Investing for Impact, Financing for Development

Private debt and shadow banking in Pakistan

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Abstract

The objective of this paper is to study the impact investment landscape in Pakistan through an exploratory, critical lens. Impact investing is an extension of the agenda of Finance for Development pushed by global institutions as the ostensible means to attain the targets set for the Millennium Development Goals of 2015 and subsequently the Sustainable Development Goals of 2030. Two key features of impact investing are intent and measurement. These features relate to the developmental potential of impact investment because they influence the manner in which capital is deployed: examples from Pakistan show that this arrangement prioritises investments in energy and financial services, particularly microfinance. Additionally, the emphasis on debt over equity as the preferred means for impact investors to deploy capital is also of note. These observations are theorised by drawing on the literature on shadow banking. Such an exercise offers a basis to make two arguments: one, that impact investors fill the void in enterprise finance created by regulatory constraints on banks, and two, that impact investors accommodate the demand for yield by facilitating the entry of global capital into poor countries.

Introduction

This paper offers an exploratory, critical lens on the impact investing landscape in Pakistan. Over the last decade or so, impact investment strategies have entrenched themselves simultaneously in the vocabulary of two global communities: development and finance. This overlap is a corollary of the Finance for Development (FfD) agenda, pushed by global institutions as the ostensible means to attain the targets set for the Millennium Development Goals, or MDGs, of 2015 and subsequently the Sustainable Development Goals, or SDGs, of 2030 (UNDP, 2017).

Impact investing draws on the same arguments that fuel the aspirations of individuals and institutions to be philanthrocapitalists (Bishop and Green, 2006) by committing 'patient capital' to initiatives where other financial capitalists fear to tread. Both impact investors and philanthrocapitalists assume that their capital will generate some degree of financial return, but there are two key differences between impact investing and philanthrocapitalism: intent and measurement. These features instil a structural rigour on the strategies of impact investors by dictating what can and cannot be regarded as an impact investment. These constraints bear relevance for the developmental potential of impact investment as they influence the manner in which capital is deployed: this argument is made by presenting the origins and transformation of impact investing — which is an extension of the FfD initiative — and then noting how the emphasis on measurement prioritises base-of-the-pyramid (BoP) markets.

The experience of Pakistan, particularly as depicted in the grey literature of development finance institutions and fund managers, is used as the empirical setting to consider the trends and repercussions of impact investment as development finance: this is done by drawing on insights from the most recent survey of this market by the Global Impact Investing Network. Among the noteworthy patterns to be observed are the dominance of the energy and financial services sectors respectively, which are extensions of BoP approaches to investment. Financial services are of particular interest because the impact investment-microfinance-nexus provides a visible example of the expansionary imperative of global finance. Additionally, the data indicates that impact investors prefer deploying capital in the form of debt rather than equity. These tendencies are then examined in more depth and a theoretical basis for impact investing in Pakistan is then offered by invoking arguments from the literature on shadow banking: the use of the framework of shadow banking is done to make the argument that impact investors are effectively shadow banks.

The origins and transformation of impact investing

In the context of development, the case for impact investing has been simple to build. It is an extension of the claim that development is a problem of finance, which is in turn a more recent iteration of the notion that development goals, such as the MDGs, can be attained by providing poor countries with aid to enable private investment to thrive. The American economist Jeffrey Sachs — the architect of deregulation policies for Latin America and transition policies for Eastern Europe in the 1980s — is among the best known proponents of this approach, which is detailed in his 2005 book 'The End of Poverty'.

> Extreme poverty is a trap that can be released through targeted investments if the needed investments are tested and proved and the investment program can be implemented as part of a global compact between rich and poor countries, centered on a Millennium Development Goals based poverty reduction strategy. (Sachs, 2005, p. 286)

This stance is a partial reflection of the United Nations International Conference on Financing for Development held in Monterrey, Mexico in 2002. The ensuing Monterrey Consensus was a response to the concern that the MDGs required immense financial resources: several studies attempted to place a cost on the MDGs, with USD 50 billion per annum offered as a commonly cited figure (Clemens et al, 2007). The Monterrey Consensus made FDI one of the six pillars of development finance and in the process underscored the role of private finance in an FfD or Financing for Development agenda.

In the 16 years since its inception, FfD has been subject to shifts: initially designed for MDGs with a target date of 2015, a revised plan was presented in the July of that year at the Third International Conference on Financing for Development in Addis Ababa, to accommodate the SDGs of the 2030 Agenda for Sustainable Development. The newer version of the consensus places a heavy emphasis on the corporate sector through blended finance and public-private partnerships (PPPs).

More recent is the addition of a philanthropic component to FfD. This is the outcome of the rise of blended finance strategies and may be attributed to initiatives led by the OECD. For instance, the joint ReDesigning Development Finance Initiative, from the World Economic Forum and OECD, describes blended finance as the 'strategic use of development finance and philanthropic funds to mobilize private capital for development' (World Economic Forum, 2015, p3):

> There is a huge, and largely untapped, potential for public, philanthropic and private actors to work together towards win-win-win solutions: wins for private investors, as they make an attractive return on their capital; wins for public and philanthropic providers, as they make their limited dollars go further; and most importantly, wins for people in developing countries as more funds are channelled to emerging and frontier markets, in the right way, to help transform economies, societies, and lives. (World Economic Forum, 2015, p. 3)

Philanthropy drew attention for its potential to supplement FfD — and thus came to be an important component of blended finance — particularly in the context of goals for sustainability. The contribution of the Rockefeller Foundation has been substantial in highlighting the nexus between finance and philanthropy: in 2007, the term 'impact investing' was coined at the Foundation's Bellagio Center, 'putting a name to investments made with the intention of generating both financial return and social and/or environmental impact' (Rockefeller Foundation, 2018). A focal point for the Rockefeller Foundation is 'innovative finance', described as 'Private Capital for the Public Good' (Keohane and Madsbjerg, 2016). Innovative finance is an approach to channel private money from global financial markets by using 'philanthropic risk capital' (Rockefeller Foundation, 2018). This approach underlies the presentation of impact investing as a new asset class that offers a double bottom line: market returns and social good (JP Morgan, 2010).

It is worth noting that even though the term ‘impact investing’ was novel in the last decade, the actual practice was less so. This is reflected in the examples of various projects lead and supported by the Aga Khan Foundation, a faith based organisation that operates in over 30, mostly poor, countries and generates revenues for reinvestment in further development ventures. The Aga Khan Fund for Economic Development (AKFED), through its project companies generates revenues of US$ 4.1 billion with all surpluses reinvested in further development activities (AKDN, 2018b). By many accounts, AKFED through the Aga Khan Development Network AKDN has played a pioneering role in promoting blended finance for development: this strategy is exemplified in a 1980s speech from Prince Karim Aga Khan:

> Bringing together the best what private initiative has to offer from various nations has many attractive aspects to developing countries. Individual financial and monetary risk is reduced, the sources from which to draw qualified manpower are multiplied and political acceptability is increased. Public, or State owned, enterprises can never be a complete substitute for private enterprise in building a nation’s economy and in bridging the development gap (Aga Khan, 1982, cited in AKDN, 2018a, p. 22).

There are numerous examples of large projects that have utilized the above approach, which echoes a more recent SDG oriented emphasis on blending sources of finance, for instance, Pamir Energy. Established in 2002 through the collaboration of the Government of Tajikistan and the World Bank, and the Swiss government, this AKDN project supplies clean energy to over a quarter of a million people in eastern Tajikistan and northern Afghanistan (European Foundation Centre, 2018). Another example of an infrastructural project, also in Afghanistan is that of Roshan, a telecom services provider, which has, since its inception in 2003, invested approximately USD 700 million in Afghanistan as the country’s single largest private investor: it is also the largest taxpayer, contributing approximately five percent of the Afghan government's overall domestic revenue (Roshan, 2016, p. 3). The company is owned by a consortium of investors, comprising AKFED, Monaco Telecom, and the Swedish telecom provider, Telia. Another project in Afghanistan is the Government’s National Solidarity Programme (NSP), of which AKDN is a facilitating partner and assists in establishing village-based Community Development Councils: this is done through an elected, accountable and transparent Council that formulates village development plans, and prioritises village needs.

Elsewhere, there are other examples of blended finance as a development tool. These include the Bujagali Hydropower Plant, inaugurated in 2012 and built through a public-private partnership model between the Aga Khan Fund for Economic Development, Sithe Global Power LLC, an American company majority-owned by the private equity fund, Blackstone Capital Partners IV, L.P., the International Finance Corporation, the African Development Bank, the European Investment Bank and the Government of Uganda. The West Nile Rural Electrification Company is another AKFED lead project; a 1.5 MW plant, commissioned in September 2004, was upgraded in 2012 to boost electricity generating capacity. This was done with the support of the Government of Uganda, the German Kreditanstalt für Wiederaufbau (KfW), and the World

Bank as well as others. The 3.5MW River Nyagak mini hydroelectric plant now provides a renewable source of energy to 1.4 million people.

By 2011, the term 'impact investing' had become established in the AKDN vocabulary when the organisation's office in the United States (AKF USA) launched an impact-investing programme to leverage innovative financing for socio-economic impact (Jahani and West, 2015). Additionally, another instance of the mainstreaming of impact investment is in the endorsement by the Vatican: Pope Francis convened a landmark conference on impact investing in 2014 and this was followed by subsequent conferences in 2016 and 2018:

> …to share and evaluate blended finance models and investible vehicles to address systemic challenges of great importance to both the Catholic Church and the global community: Climate Change, Health, Migrants and Refugees, and Youth Unemployment. (Vatican Impact Investing Conference, 2018, p. 1)

As the popularity of the impact investing concept grew in the wider development community, the nature of the projects to which it was directed came to change. The next section will discuss how recent impact investing trends are a departure from the project finance and infrastructural development approach that characterised earlier FfD trends.

The problem of measurement

As FfD strategies have transformed so has the involvement of actors — outside of the public sector — willing to accept below market returns for investments. This aligns closely with what Bishop and Green (2006) call 'philanthrocapitalism', an approach to altruism which is the core of the 'philanthropy-finance-development complex' (Stolz and Lai, 2018; Gabor and Brooks, 2017; Mawdsley, 2015). From the standpoint of investment, below market returns are an alternative to risk-based pricing because they ensue from investments that seek a double bottom line. This encompasses financial gain as well as positive social and environmental outcomes, otherwise known as 'impact'. While the objectives of such investments are diverse, some outcomes are more conducive to measurement. Table 1 presents illustrative examples of measurable outcomes, showing how projects that have a focus on numbers of individuals — such as financial services, education, or energy — are more conducive to being measured and reported.

These social and environmental outcomes are the subject of a range of measurement techniques. Commitments to measure impact, along with expectations of returns, and the intent to have a positive social impact are the three features that set an impact investment apart from forms of investment (UNDP, 2017). This focus on measurement subjects this developmental approach to a level of standardisation that is unprecedented in global development, albeit not in finance. The three key tools for measuring impact are IRIS, PULSE, and GIIRS. They are outlined in Table 2, which are likened to tools used by commercial investors, such as the Generally Accepted Accounting Principles (Financial Reporting Council, 2013) and credit rating tools such as Moody's.

Table 1: Illustrative Examples of Measurable Social or Environmental Outcomes

Agriculture	**Increase in productivity or crop yield as a result of improved technology or training**
Education	Participation rates of girls in secondary education in sub-Saharan Africa
Energy	Number of individuals at the base of the pyramid who gain access to electricity
Environment	Tons of CO_2, equivalent offset as a result of organisation's product or service
Financial Services	Number of micro-insurance products sold to people with AIDS and infected with HIV
Health	Readmission rate of diabetes patients using innovative product for monitoring health
Housing	Reduction in the rate of homelessness among major US cities

Source: World Economic Forum (2013, p. 7)

Table 2: Key tools for measuring impact

Tool	**Description**	**Institutional background**
IRIS (Impact Report ing and Investment Standards)	Taxonomy or set of terms with standardized definitions that governs the way companies, investors, and others define their social and environmental performance.	Sponsored by The Rockefeller Foundation, Acumen and the B Lab to create common metrics for reporting the performance of impact capital. Since 2009, IRIS has been housed at the Global Impact Investing Network. It incorporates sector-specific best practices and reports major trends across the impact investing industry.
B Analytics	Customizable platform that various players in the impact space use for measuring, benchmarking and reporting on impact.	Acumen developed PULSE in 2006 as a software that enables impact investors to collect, manage and report on the impact of their investees: PULSE was incorporated into B Analytics in 2013 turning it into a fully integrated data and technology platform for investors to measure their impact of their portfolios.
GIIRS (Global Impact Investment Ratings System)	Impact ratings tool and analytics platform that assesses companies and funds on the basis of their social and environmental performance. Based on IRIS definitions; generates data that feed industry benchmark reports.	Developed by B Lab and launched in 2011 to manage, benchmark and assess the social and environmental impact of developed and emerging market companies, portfolios, and funds. Uses a ratings and analytics approach based on a broad universe of impact data. Data is self-reported by companies and reviewed by a third-party verification service provider, Deloitte before a company can receive a rating.

Sources: Compiled by author, based on Acumen (2018); Brandenburg (2012); Global Impact Investing Network (2018); Richardson (2014)

Table 3: Number of impact investment enterprises by region and sector[1]

	East Asia and Pacific	Sub Saharan Africa	South Asia	Europe and Central Asia	Latin America and the Caribbean	North America	Middle East and North Africa	Total
Agriculture	18	141	14	17	293	34	3	520
Artisanal	4	..	3	4	14	8	0	33
Culture	0	0	0	..	15	11	..	26
Education	..	0	..	..	5	34	0	39
Energy	48	32	14	3	17	9	0	123
Environment	..	0	0	..	9	48	0	57
Financial Services	361	598	406	443	518	542	81	2949
Health	3	10	8	4	21	27	..	73
Housing Development	0	..	5	..	5	31	0	41
ICT	11	46	16	8	50	64	4	199
Infrastructure / Facilities	..	0	..	..	7	0	0	7
Other	12	12	30	14	104	51	9	232
Supply Chain	4	..	3	..	12	78	0	97
Technical Assistance	..	0	..	4	15	139	0	158
Tourism	..	0	0	4	4	9	0	13
Water	3	..	..	0	..	4		7
Total	472	844	505	510	1091	1089	100	4611

Source: GIIN (2014, p. 2)

These tools are employed across various geographies including the Global South as well as advanced capitalist countries. However, in the context of development IRIS is of particular interest because of its capacity to frame investment strategies and thus to facilitate a form of 'social closure' (Palan, 1999) which Heloise Weber (2004, p. 361) describes as a form of governance that 'pushes questions of social and political struggle away from the realm of the public sphere'.

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1 Dots denote non-zero values that have been withheld due to the IRIS anonymity policy. The total column does not include these non-zero values.

Of particular relevance is the tendency of IRIS — as a component of the broader strategy of impact investing — to directly speak to the SDGs. Many of these have a predilection for the narrative of BoP initiatives (Prahalad, 2005). The SDG-BoP nexus has been problematised by scholars of development on various fronts, including for its under-emphasis on the state's role and responsibility in poverty reduction (Karnani, 2009) and also for seeing poverty and inequality as separate from a broader process of development (Weber, 2017). This nexus is borne out in the impact investing industry's hefty emphasis on financial services as shown in Table 3.

Nevertheless, the BoP bent of IRIS is strongly reflected in the manner in which outcomes are measured: very often the unit of analysis is either individuals or products consumed. This is reflected in the heavy presence of impact enterprises operating in the financial services sector: these measure impact, for instance, in terms of number of micro-insurance products sold or number of persons or number of women who accessed financial services. Data gathered by the Global Investment Impact Network (GIIN) for 2013 shows that 73% of impact enterprises, 2,707 in number, were in the financial services: data for 2015 shows a decrease in percentage and but a rise in absolute terms with financial services organisations making up a percentage of 63% of the total despite growing to 2,949 in total. This can be ascribed to the rise in the number of organisations described as 'other' or 'technical assistance'. The latter might indicate a sharp increase in the number of consulting or advisory organisations operating in the impact investment sphere: in 2013 there were only 4 reporting organisations worldwide that were classified as technical assistance, whereas in 2015, there were 158, of these, 139 were based in North America.

The case of Pakistan

Impact investing in Pakistan is endorsed by the country's government, and its national board of investment, as well as international institutions such as the UNDP, as a development strategy (UNDP, 2018). The Global Impact Investing Network (GIIN), is the key source of data on such initiatives particularly in South Asia, Pakistan as one of the largest impact investment landscapes in the region, with close to a total of USD 2 billion deployed: most of this is by institutional investors but there is also considerable investment from high net worth individuals (HNWIs) (GIIN, 2014). This includes impact investors as well as 'impact related investors': the latter are a separate category because despite being involved in activities that are much like impact investing, there is an absence of an explicit impact intention. A view from many fund managers that impact is achieved by default through their activities — whether this means increased access to capital where there was less before, or impact through investment in sectors like agriculture, which will affect farmer incomes, even without this being intentional ex ante (GIIN, 2014, p. 12).

There is an understanding that such institutions are poised to act as intermediaries for the deployment of impact capital and as such have either expressed interest in or are in the process of developing a metric based approach to measuring and reporting impact (GIIN, 2014). Additionally, there are a number of foundations as well as family offices of HNWIs, which are not impact investors as they tend to have either purely philanthropic or commercial objectives, but are nevertheless relevant in the broader landscape as they have the potential to offer a large pool of domestic capital (GIIN, 2014).

These tendencies are characteristic of the presence of a large number of social enterprises in Pakistan that resist the classification of impact enterprises, primarily because they pre-date the rise of FfD and the formal conceptualisation of impact investing. In their study of social enterprise in Pakistan, Ali and Darko (2015) note that many such enterprises are categorised as NGOs despite operating with commercial models. One instance they refer to in this study is the Pakistani branch of Hamdard, which became an Islamic trust or 'waqf' in 1953 and now runs a wide range of organisations and businesses, including a university and several laboratories that produce and distribute a wide range of pharmaceuticals at highly affordable prices: another instance is the organisation known as The Citizen's Foundation, which is a low-cost education provider that has been running schools in various poor neighbourhoods across Pakistan since the mid-1990s (Ali and Darko, 2015). GIIN (2014) analysis indicates that such activity accounts for a very small share of the overall impact investment landscape: impact-related investors deployed capital of approximately USD 481 million relative to the nearly USD 2 billion deployed by impact investors. The former category consists of an unconfirmed number of angel investors: some of these are tied to incubators and accelerators whereas others operate more informally. The latter category refers to 18 impact investors identified by GIIN (2014): these are constituted by 11 DFIs as well as nine funds with a venture capital or private equity strategy that incorporates social impact.

This mixed structure reflects gradual changes that have occurred since the late 1990s, when Ashoka, a USA based organisation that 'identifies and supports the world's leading social entrepreneurs, learns from the patterns in their innovations, and mobilizes a global community to embrace these new frameworks and build an "everyone a changemaker" world'[2] recruited its first fellows in Pakistan in 1997; this was followed by the arrival of the Acumen Fund in 20023 and subsequently by the Karachi based SEED (Social, Entrepreneurship and Equity Development) fund established in 2009 to offer investment, incubation and entrepreneurial services for 'societal and economic change'[4]. These early participants played a significant role in highlighting the developmental significance of 'patient' or philanthropic capital (Acumen, 2018). They are also seen as key players in the social enterprise industry (Ali and Darko, 2015). This reputation belies their relative contribution in terms of monetary value: to date, the Acumen Fund has invested USD 16 million in Pakistan since 2002 (Acumen, 2018), whereas SEED has invested just under USD 0.65 million since 2009 (Seed Ventures, 2018). This may be compared to the USD 157 million that the CDC — the development finance arm of DFID — has invested since it first entered the Pakistan marker in 2015 (CDC Group, 2015).

The CDC's approach here typifies that of DFIs in terms of sectoral focus; of the USD 157 million, USD 122 million was invested in financial services and USD 32 million was invested in energy. Similarly, Proparco, the private sector financing arm of Agence Française de

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2 https://www.ashoka.org/en-gb/about-ashoka-0
3 Acumen Fund (2018)
4 http://seedventures.org/about-us/vision-mission/

Développement invested USD 20 million[5] in wind energy, USD 21 million[6] for a gas fired power plant, and USD 5 million[7] in financial services. Other DFIs involved in energy and finance in Pakistan are the Norwegian Norfund, which has a Pakistan allocation of 3% of a USD 42 million investment fund to concentrate on micro-financing institutions. Another example is KfW, a German development bank which has provided finance for various sectors in Pakistan including energy and health; notably, it owns 13%[8] of the Pakistan Microfinance Investment Company, which is the apex fund for microfinance in the country.

This interest in financial services, primarily microfinance, is captured in GIIN (2014) data which indicates that financial services received USD 213 million of the capital deployed by both DFIs and non DFIs whereas the energy sector received approximately USD 624 million. The dominance of energy here is directly related to the acute power shortage that Pakistan has faced, particularly over the last decade (Haque, 2017), and also to the proclivity of this sector to absorb 'large ticket size investments that align with DFI mandates' (GIIN, 2014, p. 19). Of note is the preference of impact investors for debt over equity: most impact capital, approximately USD 1.3 billion of nearly USD 2 billion, has been deployed in Pakistan through debt (GIIN, 2014). This is noteworthy given that impact investing tends to be associated with private equity and venture capital approaches: these imply that the investor acquires a stake in the enterprise. However, recent data on global trends in impact investing shows that private debt is the biggest asset class now for impact investments and that a large chunk of investments in developing and emerging markets are via PDIF or private debt impact funds (Forbes, 2018).

The focus on debt in Pakistan is largely driven by DFIs with relatively low risk appetites. Debt instruments require a lower level of due diligence relative to equity investments, and also demand less post-investment management. Even though non-DFI impact investors tend to invest a greater percentage of capital in equity than DFIs — 16% versus 7.3% for DFIs — the partiality to debt rather than equity still prevails (GIIN, 2014). Though not clear from the GIIN (2014) study, there appears to be an overlap between the activities of DFIs and investment funds. For instance the Norwegian Investment Fund for Developing Countries invests in microfinance through its NMI Global Fund which in turn invests in a number of investment funds focused on microfinance: earlier data shows that NMI Global Fund has a 3% allocation for Pakistan (Norfund, 2018). Similarly, the DFID Impact Fund invests in Pakistan through the Singapore based Insitor Impact Asia Fund, which uses DFID capital for stakes in early and growth stage companies across South Asia. Another instance is USAID's Pakistan Private Investment Initiative is comprised of three professionally managed investment funds: the Abraaj Pakistan Fund, the Pakistan Catalyst Fund, and the Boltoro Growth Fund (USAID, 2018).

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5 http://www.afd.fr/en/pakistan-winds-hope
6 https://www.proparco.fr/en/engro
7 https://www.proparco.fr/en/proparco-finances-microfinance-institution-pakistan
8 http://pmic.pk/wp-content/uploads/2017/10/PACRA-PMIC-PR-Oct17.pdf

Financialised finance for development

This penchant of impact investors for debt instruments is evocative when seen in the light of financialisation; particularly, its corporate and state driven version as the context here is one in which impact investors are afforded regulatory complicity. Such a view of financialisation notes the ascendancy of finance over the traditional industrial economy and sees debt as the key source of value. The provenance of this iteration is addressed in Dörry (2018), who uses this view, for instance, to explain how financial logic underlies the arrogation of institutional power by the advanced business services sector. This reach of this phenomenon is described by Thrift and Leyshon (2007) as 'The Capitalisation of Almost Everything'. More specifically, this term is used in this study to 'conjoin real-world processes and practices that are conceptually treated as discrete entities' (Aalbers, 2015: 218). The *processes* linked here include the rise of the shadow banking industry[9] in the Global South and its subjugation of the impact investing paradigm: this is done through the *practices* of investing through debt of various shapes and forms. Financialisation conjoins these very processes and practices.

Shadow banking refers to the system of credit creation outside traditional banks that accounts for over half of global banking assets and represents a third of the global financial system (Nesvetailova, 2017). It is the key mechanism through which global financial capital has come to rely on debt as its source of value. As such shadow banking may be seen as a component of financialisation. The conceptual lens of shadow banking — along with its empirically observable expansion — may be used thus to explain the rise of impact investing.

Given the case of Pakistan, there are two arguments for applying a shadow banking lens to impact investing. One of these operates on the 'crowding out' assumption of bank finance and, more specifically, on the low ratio of private credit to GDP. The central bank notes for instance that the total assets and deposits of the country's banking sector have doubled since 2008, but private sector credit to GDP has declined from 22% in 2009 to just 14.7% in June 2014. The decline in credit provided to SMEs has been particularly pronounced, falling from 16% of bank lending in 2008 to 7% in 2014 (SBP, 2015). Fiscal patterns come across as the underlying cause of why commercial banks in Pakistan have been so lax in widening their customer base: the low tax base, at less than 11% of GDP, compels the government to rely on borrowing for deficit funding (Ministry of Finance, 2017). Private businesses account for 40% of bank credit, and only 0.4% of all borrowers are responsible for 65% of all bank loans (SBP, 2015). In the absence of effective measures to widen and also to deepen the tax base, it is unlikely that commercial banks, which are currently earning heavy spreads by investing in risk free treasury bills, will shift their

[9] Given its prominent role in the crisis of 2007/08, "shadow banking" has since become a major object of attention by national bank regulators (Federal Reserve, Bank of England, European Central Bank, etc.) as well as global rule-setting organizations, notably the Bank for International Settlements (BIS), the International Organization of Securities Commissions, and the Financial Stability Board (FSB). These authorities have recently agreed on an official definition of "shadow banking" as involving "entities and activities structured outside the regular banking system that perform bank-like functions" or, to put it in more compressed form, as "non-bank credit intermediation (Guttmann, 2018, p. 26).

focus to the private sector — but away from the corporate sector — particularly for those in lower income segments.

This 'Dominant Borrower Syndrome' is interrogated by Choudhary et al. (2016). They find that persistent government borrowing from commercial banks has limited the sector. The widening of interest rate spreads, lower private sector credit, despite a policy rate that has fallen by over 550 basis points over four years, and a weak transmission of monetary policy have been created by lack of impetus for credit intermediation, given an ample supply of zero-risk weighted assets in the form of government paper. This explanation, which rests on the macroeconomic assumption of crowding out, is, however, simplistic. Stringent capital requirements, as necessitated by the Basel framework, deterred banks from lending to the private sector, especially where high default risk was a feature of incomplete collateral and/or uncertain cash flows: this is an empirically documented tendency discussed in a shadow banking concept by Toporowski (2017). Also noteworthy here is the relationship between government borrowing and banking spreads. In developing economies the state tends to be insensitive to the cost of borrowing in order to finance its budget deficit when it has no recourse to other sources: this is an outcome of a shallow secondary market for lending, suggesting the need for policies to enhance domestic debt markets alongside liberal reforms (Choudhary et al., 2016).

The above argument is thus akin to the supply side perspective of shadow banking which connects the emergence and growth of shadow banking to a context of regulation and policy (Nesvetailova, 2017), and is empirically expressed in the role that impact investors play in meeting the credit needs of enterprises excluded from the traditional banking sector. A second argument builds on the demand side view of shadow banking; this is an alternative conceptualisation of shadow banking and a departure from the view that ascribes shadow banking to regulatory arbitrage. This demand side perspective instead sees the appetite from the global investor community for yield bearing debt securities as the key driver of shadow banking (Lysandrou and Nesvetailova, 2015). By enlisting philanthrocapitalists in the global FfD initiative through a valorisation of 'patient capital', investment funds seeking impact have prompted an expansion in the production of debt instruments, and thus responded to this demand. This tactic may be likened to the discursive transformation that Daniela Gabor describes as a shift from shadow banking to market based finance. This has gained ascendancy as international organisations persuade poor countries to look to market solutions to address developmental constraints: this market focus resists an orientation with industrial, economies-of-scale model of development[10].

> Securities markets are no longer driven by the needs of economic development and industrialization a la Gerschenkron, but by the demand for securities generated by international investors, from hedge funds to asset managers investing on behalf of

10 Alexander Gerschenkron, the Ukrainian born American economic historian, published several studies in the 1950s and 1960s, particularly on credit and the banking system in such a model: an overview is available in Haggard (2018). The industrial, economies-of-scale model of development is often associated empirically with the East Asian growth story: this has spawned a large literature including the work of Ha Joon Chang and Alice Amsden (1994).

institutional investors such as pension funds, insurance companies and multinational corporations. (Gabor, 2018, p. 396)

This second argument therefore draws attention to two aspects of the impact investment landscape. One of these is the tendency of impact investors to seek yield; the other is the role of intermediation in an originate-to-distribute-model (OTD). The search for yield is a feature of what Lysandrou and Nesvetailova (2015) trace back to the relationship between the global supply of government and corporate debt securities and the demand for these securities, which was roughly balanced up to the 2000s; a gap then appeared when global demand began to outstrip global supply as requirements surged from governments, institutional asset managers and HNWIs outside of advanced capitalist economies.[11] The yield seeking aspect pertains mainly to the deployment of impact capital in the form of debt: as mentioned earlier, in Pakistan this is the dominant form of impact investment and preferred particularly by DFIs.

The other aspect is that of the OTD, which pertains to equity investments. The shift from an originate-to-hold-model (OTH) to an originate-to-distribute-model describes the dramatic outcome of new financial technologies and regulations that pushed banks to shed their traditional role of intermediation since they were no longer constrained by balance sheets. Previously, under OTH, banks would accept deposits in order to grant loans and operate on the spread generated. Under OTD, however, the same banks were able to 'slice and dice' the loans they granted and then to sell the risks associated with these loans to other financial market players. This process came to be known as 'securitization' (Kessler and Wilhelm, 2013; Engelen et al, 2010; Aalbers, 2009; French and Leyshon, 2004) and permitted banks to eschew the incentives to control and account for the variety and quality of risks they themselves originated (Nesvetailova, 2017). Using an OTD approach, fund managers — often subsidiaries of DFIs — are able to originate equity investments to attract capital from IFIs, DFIs, and other investment funds, as demonstrated earlier in the examples of DFID, USAID, and Norfund.

Conclusion

This paper shows how global financial capital came to occupy a principal function in approaches to capitalist philanthropy, namely philanthrocapitalism: this role came to be institutionalised through initiatives such as the FfD agenda and the adoption of impact investing strategies by private as well as non-private institutions, including international organisations such as the World Bank and the UNDP. From the standpoint of development interventions in poor countries, this is a significant occurrence because it reflects the influential viewpoint that development is essentially a problem of finance. This viewpoint is invoked regularly in the context of the SDGs, and has in the past, informed the pursuit of the MDGs.

Within the global agenda of FfD, impact investing is of particular interest because similar practices have in the past facilitated the deployment of substantial amounts of capital — from

11 This occurrence is presented as an 'exogenous' explanation for the role of shadow banking in the global financial crisis of 2007-9 (Lysandrou and Nesvetailova, 2015).

public, private, as well as philanthropic sources — in poor countries particularly for infrastructural projects. Examples of such projects include electricity generation and telecommunications which facilitate the growth of scale economies via industrialisation. But, as recent examples from impact investing in Pakistan show, the potential to replicate such past approaches to development has been limited by the way in which the core features of impact investing, measurement and reporting, are designed. Consequently, impact investors have, to a large extent, embraced a BoP focus and have thus compromised their social impact and left their strategies open to the development critiques of this approach.

The processes and practices entailed here are respectively; the shadow banking industry's rise in the Global South via the impact investing paradigm; and, the asset manager's fixation with debt of various shapes and forms. The notion of financialisation is useful here as it conjoins these processes and practices. Financialised development of this nature sees impact investors, on one hand, fill a void in enterprise finance which has been created by regulatory constraints, and on the other hand accommodating a buoyant demand for financial yield by shepherding the entry of global capital into developing markets.

These observations augment the literature on finance and development and also that on shadow banking, particularly outside advanced capitalist economies. As such there is a need for critical approaches that seek to identify where the goals of finance and of development are indeed in harmony, and where they are in conflict.

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