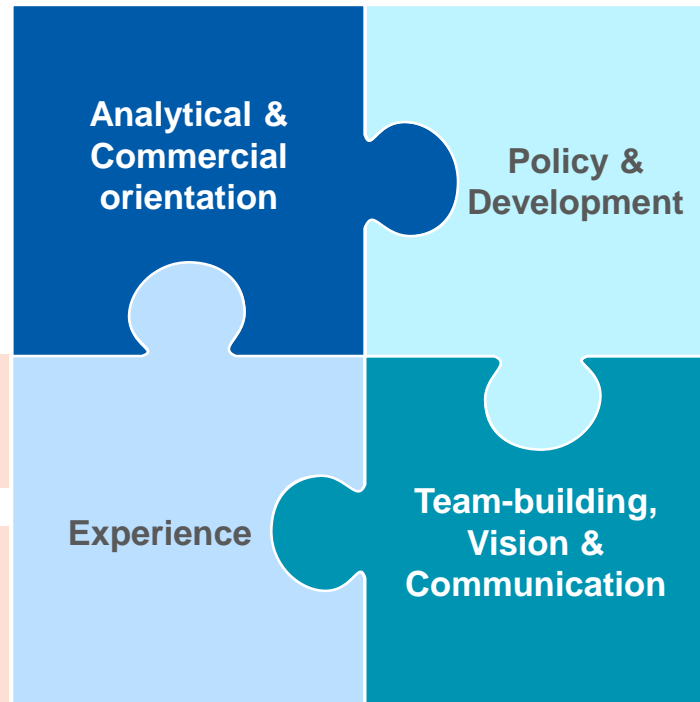
Setting Up for Success

The Right Leadership – Skillsets and Experience

Shell Foundation has identified the set of skills and experience required for leadership of market institutions, from over a decade of hiring and working with leadership; however, the entire gamut of skills is especially hard to find in a single individual

- Deep understanding of enterprises, investors with evidence to support this
- Evidence of ability to raise significant capital
- Strong understanding of systemic change and market facilitation

- Proven track-record of delivering outcomes at scale
- Significant commercial experience
- Strong networks within the sector
- First-hand and extensive experience living and working in focus countries (ideally from the same geography)



- Deep understanding of governments and donors, with evidence to support this
- Strong understanding of the sector at local, regional and global level

- Experience building teams
- Experience convening and maintaining major multi-stakeholder partnerships that deliver clear outcomes
- High credibility within the sector, with a reputation for integrity, honesty, deal-making and results
- High credibility with senior stakeholders of the institution
- Communication with donors and other international stakeholders

Skills / experience that proved particularly difficult to recruit for

Setting Up for Success

From Individual Leaders, to Leadership Teams

Building leadership teams with the right balance of skillsets and experience could be a solution

Shell Foundation Key Learnings

- Assemble a duo or a team that collectively covers the skillsets/ experience required, as all the required skillsets/ experience is rarely present in one individual
- Build for balance within teams, e.g., mix of local and international experience, mix of commercial and government experience
 - Including someone with an international background is helpful in managing international stakeholders, as nuanced articulation and trust-building is the key to effective relationships
- Hire the best of talent available, keeping in mind that this may have implications for budget and cost
- Allow for flexibility in working style and structure, as it enables greater coverage across geographies and time-zones

“You need people who can inspire investors and funders, who can really put up a vision for what the market could potentially be in 5 years. You want people who can get others excited.”

– Impact Investor

Example: UOMA



Nicole DeMarsh, an experienced management consultant and head of Open Capital Advisors Uganda, brings strong expertise in access to finance, business model development, program management, and building trust with international stakeholders



Frank Sebowa, an experienced Ugandan civil servant who set up the national energy regulatory body 10 years ago, brings strengths in managing Ugandan stakeholders and navigating government systems

The **balance of credibility and execution capacity** within the team has contributed to UOMA being able to work effectively

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Measuring Impact

The challenge of measuring impact of market institutions

Market-level impact is hard to measure...

- Market institutions **achieve impact with and through other market actors** such as enterprises, investors and governments – they are a few steps removed from outcomes on end-users in the market
- The indirect nature of Institutional interventions along with the complex nature of market systems makes it **difficult to attribute changes to specific interventions**
 - Systemic and extraneous factors such as shocks to the local currency, change in government's priorities, play a key role in outcomes
- It **takes 1-2 years for a market institution to even begin to rollout interventions** – these early years may show little progress towards outcomes

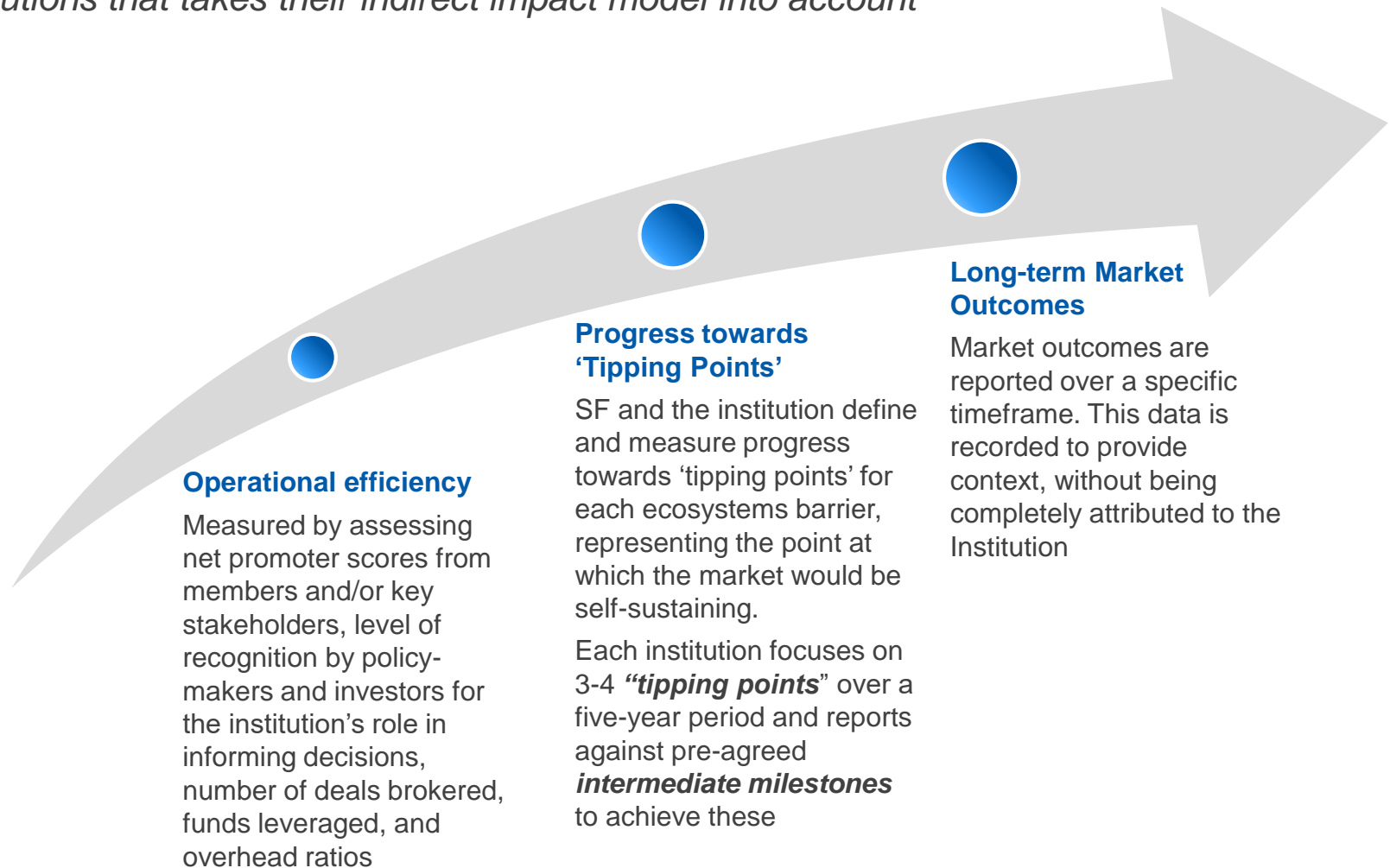
... and requires a tailored approach

- Funders should not expect to use the impact measurement methodologies that are applicable to more conventional projects and programmes
 - **Requires a mindset shift** from funders who are accustomed to showing measurable outcomes on end-beneficiaries / the market
- Tools that measure the quality of a market institutions' engagement with market actors, such as Net Promoter Scores, and metrics that measure operational efficiency are useful **near-term mechanisms for learning and accountability**
- Medium-to-long-term market outcomes, such as industry sales, should also be tracked – however, this should be done with the explicit understanding that the institution is **one of many contributors to those outcomes**

Measuring Impact

Shell Foundation's Framework for Institutional Impact (1/2)

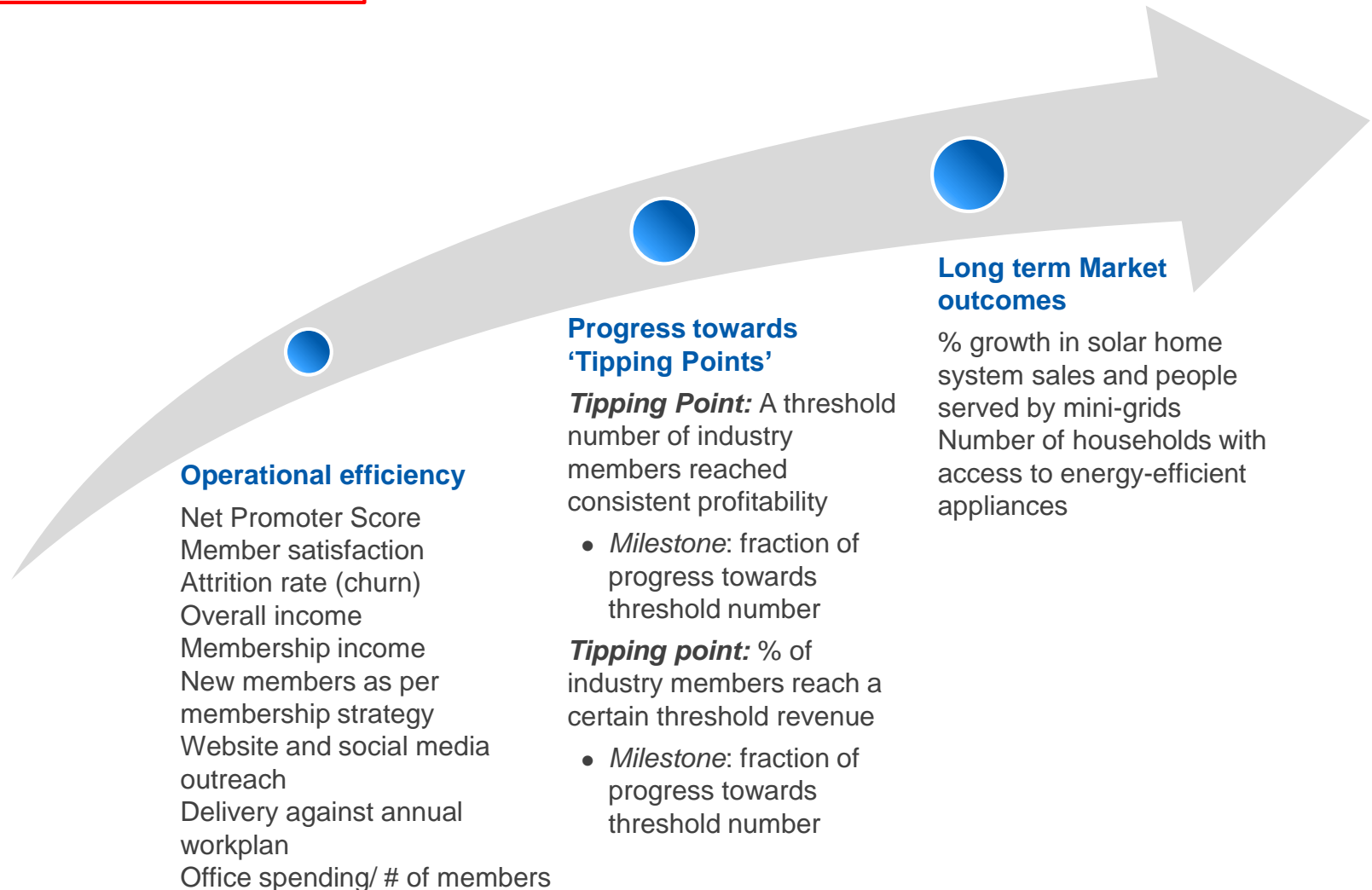
Shell Foundation has developed a three-tiered impact measurement framework for market institutions that takes their indirect impact model into account



Measuring Impact

Shell Foundation's Framework for Institutional Impact (2/2)

ILLUSTRATIVE



Measuring Impact

Designing Tipping Points

Tipping points are critical in the framework, so therefore is the process for designing them

Shell Foundation Process for Designing and Agreeing Tipping Points

| Steps | Activity | Participants |
|-------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
| Barrier Prioritization | Significant analysis of existing sector research to understand and prioritize key barriers | Shell Foundation |
| Feasibility Analysis | Market research to determine feasibility and likely “hurdles” that will unlock further support | Shell Foundation + MI Partner |
| Testing Assumptions | Test initial assumptions with key stakeholders (local, regional and international) to determine level of investment and political support that would be unlocked if particular hurdles can be accomplished | Shell Foundation + key stakeholders in market |
| Establishing ‘tipping points’ | Establish ‘tipping points’ and sensible intermediate milestones, and seek approval from Board of Directors, Advisory Boards and Funding partners | Shell Foundation + MI Partner + Board of Directors, Advisory Boards and Funding partners |
| Review Panel | Establish panel (typically comprising of Board of Directors, Advisory Boards and Funding partners) to appraise progress against ‘tipping points’ and approve iterations as the market is better understood | Shell Foundation + MI Partner |

Measuring Impact

Measuring against and revisiting tipping points

Shell Foundation reviews progress against 'tipping points' on a monthly and bi-annual basis, revising intermediate targets more frequently while 'tipping points' might be revised once every 2-3 years



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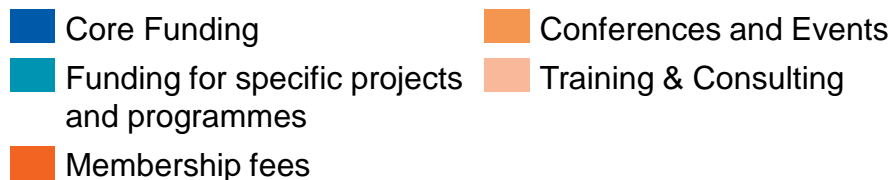
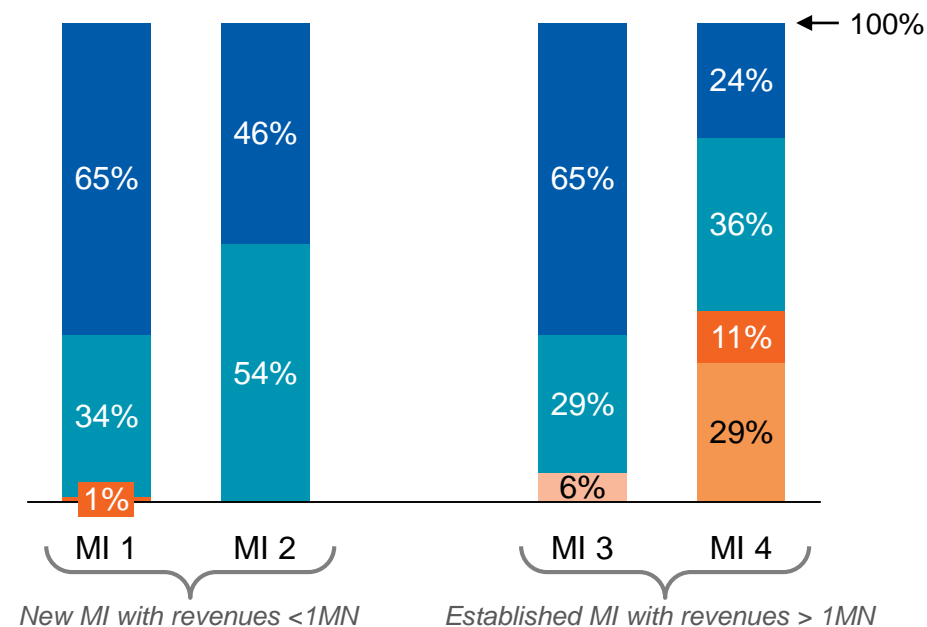
Appendix – Engagement Practices

Funding for Sustainability

Moving from grant funding to more sustainable streams

While market institutions can develop more sustainable sources of income as they grow, they continue to be heavily reliant on grants

Revenue Mix for Selected Market Institutions (2018-19)



Key Learnings

- In their early years, market institutions **depend almost entirely on grant funding**, typically from 1-2 donors instrumental in their set-up
 - Other income streams are minimal in the early years, particularly if the institution is serving nascent markets without enterprises and other actors with the capacity to contribute financially
- While we observe that market institutions **can develop more sustainable streams** of earned revenue (e.g., membership fees, conference income) over time, they **continue to be largely reliant on grant funding**
 - This is in line with the understanding that a large part of their work is essentially **providing a public good** which is difficult to monetize
 - This suggests **a moderation of expectations** about the extent to which market institutions can become financially sustainable beyond grant funding

Funding for Sustainability

The need for patient, long-term support

Market Institutions are unable to design and execute long-term, multi-year interventions in the absence of patient capital

“There was a period when we were running from 6 month grant to 6 month grant It was very hard to set goals for growth at that point.”

– Market Institution

“Funders get excited about the next cool topic and shift priorities. It gets even trickier because they talk to each other, and everyone follows suit.”

– Market Institution

“Some funders are far too focused on one particular kind of impact. This focus on one specific point also means that they want quick results on that.”

– Market Institution

Key Learnings

- **Target markets may take years to develop**, even when supported effectively by market institutions
- The complexity of market systems (like all human systems) means that market institutions have to **continually learn and adapt their work over time**, which requires patient and flexible funding
- Market institutions are more effective when working towards long-term goals, which is **difficult if they do not have a sense of the funds available** over that timeframe
 - There is therefore **a strong need for long-term funders** engaged over many years, to provide the support required for this kind of work
 - This is analogous to the **patient support required by pioneer enterprises** in nascent markets
 - However, dynamics in the funding environment (e.g., ‘cool new topics’) make this difficult

Funding for Sustainability

Other Key Challenges

Key Challenge

1

- Many funders are reluctant to support market institutions as they also represent the interests of private-sector businesses

2

- Some funders may nudge market institutions to extend their mandate or interventions beyond their initial target market, in alignment with the funder's KPIs or objectives, through programmatic/ project-based funding

3

- Many funders are wary of supporting market institutions as they are either unable to show direct impact (e.g., number of beneficiaries targeted or a direct increase beneficiaries' income), or because their impact on the market is not easily attributable

Implications for Market Institutions

- Market institutions are unable to tap such funding pools

- Market institutions divert bandwidth from their regular activities to execute these mandates, as project-based funds are more widely available
 - Institutions might venture into geographies or even markets beyond their initial mandate and capabilities

- Market institutions are unable to tap such funding pools, unless they can successfully persuade funders to change their approach (e.g., towards contributory impact and tipping points)

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3 Designing for the Need

4 Setting Up for Success

5 Measuring Impact

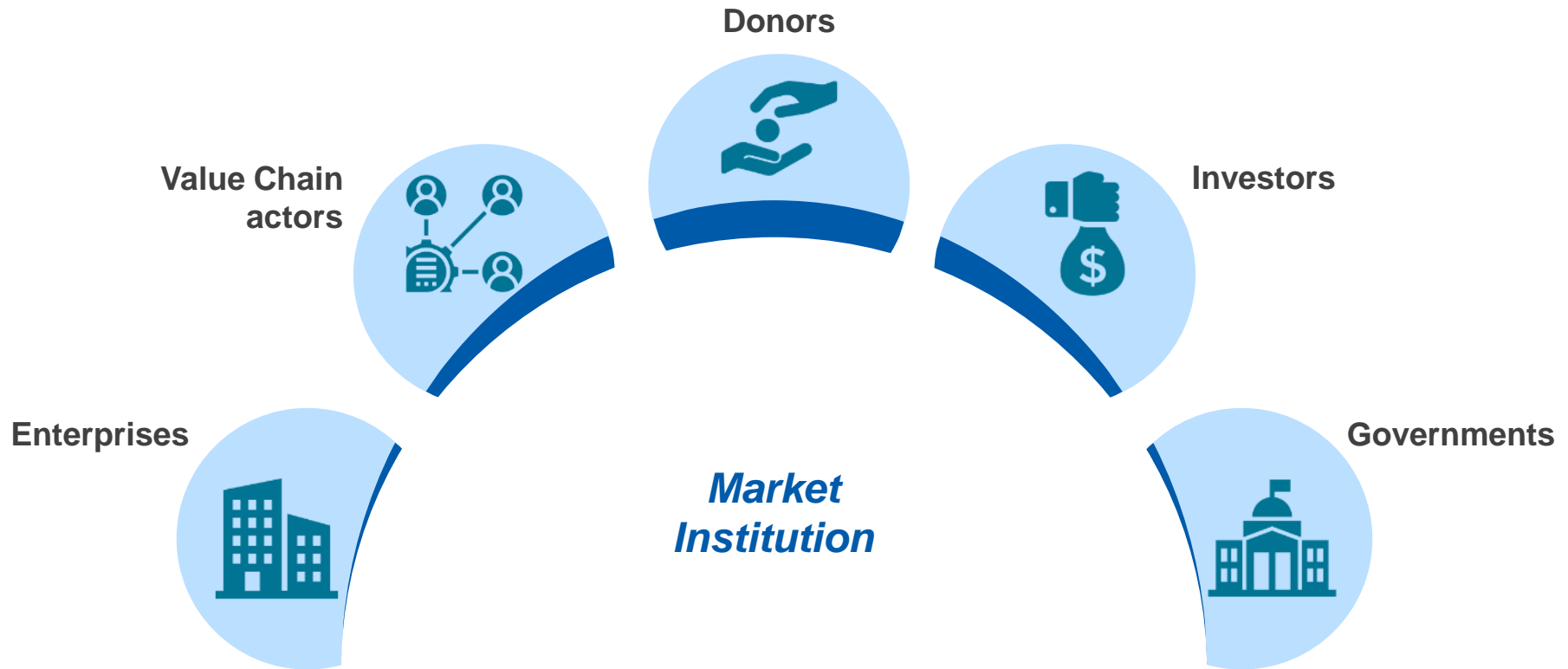
6 Funding for Sustainability

Appendix – Engagement Practices

Engagement Practices

Market Institutions engage a variety of stakeholders

Market institutions cite the need to remain connected to a diverse set of market actors in order to build a comprehensive picture of the market and effectively play a convener role



Engagement Practices

Engaging with Enterprises



Strong feedback mechanisms enable market institutions to become the collective voice of the industry and/ or convene enterprises to surface key needs and barriers, and jointly take actions to address these

Engagement Practices and Mechanisms

Working Groups

- Help enterprises convene and arrive at a collective objective(s)
- Surface solutions that work in enterprises' favor
- Enables the communication of a singular, cohesive point of view on specific issues to external stakeholders such as governments and investors

Board Membership

- Enables the inclusion of diverse voices from the industry in key decisions
- Ensures accountability to the objective of serving the market/ enterprises
- Presence of enterprises on the Board helps provide balance to other stakeholders

Payment for Services

- Membership fees and payment for trainings and conferences allows for quick assessment of the need for, and quality of services provided
- Payment acts as a feedback mechanism, as enterprises are unwilling to pay for trainings, events or membership in bodies where they see no value

“Working groups are where we can have discussions but in a safe environment, and not cause a PR drama.”

– Market Institution

“Membership fees ensure that they are servicing member needs and holding themselves accountable. As soon as institutions stop serving the needs of the industry the companies will walk away.”

– Enterprise

Engagement Practices

Engaging with Donors



Institutions guide and convene bi-lateral and multi-lateral donors interested in a particular market by providing insights on activities currently underway in the market, as well as major unaddressed gap areas

Engagement Practices and Mechanisms

Visibility and Guidance

- Access to data and insights from industry players that can help donors identify barriers and deliver targeted interventions
- Market maps and data also help identify the key risks involved in the execution of new donor initiatives and programmes

“We have regular check-ins with industry associations and bodies in our target markets, and these may not be ones that we fund. It gives us a good sense of what’s happening on the ground.”

– Donor

Optimizing resource allocation

- Track key areas where efforts are already being directed, helping donors reduce overlaps with other players in the market
- Convene various actors working on the same issues areas, allowing donors to reduce activities that are at cross-purposes with those of others and create cohesive action,
 - For example, 32 different organization were found to be working with the Ugandan govt. on off-grid energy policy, which UOMA then helped co-ordinate and streamline

Building Joint agendas

- Act as a bridge between enterprises and donors
- Build joint-agendas between different donors in a particular market through dialogue and events

“With development partners, we have to make sure that funding is not redundant - that it is added in on top, with no overlaps- and that resources are being allocated to the big unaddressed problems.”

– Market Institution

Engagement Practices

Engaging with Government



Institutions leverage their credibility and represent the collective voice of the industry to national and local Government bodies on policy measures that affect the market

Engagement Practices and Mechanisms

Visibility and Influence

- Bring issues or solutions that governments may otherwise be missing/ be blind to, to the fore
- Put forward the collective point of view and needs of industry players in a credible and cohesive manner, that no single enterprise may be well-positioned to do

“We help enterprises arrive at official industry opinions, and then communicate these as guidance to the respective governments.”

– Market Institution

Decision-making support

- Access to the data insights from industry players can help governments make data-driven policy decisions, which are more aligned with ground realities
- Neutrally assess the impact of various policy decisions on the market as well as on end-users, e.g., commissioning impact studies on the benefits of solar lanterns

“We’ve become the go-to body for consultants who are framing policies for mini-grids”

– Market Institution

Building Joint agendas

- Act as a bridge between enterprises, investors and governments in building joint-agendas through dialogue, as well as events such as roadshows and exhibitions

“Joint roadshows and exhibitions are a useful way to get investors interested in coming to Uganda..”

– Government Ministry

Engagement Practices

Attracting Investors



Market institutions act as a one-stop shop for data, connections, and understanding ground realities for Investors looking to invest in a particular market

Engagement Practices and Mechanisms

Generating Interest

- Inspire interest in a particular market by drawing attention to the collective vision and potential for what a market may become over time
- Showcase market potential and investible enterprises through events such as roadshows and exhibitions

“Providing access to finance includes a broad range of activities – whether its stimulating interest of investors who are considering the market or creating investment vehicles that are appropriate

– Market Institution

Building Trust

- Access to data and insights from industry players helps investors build confidence in the growth trajectory of a market before investing in it
- Build market maps and aggregate data that helps identify the key risks that investors may take on

“GOGLA’s roadshows in 4 cities helped pull together a critical mass of investors, who became more informed about the opportunities in off-grid.”

– Enterprise

Boosting Investment-readiness

- Train young enterprises on the best practices and standards that they need to follow in order for investors to be ready to support them. These practices may include standards on reporting data, keeping books and accounts, etc.
- Help investors better understand the capital needs of enterprises and identify the right mechanisms e.g., long term debt, working capital, etc.

Engagement Practices

Engaging with Value Chain Actors



Market institutions act as a hub for enterprises seeking to enter new territories and markets, connecting to verified value chain actors who provide high quality services and products

Engagement Practices and Mechanisms

Building Verified Networks

- Maintain directories and networks of different value chain actors in the target market as well as in potential areas for expansion, along with information on the nature and quality of the services and products that they provide

Connecting Enterprises

- Act as a channel to connect enterprises with value chain actors in a new territory/ geography
- Guide enterprises in their choice of vendors and suppliers by sharing the experiences/ reviews of other similar enterprises in working with these actors

“It’s been helpful to get information on which vendors are the most affordable, which ones other enterprises have had bad experiences with when we entered a new territory. You don’t have to repeat the mistakes.”

– Enterprise



REIMAGINING SOCIAL CHANGE