When Billions Meet Trillions: Impact Investing and Shadow Banking in Pakistan

Abstract

This article argues that impact investing is a means to promote shadow banking. This is reflected in the rise of impact investing in Pakistan, particularly its predilection for inclusive finance. Two contentions are made: 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 shepherding global capital into poor countries. These contentions augment the finance and development literature which critiques the financialized development associated with the Finance for Development (FfD) agenda construed by global institutions ostensibly for the Millennium Development Goals, or MDGs, of 2015 and subsequently the Sustainable Development Goals, or SDGs, of 2030. More recently, the narrative of slogans such as *Billions to Trillions* and the World Bank's *Maximizing Finance for Development* agenda, have drawn criticism because they advance shadow banking. The case of Pakistan exemplifies the traction gained by impact investing as an asset class and the related imperative to measure and evaluate outcomes. The resultant focus on base-of-pyramid initiatives such as inclusive finance is thus a corollary of the financialization of development and the shifts and transformations in development initiatives that incorporate private and philanthropic or 'patient' capital.

Keywords

Development; financialization; impact investing; Pakistan; financial inclusion; shadow banking

1. **Introduction**

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). More recent iterations of these approaches are reflected in the narrative of slogans such as Billions to Trillions and the World Bank's Maximizing Finance for Development agenda, which have drawn criticism for seeking to advance shadow banking. This criticism is directed at development strategies that are reliant not only on private capital or credit but more specifically on shadow banks which are financial institutions that are'entities and activities fully or partially outside the regular banking system' (FSB, 2013: p. 5).

This paper expands upon those concerns. This is done by highlighting how the strategies of international organizations known for emphasizing private sector involvement in development, have become increasingly focused on the role of, and need for, financial capital from various sources, including public, private, and philanthropic organizations. To accommodate this variety, finance for development appears in various forms: these include PPPs or public-private partnerships, blended finance, and impact investing strategies. The latter is of special interest because of its linkages with philanthropy which has the capacity to be a source of patient capital. This is so because 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 instill a structural rigor 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 how capital is deployed: this argument is made by presenting the origins and transformation of impact investing — an extension of the FfD initiative — and then noting how the emphasis on measurement prioritizes base-of-the-pyramid (BoP) markets.

The experience of Pakistan particularly as depicted in the grey literature of the Global Impact Investing Network[1] or GIIN, development finance institutions, and fund managers, is used as the empirical setting to consider the trends and repercussions of impact investment as development finance. Among the noteworthy patterns to be observed are the dominance of the energy and financial services sectors respectively, which extend 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 as debt rather than equity. These tendencies are examined here and a theoretical basis for impact investing in Pakistan is then offered by invoking arguments from the literature on shadow banking.

A key argument of this paper is that impact investors are effectively shadow banks: impact investing is a response to constraints imposed on mainstream banks because of tight regulation, including stringent capital requirements, regulatory arbitrage, and additionally it is a response to a search for yield from global institutional investors. This second tendency is particularly relevant in the Pakistan context where like other shadow banking practices, impact investing enables the push for new financial markets, products, techniques, and institutions because the demand for investables outstrips supply. The supply of investables is expanded through impact investment funds and their propensity for varying capital structures and asset classes. These rely on capital from investors such as pension funds, philanthropic foundations, banks, or public sector funders. To attract this capital these investment funds create investables in two ways: through debt and through equity.

The remainder of this paper is structured as follows: Section 2 provides a concise overview of the shifts and transformations that have occurred in development initiatives that incorporate private and philanthropic capital. Section 3 is a discussion on impact investing as an asset class and how the imperative to measure outcomes entails a focus on base-of-pyramid initiatives. Section 4 examines the role of shadow banking in the financialization of development. Section 5 presents the case of impact investing in Pakistan to highlight the overlaps between shadow banking and development initiatives. Section 6 concludes.

2. **PPPs, blended finance, and impact investing: origins, transformations, and definitions**

Impact investing, as a development strategy, overlaps with slightly older tools, particularly blended finance and PPP. For all of these strategies there are multiple definitions. What links them is some form of a joint funding structure to cover finance gaps for projects that would otherwise be borne fully by either the public or private sector. What separates these strategies is perhaps more interesting: whereas PPP strategies, and to a lesser extent but also blended capital, are ostensibly designed to enable the public sector to attract private capital, impact investing strategies are designed to attract patient capital, usually from governments or philanthropists.

The World Bank (2018) definition of a PPP or public-private partnership is: ‘a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance’. Hodge and Greve (2017) note that there are several historical examples of PPP arrangements including toll roads, land reclamation, canals, and sanitation projects in Western Europe in the 18th and 19th centuries: since the 1990s however PPPs may be considered ‘mainstream’, particularly after receiving the backing of international organizations and development agencies including the UNDP and DFID.

The mainstreaming of PPPs, also known as 3P or P3, is linked to their popularity with governments in the Global South in the 1990s. These strategies sought to replicate the experience of advanced capitalist countries — particularly of the Thatcher and Reagan regimes — where PPPs had been used extensively in the 1980s for projects of urban development (Hodge et al, 2017; Miraftab, 2004). Recent initiatives such as the launch of the World Bank PPP Knowledge Lab[2] in 2015 and the G20 Global Infrastructure Hub[3] in 2014 have been central to the formation of what Hodge et al. (2017) describe as a new identity for PPPs: with a focus on infrastructure and growth, rather on the mode of delivery.

This emphasis on infrastructure has, to a certain extent, been retained in blended finance strategies but tends to weaken when blended finance is explicitly linked to the MDGs and SDGs[4]. Blended finance, according to the OECD (2018), refers to: 'the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets'. Other definitions specifically mention ODA or official development assistance[5] and grants or 'grant-equivalent finance'[6] and also philanthropy[7]. Blended finance strategies are thus similar to PPPs but move beyond the public and private spheres to involve development agencies, international organizations, and also philanthropists.

In its earlier forms blended finance was oriented to infrastructure projects. This is reflected in the examples of various projects lead and supported by the Aga Khan Foundation, a faith based organization 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 USD 4.1 billion with all surpluses reinvested in further development activities (AKDN, 2018b). By many accounts, AKFED through the Aga Khan Development Network, or AKDN, has played a pioneering role in promoting blended finance for development: this has been done by combining the financial capital of its own philanthropic network with resources from vast and diverse consortia of partners and stakeholders. These include international organizations such as the World Bank and the International Financial Corporation, national governments such as Canada and Switzerland, regional development banks such as the African Development Bank and the Asian Development Bank, and large financial institutions such as BNP Paribas and Blackstone. 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. Pamir Energy which was established in 2002 through the collaboration of the Government of Tajikistan and the World Bank, and the Swiss government is an AKDN project that 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 prioritizes 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 AKFED, 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.

More recently, initiatives that promote blended finance strategies have come to be associated with the SDGS for the year 2030 (OECD, 2017). The roots of this association are in the FfD or Financing for Development Agenda that emerged from the United Nations International Conference on Financing for Development held in Monterrey, Mexico in 2002. The ensuing Monterrey Consensus was a direct 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. Whereas the

United Nations (UN, 2002) estimated that USD 50 billion per annum would be required to meet the MDG targets, for the SDGs, the United Nations Conference on Trade and Development or UNCTAD estimates that USD 5 to USD 7 trillion is required overall and this indicates that there is an investment gap in developing countries of USD 2.5 trillion (UNCTAD, 2016). As Emma Mawdsley observes, previous financing needs for development interventions including official development assistance or ODA and also the MDGs have been dwarfed in comparison to the targets of the SDGs:

> A variety of MDG-related donor meetings sought to encourage the (so-called) ‘traditional’ donors to reach their long-standing commitments to provide 0.7% of gross national income in ODA. Few donors have ever met this target, and it seems most unlikely that the majority ever will under current definitions. As the SDGs coalesced, on the other hand, their ambition and scale evidently rendered this 0.7% target grossly inadequate. ODA continues to be recognized as an important resource, especially for the poorest and/or most conflict-affected countries, but even if every donor met the 0.7% target it would barely touch the trillions that have been variously estimated to be required to achieve the SDGs. (Mawdsley, 2018: p. 192)

Whereas the MDG focus was on poverty reduction, the SDG focus appears to be on areas such as energy, innovation, and efficiency: investment opportunities in these areas are framed as having trickle down effects for poverty reduction (Mawdsley, 2018). This narrative reveals a shift: whereas the MDGs were seen as moving the emphasis from poor countries to poor people (St. Clair, 2005) and critiqued because ‘to speak of poverty is to postpone speaking of development’ (Sindzingre, 2004: p. 176), the SDGs envision a distinct role for the state. Not unlike in the past, the state is responsible for supporting the financing of development, but unlike in the past, this financing is to be arranged through the collaborative participation of public, private, and also philanthropic stakeholders. The importance of philanthropy is reflected in the literature of the joint ReDesigning Development Finance Initiative, from the World Economic Forum and OECD, which describes blended finance as the ‘strategic use of development finance and philanthropic funds to mobilize private capital for development' (World Economic Forum, 2015, p. 3).

The attention directed to philanthropy for its potential to supplement FfD and to advance blended finance strategies has driven the institutionalization of philanthrocapitalism. The contribution of the Rockefeller Foundation has been substantial in highlighting the nexus between finance and philanthropy which produced the concept of impact investing. The term 'impact investing' was coined in 2007 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). In its annual Global Family Office Report, the Swiss based bank UBS observed that as family offices of high net worth individuals are taken over by younger — millennial — generations, the demand for profitable investments which also seek to address environmental and social issues has grown (UBS, 2017). 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)

Is there then an overlap between blended finance and impact investments? The latter are described as 'investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return' (GIIN, 2018): given this definition the concept of impact investment shares commonalities with blended finance strategies which are formulated to advance developmental goals. The key difference that sets them apart is this: blended finance is a *strategy* whereas impact investment is an *asset class*.

The salience of this distinction is reflected in the definition of the Global Impact Investment Network, which is comprised of various international development agencies and large investment banks, and which portrays impact investing as an instrument rather than a practice. Additionally, when impact investing is presented as an asset class, the role of financial practices and instruments such as de-risking and patient capital, exemplify contemporary manifestations of development and finance. Moreover, the position of impact investment as an asset class also relates to the need for evaluation: in this case based on the metrics of intent and measurement.

3. Impact investing as a new asset class

The positioning of impact investing as an asset class connects the practices of philanthrocapitalism and shadow banking. Impact investing has led to the production of financial instruments that are offered by asset managers to attract capital from philanthropists: impact investments thus link shadow bankers[8] to philanthrocapitalists.

The Financial Times defines an asset class as a broad group of securities or investments that tend to react similarly in different market conditions: the three basic asset classes are equity securities (stocks), fixed-income securities (bonds), and cash equivalents (money market vehicles) but the consideration is often expanded to include real estate, commodities and derivatives (Financial Times, 2017).

The notion that impact investments are a separate and new asset class[9] has much to do with risk and return. Whereas the other asset classes, mentioned above, are evaluated in terms of how much they return relative to the risk they entail[10,] impact investments look beyond return in a purely financial sense and seek to achieve non-financial goals even when this compromises financial profitability. The attainment of these goals is made possible by patient capital and measurement techniques geared to evaluating social and environmental outcomes.

Patient capital is a means to draw investors to risky but socially desirable projects. Deeg and Hardie (2016) describe it as: 'equity or debt whose providers aim to capture benefits specific to long-term investments and who maintain their investment even in the face of adverse short-term conditions for the firm'. As such, it is a means to de-risk financial capital and to thus crowd in more investment. The need for patient capital entails the involvement of actors — including, but also from 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). Below market returns are an alternative to risk-based pricing because they ensue from investments that seek a double bottom line: this is the difference between risk capital and patient capital[11]. Patient capital 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 than others. 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.

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 organization'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)

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 standardization 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 2: Key tools for measuring impact

Tool	Description	Institutional background
IRIS (Impact Reporting 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).

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. In doing so it facilitates a form of 'social closure' (Palan, 1999): Heloise Weber describes this as a form of governance that 'pushes questions of social and political struggle away from the realm of the public sphere' (2004, p. 361). Particularly worrying is the predilection of IRIS for the narrative of BoP or base-of-pyramid initiatives which are the subject of C.K Prahalad's immensely successful 2004 book: *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits.*

BoP strategies for reducing poverty rest on the assumption that poor people, who make up a substantial chunk of the world's population, offer immense potential as customers of products and services that can meet their specific needs (Prahalad, 2005). Microfinance and mobile banking are examples of such products and services, as are singularly packaged toiletries and alcohol: such strategies have been criticized however for exploiting 'poor people's vulnerabilities, such as their lack of education and their desire for cheap relief from chronic distress' and also for under-emphasizing the state's role and responsibility in poverty reduction (Karnani, 2009). Such critiques problematize the impact investing industry's hefty emphasis on financial services as shown in Table 3. In particular, 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 organizations 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 organizations described as 'other' or 'technical assistance'. The latter might indicate a sharp increase in the number of consulting or advisory organizations operating in the impact investment sphere: in 2013 there were only 4 reporting organizations worldwide that were classified as technical assistance, whereas in 2015, there were 158, of these, 139 were based in North America.

Table 2: Number of impact investment enterprises by region and sector[12]

	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)

4. Financial logic and the role of shadow banking in development

The BoP focus of impact investing, through financial services may be attributed to what Emma Mawdsley calls ‘deepening financial logics in development narratives, institutional functioning, programmatic interventions and stakeholder subjectivities’ (Mawdsley, 2018: p. 194). In adopting such approaches, impact investing has left its strategies open to the development critiques of BoP financial services, or more specifically, those directed at microfinance and financial inclusion. Whereas older critiques contain themes such as (1) the questionable relationship between microfinance and poverty reduction (Duvendack et al, 2011; Dichter and Harper, 2007), (2) the validity of claims that microfinance enhances gender empowerment (Karim, 2008) and social capital (Rankin, 2002), and (3) the commercialisation of lending (Bateman and Chang, 2012; Sinclair, 2012) the more recent literature interrogates financial inclusion — the successor paradigm to microfinance — in the context of global financial circuits (Mader, 2018; 2015; Soederberg, 2014; 2013; 2012; Roy, 2010; Aitken, 2010). This latter set of scholarship places a particular emphasis on the institutions responsible for endorsing and cementing linkages between financial inclusion and global financial markets[13].

The ascendancy of financial logic has also been the subject of concern in an emergent literature about the encroachment of the financial sector into development. For instance, Bayliss and Van Waeyenberge (2018) point to a recent revival in PPPs to exemplify this encroachment. They observe that past efforts such as those in 1990s — involving the World Bank and also regional development banks — to enlist the private sector in development initiatives were driven by a narrative of efficiency gains through privatization. But, current approaches present PPPs as an opportunity to utilize financial capital given ‘a glut in global savings’ (Bayliss and Van Waeyenberge, 2018: p. 578). Mawdsley (2018a) notes that mainstream development models seek to deepen and expand financial markets and logics and that this is exemplified thus: in the shift from foreign aid to development finance, and also in the nature of the macro-micro linkages between financial circuits in interventions such as microfinance which extend the reach of financial technology and capital. Additional examples of the ‘acceleration and deepening of the financialization-development nexus’ (Mawdsley, 2018a: p. 265) are to be found in what Gabor and Brooks (2017) call the ‘digital revolution in financial inclusion' which seeks to turn poor households into generators of financial assets.

More recently, in early October 2018, in an open letter[14] circulated online, scholars of development and finance in the Global South expressed deep concern about the efforts of international organizations, including the World Bank, to bring shadow banking into development. Pointing to the narrative presented in assemblages such as *Billions to Trillion[15]s* and the World Bank's *Maximizing Finance for Development[16]* agenda, the authors of this letter assert that such strategies promote shadow banking by advancing securitization practices in which institutions such as the World Bank bundle various loans and then issue tranches to float in global capital markets. Additionally, by calling on poor countries to attract global financial capital, such strategies fixate on enhancing liquidity in local capital markets through instruments such as repos and derivatives. These practices are troublesome because they tend to — as demonstrated in the 2007-2009 global financial crisis — expose markets to macroeconomic instability.

Shadow banking, financial innovation, and the financialization of FfD

These concerns are reflected in the political economy literature on finance and development which contains two contrasting perspectives. One of these is the mainstream economics approach. Represented by development strategies based on FfD or finance for development strategies which portray development constraints as an issue of finance, this proposes remedies by mobilising capital through various combinations of public and private sources (Hudson, 2015; UN, 2002).

The alternative, political economy approach relies on heterodox critiques of excessively liberalised and insufficiently regulated financial markets: this is covered in the stream of literature on financialization which draws on Minksyian hypotheses of 'money manager capitalism' (Minsky, 1996; Wray, 2009). Given the low-yield environment that has prevailed since the 1990s, financiers have sought to advance financial innovation to meet the growing demand for investment: the alternative would be to ensure that only stable and sound financial assets are created and traded but this would limit earnings and profitability (Nesvetailova, 2017).

Financial innovation, as a symptom of broader processes of financialization is borne out in the subjugation of the impact investing paradigm by the shadow banking industry: this has resulted in the creation of debt instruments of various shapes and forms. The idea that shadow banking has a context in the Global South is of course not a novel one, but the concerns highlighted above are a departure from earlier literature that has tended to see it — particularly in the growth of nonbanking financial companies — as a response to the regulatory and institutional constraints in some poor countries.

General examples of this are available in Ghosh et al (2012) where shadow banks are discussed as sources of alternative funding and in Lyman et al (2015) where systemic risks from inclusive finance are considered though eventually downplayed. Other examples, which are more detailed, use a specific country context to demonstrate how shadow banking emerges from institutional constraints. For instance Acharya et al (2013) observe that the lending activities of nonbank financial institutions in India fill gaps when mainstream or commercial banks are constrained in disbursing credit because of prudential regulation and other government policies. Kaurova (2017) notes that in Russia, where there is a gulf between the financial economy and the 'real' economy, domestic capital markets offer only weak financial access to corporations which then seek alternative funding and risk insurance mechanisms. For China, Knack and Gruiin (2017) find that the state backs inclusive finance, particularly digital or internet finance, as a response to global regulatory curbs on financial institutions.

These are instances of the view that shadow banking has a ‘supply side’ explanation as it is caused by market players seeking regulatory arbitrage and regulatory avoidance. Support in the literature for this supply side view rests on the notion that shadow banks emerge because regulation is stifling (Tett, 2009; Chick, 2008), and also the concept that shadow banks emerge because of the political influence of ‘greedy’ financiers (Pagliari, 2013; Erturk and Solari, 2007). Another and somewhat more current view holds that shadow banking has a ‘demand side’ explanation because the global financial system has reached the limits of natural growth so financial innovation is employed to allow continued expansion (Nesvetailova, 2017). This is a departure from a regulatory arbitrage focus and thus the supply side approach, which has also been called the ‘viable credit alternative’ view given the argument that non bank finance is a substitute for mainstream finance (Gabor, 2018: p. 395).

Both views of shadow banking are recurrent features in the literature on financialization, but the latter, demand side view has enhanced insights on how the FfD agenda has itself become financialized and how institutions responsible for advancing this agenda behave like shadow banks. The demand side view acknowledges not only the influence of the global financial market in domestic shadow banking, but also the discursive transformation that Daniela Gabor describes as a shift from shadow banking to market-based finance and which reflects a ‘renewed global push, led by Germany in the G20, to extend the reach of financialized globalization’ (Gabor, 2018: p. 398). Thus, it is not just regulatory constraints but also a search for yield from global investors that has resulted in the rapid growth of alternatives to mainstream or traditional banking. The demand side perspective is that new financial markets, products, techniques, and institutions are created because the demand for investables outstrips supply: impact investing plays a role in this process of creation because it responds to unfulfilled demand by expanding the supply of investables. This is done by impact investment funds with varying capital structures that rely on capital from investors such as pension funds, foundations, banks, or public sector funders. To attract this capital these investment funds create investables in two ways: through debt and through equity.

Recent survey data from GIIN (2018) indicates that private debt, often in the form of fixed income is, responsible for 34% of the assets under management in the impact investing industry; this is followed by real assets — for instance infrastructure, real estate, and commodities — at 22%; and private equity — through which investment funds acquire shareholding and ownership stakes in companies — at 19%. These investables are incorporated into the strategies and portfolios of the some of the largest financial institutions. For instance, the 2015 acquisition of Imprint Capital Advisors, an 18 person San Francisco based impact investment fund, by Goldman Sachs was an indication for the Wall Street financial community that client demand for impact investments is substantial (Bloomberg, 2015).

Another instance of Wall Street engagement with impact investing is to be found in the Global Impact fund launched in 2018 and managed by KKR, the New York based private equity firm which manages over USD 190 billion[17]. For global financial institutions, acquiring or establishing a fund that dedicated to impact investing is often a means to overcome size constraints: poor countries have shallow markets so investment opportunities, even when lucrative, tend to be too small to attract financial capital in the large tranches that are customary for global fund managers. The FfD agenda has to an extent overcome this problem and connected small impact investment funds with large global financial institutions through initiatives such as the PRI or United Nations Principles on Responsible Investment. By asking financial institutions to become signatories, the PRI generates explicit commitments to report on responsible investment activities annually; the current list of signatories currently exceeds two thousand (PRI, 2018).

In addition to global financial institutions, impact investment funds receive capital from development finance institutions. For instance, the United Kingdom's DFID, through its investment company the CDC or Commonwealth Development Corporation, has been deploying capital in impact investment funds since 2012: this is been done directly, as in establishment of the CDC managed Impact Fund, and also indirectly such as in the investments made by the Impact Fund into other funds focused on Africa, and Asia (The Impact Programme, 2018). Another instance which reflects a somewhat different arrangement is the Microfinance Initiative for Asia (MIFA) Debt Fund. This was established in 2012 by Germany's Federal Ministry for Economic Cooperation and Development (BMZ), Germany's development bank (KfW), and the International Finance Corporation (IFC), and is managed by a privately owned, Swiss based, impact investment firm (OECD, 2018).

There are thus investments made *in* impact investment funds, such as those by global financial institutions and by development finance institutions; and there are investments made *by* impact investment funds, such as those in BoP initiatives for financial services. The onus of meeting the requirements of metrics such as IRIS fall on the latter whereas the deployment of capital, either in the form or debt or equity, is in the hands of the former. The next section discusses how this arrangement has shaped development and finance in Pakistan.

5. Impact investing and shadow banking in Pakistan

The relationship between impact investing and shadow banking in Pakistan is reflected in two trends that have occurred in the country. One of these is the growing interconnectivity between microfinance and global capital: this is discussed below in the context of how microfinance lenders have been enabled — domestically and also internationally — in seeking wholesale funding, first from the World Bank, and then through other investors such as British and German development finance institutions. This is related to the second trend of how development finance institutions, with a preference for credit based investment or debt instruments, dominate the impact investing landscape in terms of capital deployed. These trends may be seen in the light of the two explanations of shadow banking presented above: supply side and demand side.

Impact investing though microfinance in Pakistan has a context in the wider financial landscape of the country: this is comprised of commercial banks[18], development finance institutions[19], and microfinance banks, all of which are regulated by the State Bank of Pakistan or SBP[20]. Studies on Pakistani banking and finance tend to make a sharp distinction between the pre-1990s and post-1990s financial system given the upheaval associated with the IMF structural adjustment program that commenced in 1988 (Naqvi, 2018; Zaidi, 2015; Sayeed and Abbasi, 2015). Pre-1990s Pakistan had the financial system of a developmental state in which nationalized financial institutions were directed to allocate credit to designated sectors (Naqvi, 2018). The financial and trade liberalization reforms that were undertaken as a part of structural adjustment thus sought to address what was characterized as a repressed financial system[21], the main criticisms of which were that excessive, inefficient, and corrupt lending practices were draining government finances and causing high percentages of non-performing loans (Naqvi, 2018). As a result of liberalization, numerous domestic and foreign banks began operations in Pakistan and the government divested ownership in publicly owned banks. Reforms also entailed the removal of interest rate ceilings, work on mechanisms to determine a market rate of interest (Hanif, 2002), and the closure of over 2000 bank branches over a 6 year period (Burki and Ahmad, 2010). The same environment of reform that resulted in a closely regulated commercial banking sector was also the setting in which microfinance was incorporated into the financial landscape. During the late 1990s the government of Pakistan, with a loan from the Asian Development Bank sought to provide regulated microfinance services by asking commercial banks to acquire stakes in a newly established microfinance institution. The Khushhali Bank Ordinance was specially passed in 2000 to support the creation of Khushhali Bank under the Asian Development Bank's Microfinance Sector Development Program and also the Government of Pakistan's Poverty Reduction Strategy (ADB, 2008). The Microfinance Institutions Ordinance 2001, and also prudential regulations for microfinance banks, were subsequently introduced to specifically deal with the incorporation, regulation and supervision of microfinance banks in Pakistan (ADB, 2008).

Official support for microfinance is expressed in the country's PRSP or Poverty Reduction Strategy Papers. These documents are a part of the IMF's late 1990s strategy to target poverty reduction through more participatory approaches which required countries to prepare regular reports — updated every three years or so — in collaboration with various stakeholders and partners, including the World Bank and IMF (IMF, 2004). The Government of Pakistan released an initial or 'I-PRSP' in late 2000 and a full PRSP in 2003 (IMF, 2004). Of especial relevance in the strategies articulated thus is the role of the World Bank sponsored Pakistan Poverty Alleviation Fund which was established in the year 2000 as a special purpose vehicle designed to channel funding to broad based programs in community physical infrastructure and capacity building interventions, as well as microfinance: as such it came to function as the country's apex fund or what CGAP (2002) describes as 'a second-tier or wholesale organization that channels funding (grants, loans, guarantees) to multiple microfinance institution (MFIs) in single country or region'.

Eventually, as microfinance and financial inclusion became increasingly embedded in the strategies of the central bank of the Ministry of Finance (NFIS, 2015), the microfinance lending portfolio of the PPAF was shifted to a newly established private sector investment company: the Pakistan Microfinance Investment Company or PMIC. The establishment of the PMIC opened a sizeable channel connecting the domestic microfinance industry to global fund managers. This is so because of the ownership structure of this institution: 49% by the PPAF, 38% by Karandaaz, and 13% by Germany's state owned KfW. The role of these shareholders is to connect microfinance lenders in Pakistan with global capital markets as well as international donors. The PPAF, for instance is funded by multiple donors including the Government of Pakistan, the World Bank, DFID, and KfW.

The company structure of Karandaaz is a revealing example of an impact investing institution that is described both as a nonprofit company[22] and a special purpose vehicle[23] (GOV.UK, 2014) focused on promoting access to finance for small and medium enterprises and financial inclusion (Karandaaz, 2018). This organization was set up by DFID 'to strengthen the microfinance industry, entrepreneurship and small business development in Pakistan by working with existing institutions and through innovative financial products' (GOV.UK, 2014: p. 3) and is legally equipped as a special purpose vehicle to participate in various financial instruments: equity, quasi-equity, debt, guarantees and other instruments for providing capital to small, medium, and microfinance enterprises.

Microfinance lenders had in the past been partially[24] reliant on World Bank disbursements to the PPAF. But they could now seek funds — in the form of wholesale structured credit and equity-linked direct capital investments —from the PMIC which had additional backing from a major development agency, and also from an impact investing fund sponsored by DFID as well the Bill and Melinda Gates Foundation (Karandaaz, 2018).

The importance of development finance institutions such as KfW and DFID is mentioned in the reports of the Global Impact Investing Network (GIIN), which is the key source of data on such initiatives particularly in South Asia. Within such reports Pakistan is described 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 — mainly DFIs — 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 several 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 observations capture 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 conceptualization of impact investing[25]. GIIN (2014) analysis indicates that such activity accounts for a 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 organization that ‘identifies and supports the world’s leading

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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'[26] recruited its first fellows in Pakistan in 1997; this was followed by the arrival of the Acumen Fund in 2002[27] 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'[28.] 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 d in energy (CDC, 2015). It is notable that the CDC investment in financial services consisted of a 5% direct equity stake in HBL, which is Pakistan's largest commercial bank and controlled by the Aga Khan Fund for Economic Development or AKFED[29], which holds a 51% stake in the institution. The AKFED, through HBL, also owns one of the largest and oldest microfinance banks in Pakistan, FMFB or First Micro Finance Bank: through this subsidiary organization, the CDC's share in HBL allows it to 'help people on low incomes access potentially life-changing financial services such as micro-credit to start or grow a small business' (CDC, 2015: p. 4).

Like the CDC, Proparco, the private sector financing arm of Agence Française de Développement has invested USD 20 million[30] in wind energy, USD 21 million[31] for a gas fired power plant, and USD 5 million[32] 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. And as mentioned earlier, KfW, the German development bank has provided finance for various sectors in Pakistan including energy and health and also owns 13%[33] of the Pakistan Microfinance Investment Company, 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). This is partially so because Pakistan's energy sector has since the reforms of the 1990s been geared towards attracting private investment. This has been done by ensuring that the independent producers of electrical power receive a fixed return (IRR) on their investment and are also reimbursed for all direct "pass through" costs/expenses incurred in power generation (Shaikh et al, 2015).

Such arrangements underlie 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 because 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).

Table 3: Impact investing amounts deployed in Pakistan to date

USD Million	DFI	Non DFI	Total
Equity	153	26	179
Debt	1189	127	1316
Total[34]	1830	162	

Source: GIIN (2014)

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).

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 focus away from the government and large corporate to the lower income segments of the non corporate private sector. The ‘Dominant Borrower Syndrome’ in which persistent government borrowing from commercial banks has limited the sector is interrogated by Choudhary et al. (2016). 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 regulation and policy (Nesvetailova, 2017), and is empirically expressed in the role of impact investors 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 valorization of 'patient capital', investment funds seeking impact have prompted an expansion in the production of debt instruments, and thus responded to this demand. 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[35]. 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.

6. Conclusion

This paper has argued that impact investing is a means to promote shadow banking — in the form of development initiatives — in poor countries. This has been done by showing how global financial capital came to occupy a principal function in approaches to capitalist philanthropy or philanthrocapitalism: this role came to be institutionalized through initiatives such as the FfD agenda and the adoption of impact investing strategies by private as well as non-private institutions, including international organizations such as the World Bank and the UNDP. Such approaches to development reflect an 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 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 industrialization.

Recent examples from impact investing in Pakistan show that 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. Particularly, the impact investing fixation with inclusive finance — which is itself an extension of the financial sector and the subject of several critiques — draws attention to the role of shadow banking in development. Financialized 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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Notes

1 The Global Impact Investing Network is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing particularly through research and building infrastructure such as measurement and evaluation tools. See https://thegiin.org/

2 https://pppknowledgelab.org/
3 https://www.gihub.org/
4 Millenium Development Goals (MDGs), and Sustainable Development Goals (SDGs): http://www.sdgfund.org/mdgs-sdgs
5 See Eurodad (2017)
6 See Mustapha et al (2014)
7 See OECD (2017)
8 Here the description of shadow banking by Pozsar et al. (2010) of shadow banking as consisting of financial intermediaries that conduct maturity, credit, and liquidity transformation without explicit access to central bank liquidity or public sector credit guarantees, is relevant.
9 Other alternative classes may be found under the headers of private equity, energy, infrastructure, real estate and credit.
10 This concept, of a risk-return spectrum or trade-off, is central to Modern Portfolio Theory and is attributed to the American economist Harry Markowitz who was awarded a Nobel Prize in Economics in 1990.
11 This characterization is used by the Acumen Fund (2018).
12 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.
13 Examples of this include observations by Susanne Soederberg (2013) on the G20, Ananya Roy (2010) on the World Bank, and Philip Mader (2018) on the CGAP.
14 https://criticalfinance.org/
15 See Mawdsley (2018)
16 See World Bank (2017)
17 http://www.kkr.com/businesses/global-impact
18 Including Islamic banks
19 In Pakistan, DFI refers to a bilateral institution established to promote investment into Pakistan and to enhance trade flows between Pakistan and the sponsoring country.
20 Another category of financial institution regulated by the central bank or SBP is that of specialized banks which are permitted to lend to specific types of borrowers such as agriculturalists but not permitted to carry out other banking activities such as deposit taking. Other financial institutions such as leasing companies, mutual funds, and microfinance providers which are non deposit taking institutions are regulated by the Securities and Exchange Commission of Pakistan (SECP).
21 This terminology is associated with McKinnon (1973).
22 Companies in Pakistan that wish to be registered as nonprofit or non governmental oraganisatiaons may do so under Section 42 of the 1984 Companies Ordinance: this is the status under which Karandaaz operates.
23 The SPV structure typically used for development programs is based on creating “not–for–profit” legal entities, into which development programs can place often large amounts of money to implement projects/ objectives (KPMG,2017)
24 Some lenders could use the funds of depositors for on lending but this option was not widely available because of (1) low numbers of depositors/ savers and (2) licensing restrictions on which institutions were permitted to accept client deposits.
25 A number of social enterprises in Pakistan are categorized as NGOs despite operating with commercial models. One instance is the Pakistani branch of Hamdard, which became an Islamic trust or ‘waqf’ in 1953 and now runs a wide range of organizations 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 organization known as The Citizen’s Foundation, which is a low-cost education provider that has been running schools in various poor neighborhoods across Pakistan since the mid-1990s (Ali and Darko, 2015).
26 https://www.ashoka.org/en-gb/about-ashoka-0
27 Acumen Fund (2018)

28 http://seedventures.org/about-us/vision-mission/
29 This is the same organization mentioned earlier in this article for its work in Africa, Central Asia,and Afghanistan.
30 http://www.afd.fr/en/pakistan-winds-hope
31 https://www.proparco.fr/en/engro
32 https://www.proparco.fr/en/proparco-finances-microfinance-institution-pakistan
33 http://pmic.pk/wp-content/uploads/2017/10/PACRA-PMIC-PR-Oct17.pdf
34 Includes other instruments, mainly guarantees.
35 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).