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Funding growth of social businesses [Investing for Impact: How social entrepreneurship is redefining the meaning of return]

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Item Type	Book chapter
Authors	Kimakowitz, Ernst von
Publisher	Credit Suisse
Rights	With permission of the license/copyright holder
Download date	2026-11-16 21:22:28
Link to Item	http://hdl.handle.net/20.500.12424/198934

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January 2012

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Investing for impact

How social entrepreneurship is redefining the meaning of return

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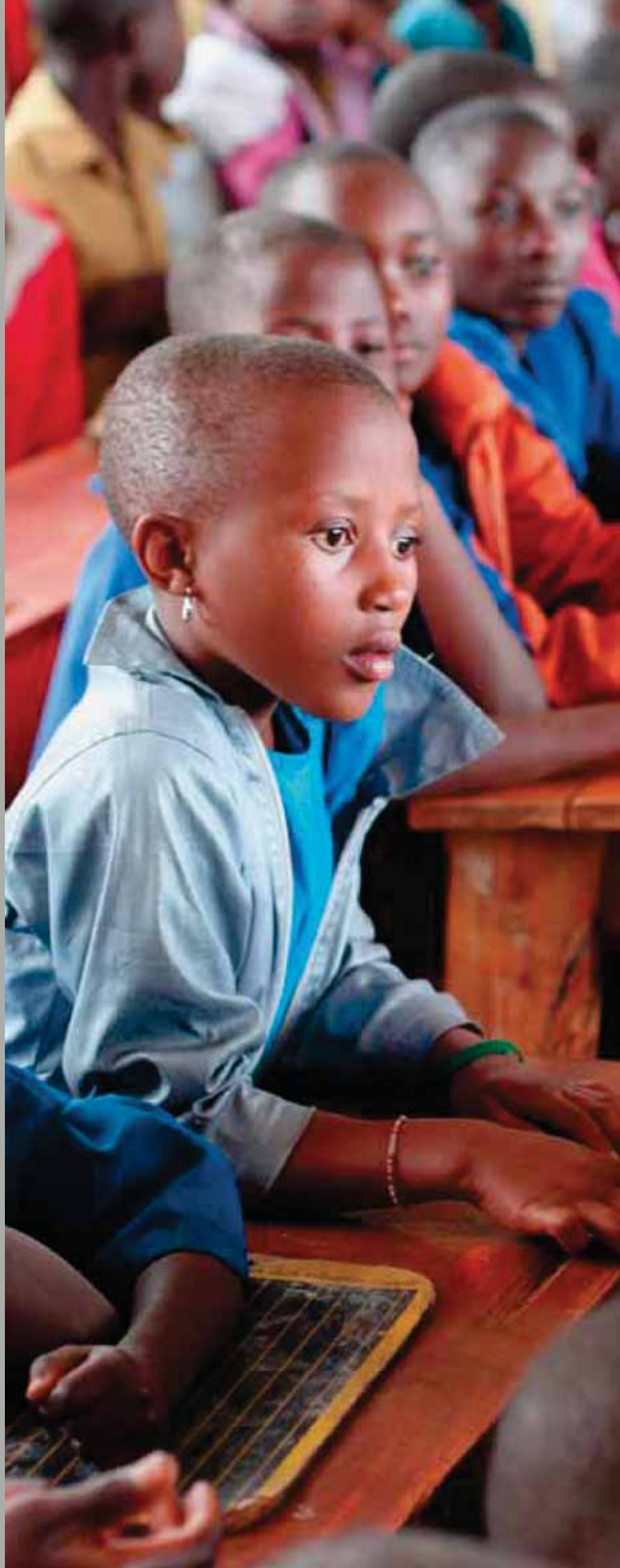
This report is a joint publication of Credit Suisse and the Schwab Foundation for Social Entrepreneurship.

SOCIAL ENTREPRENEURSHIP

For more information please contact:
Robert Ruttmann, Global Investment Products and Strategy Committee Office, Credit Suisse Private Banking, robert.ruttmann@credit-suisse.com

For more information about the Schwab Foundation, please contact us at:
91–93 route de la Capite
CH-1223 Cologny/Geneva
Switzerland

info@schwabfound.org
www.schwabfound.org
www.twitter.com/schwabfound
www.forumblog.org/socialentrepreneurs





Editorial

The growing interest in impact investing is hard to miss. Today, more investors and entrepreneurs than ever are proactively investing their capital in solutions designed to generate a positive social or environmental impact, while also having the potential for some financial return. In practice, such opportunities are emerging in most parts of the world, across nearly all asset classes, and at many different levels of risk and return.

A standard impact investment structure today will invest in enterprises that provide self-sustaining solutions to social problems, such as access to clean water, improved health care, or the provision of clean energy. Investing in these organizations provides a direct and significant impact for those in poverty, and in many cases also offers a financial return.

Beyond investing in social enterprises, other impact investment vehicles are also evolving fast, ranging from a variety of innovative impact bond structures to peer-to-peer funding platforms to seed-stage investing forums. Still, the field is at an early stage of development, with participants grappling with a number of hurdles such as agreeing on standardized impact metrics, finding optimal financing mixes, avoiding mission drift, and, of course, connecting investors who can deploy "patient capital" with promising social enterprises. The purpose of this report is to offer investors and social entrepreneurs alike a better understanding of these complexities.

The report begins with an introduction to the topic by Credit Suisse analysts, offering a contextual framework for impact investment solutions. This introductory chapter is followed by an interview with Mark Kramer, co-founder of FSG Advisors and a leading authority in the field, who presents an overview of the major trends shaping the industry today. Chapter three analyzes the drive to expand the range of vehicles available to retail investors, while chapter four features a fascinating discussion between Dr. Julia Balandina Jaquier and Dr. Ernst von Kimakowitz, on the promise and the risks of promoting growth in the social entrepreneurial space.

In chapter five, Katherine Milligan at the Schwab Foundation for Social Entrepreneurship charts the rise of social entrepreneurship over the past decade and discusses some exciting examples of how leading social enterprises deliver impact. Several examples are profiled in the section "Stories from the field." In chapter six, Cathy Clark and Jed Emerson present an overview on the current trends in the development of metrics to measure social impact and offer pragmatic advice to newer investors. Chapter seven includes the most important "lessons learned" by early pioneering impact investors, including several specific examples in the section "Stories of private investors."

In chapter eight, Brian Trelstad and Rob Katz of Acumen Fund, one of the oldest and most respected impact investment funds, share the lessons they have learned over the past decade on the optimal financing mixes throughout the entrepreneurial trajectory of social enterprises. Chapter nine presents the insights of Rupert Scofield, CEO of FINCA, one of the largest global microfinance institutions, on what other social enterprises can learn from the pioneering work done in the microfinance sector. Chapter ten closes the publication with a thought-provoking and engaging interview with Sir Richard Branson, who discusses the instrumental role business-based solutions can play in solving some of the world's most intractable problems.

The underlying message of this collection of articles is clear: the potential of growing efforts to deliver entrepreneurial solutions to global problems is bigger than ever before – as are the opportunities to channel private capital toward social and environmental issues. We hope this publication will offer you more insight into this exciting new field.

Giles Keating, Head of Research for Private Banking and Asset Management, Credit Suisse

Mirjam Schöning, Senior Director of the Schwab Foundation for Social Entrepreneurship

New ways to invest for social and environmental impact

Investors are increasingly rejecting the notion that they face a binary choice between investing for maximum risk-adjusted financial return or donating money to social and environmental causes. These impact investors are proactively using their investments to generate a tangible social or environmental impact, while also having the potential for some financial return.

Robert Ruttmann, Credit Suisse





At Credit Suisse, we recognize that investors may have unique investment goals when selecting solutions that meet both their financial and their extra-financial aims. For instance, while it may be important for one investor to prioritize social impact over financial return, other investors may be more concerned about generating an optimal risk-adjusted financial return with only a marginal social[1] benefit.

To help investors navigate this sometimes complex space, our Responsible Investment and Philanthropy Services (RI-PS) framework maps investment solutions along a spectrum that ranges from pure donations on the one end, through a crucial middle ground that includes social business and microfinance, all the way to the other end, which comprises investment solutions that seek maximized financial returns as a first priority. Solutions are organized in three broad categories along this spectrum. This report will focus on the middle pillar: Impact Investments (see figure 1).

[1] We use the term "social" to include social and environmental.

Defining impact investments

Although exact definitions of impact investments may vary, at Credit Suisse, we define them as investments made with the primary intention of creating a measurable social impact, with the potential for some financial upside. The investment may face some risk of financial downside, but no deliberate aim of consuming capital as with a charitable donation. In short, impact investments place capital in businesses and other vehicles that are designed to generate a tangible social impact as well as a financial return.

Funding social entrepreneurs

A common impact investment structure is one that provides capital to small businesses and social enterprises that use market-based mechanisms to provide scalable solutions to a number of global problems. These investments can target a wide range of sectors, including food security, education,





Figure 1

The Responsible Investment and Philanthropy Services framework

Source: Credit Suisse



access to medicine, clean water, as well as many others (please refer to "Social entrepreneurship moves from niche to mainstream").

The entrepreneurial ventures targeting these sectors also rely on a variety of different funding structures – ranging from debt to private equity to various other forms of mezzanine capital to outright grants or some combination thereof (figure 2). Ultimately, any investment in a social enterprise is only as successful as the business receiving the money, which is why it is of critical importance to select the right mix of financing tools relative to the company's stage in its life cycle (please refer to "Creating a capital curve for social enterprises").

If done right, investments in small businesses and social enterprises can become powerful drivers of entrepreneurship, job creation, and ultimately economic growth and poverty reduction. Investors are increasingly recognizing this potential. Just last year, for instance, a group of professional investors set up a USD 25 million fund with the purpose of catalyzing growth of small agribusinesses across East Africa. Another interesting example is a fund launched in 2010 with a broad sector-focus specifically addressing the needs of people at the base of the pyramid, providing risk capital and management support to micro-enterprises in some of the poorest regions in the world. But providing capital to small businesses with a social purpose is just one way impact investors are driving social change.

New financing tools as the next evolution in impact investing

Apart from investing directly in companies and projects driving social change, many new financial innovations are also offering investors more opportunities to invest for impact. For instance, green bonds and climate bonds are like normal, tradable bonds, only that they are issued specifically to raise money for environmental projects or climate change mitigation projects. These bonds also often include a tax exemption on the bond's financial return.

Another new example of how innovative financing can be used for social benefit is a vaccine bond. These bonds convert multi-year foreign aid commitments into immediate cash so vaccines can be administered earlier and to more people. The structure can deploy very large amounts of capital, with some issues exceeding USD 3 billion. An equally innovative example is the social impact bond, which channels private funding into social

The Responsible Investment and Philanthropy Services (RI-PS) framework offers investors an overview of investment solutions that can meet both the financial and social goals of the investor. The framework maps the investment solutions along a spectrum that ranges from pure donations to risk-adjusted, profit-seeking opportunities. The format allows investors to select solutions along the spectrum that best integrate their social, environmental, and financial goals. Solutions are organized in three broad, overlapping categories along this spectrum: Philanthropy Services, Impact Investments, and Sustainable Investments. The pillars are defined according to the explicit goals of the client: clients verging toward the left of the framework are likely to prioritize social returns over financial returns, while clients verging toward the right of the spectrum are likely to prioritize financial returns over social returns.

1. The **Philanthropy Services** pillar serves clients aiming to achieve a social or environmental change and willing to give up all the capital that is donated.

2. The **Impact Investment** pillar focuses on solutions that generate a measurable social impact as the first priority, with the potential for some financial return.

3. The **Sustainable Investment** pillar refers to solutions that use a consideration of environmental, social, and governance criteria along traditional financial metrics with the objective of generating superior long-term risk-adjusted financial returns.

programs, with the government paying interest that rises or falls with the measured success of the venture.

The first social impact bond was launched in 2010, aiming to finance the rehabilitation and early intervention programs for ex-convicts. If the program meets its goals of steering the target group away from crime, interest rates on the bonds will rise. As such, the investor bears the upside and downside risk of the effectiveness of the program, while the government saves money on policing, processing, and jailing offenders.

Scaling up for growth

These examples of new financing structures, as well as the many new funds channeling capital to small enterprises, suggest that the field of impact investing may be scaling up to a new level. And in a world in which the need for fiscal consolidation is increasingly limiting government resources to tackle global issues, private entrepreneurial solutions to global problems seem to be in higher demand than ever before.

In fact, governments are also increasingly turning to social entrepreneurs as they balance their need to cut spending with the need to create quality jobs and growth in the areas that need it most. To this end, governments across the USA, UK, and Europe have made around USD 4 billion available for social investment solutions just in the last three years. For instance, just recently, the European Regional Development Fund and the European Social Fund have awarded up to EUR 550 billion of funding to “impact” businesses that proactively address social issues.

With this background, and as more investors become aware of the growing opportunities to invest for impact, the case for scale becomes even stronger – but from a low base. In fact, the Global Impact Investing Network, a non-profit group, expects the impact investment market to grow to USD 500 billion by 2014, representing an average annual growth rate of nearly 60% since 2009. Still, at USD 500 billion, the impact investment market would still amount to only about 1% of global equity market capitalization.

Risks and challenges of measuring impact

But for all the promise, investors should also be aware of a number of risks associated with the sector. Many of these risks also apply to traditional private equity investments, and can include factors

Figure 2

Comparison of financing instruments

Financing instrument	Term sheet		Implications for social enterprise
Grants	Duration: Annual payments: Repayment:	Short-term None None	- Usually restricted use for predefined projects - High fundraising costs - Low entrepreneurial flexibility
Debt capital	Duration: Annual payments: Repayment:	Long-term (3–7 years) Interest payments (variable) Yes	- Annual interest payments require low-risk business model - No dilution of ownership - Far-reaching rights of capital providers in case of default - High entrepreneurial flexibility in the use of capital
Equity capital	Duration: Annual payments: Repayment:	Unlimited Dividend payments (variable) No	- Dilution of ownership - Social investor receives control and voting rights - Profit participation for social investor - Potential impact on corporate culture
Mezzanine capital	Duration: Annual payments: Repayment:	Long-term (3–7 years) Interest payments (variable) Yes	- Annual interest payments require predictable cash flows - Dilution of ownership only if converted into equity - Mandatory repayment - Profit participation for social investor
Hybrid capital	Duration: Annual payments: Repayment:	Long-term (3–7 years) None Depends upon structure	- Inexpensive financing instrument - No dilution of ownership - Risk sharing with the social investor - Great structuring flexibility

Source: "Social Investment Manual: An Introduction for Social Entrepreneurs. Schwab Foundation for Social Entrepreneurship & Technical University of Munich, 2011."

like low liquidity for long periods of time, high start-up costs, exit risks, high due diligence costs, and emerging market risks where the rule of law may be less well defined. In addition to these factors, impact investors also need to grapple with the complex topic of measuring social or environmental impact.

Similar to traditional investments, the performance of impact investment solutions are also evaluated against standard risk and financial return parameters. However, with impact investments, a key difference is the added performance dimension of measuring social or environmental impact. This dimension tends to be subjective and difficult to measure, especially given the lack of standard metrics. Fortunately, in recent years, a number of cutting edge developments have emerged that can help investors better understand and compare the impact their investments generate.

For example, tools such as the Impact Reporting and Investment Standards (IRIS) and the Global Impact Investing Rating System (GIIRS), which relies on IRIS standards for input, work to aggregate data on social impact performance so that investors can make more informed investment decisions (please refer to "A new world of metrics: trends in monitoring social return").

Infrastructure will be key to scale growth

Clearly, efforts to standardize the infrastructure around the reliable measurement of social return will be a key factor for the impact investment sector to reach its potential. But if this can be done well, the resulting ability to better understand the balance between a social return and a financial return may very well drive impact investment to the next level. This next level can, with time, represent a very real opportunity to channel large-scale investment capital for social and environmental benefit. And if increased scale can also be combined with adherence to the original vision, impact investment can become a powerful engine of global economic, social, and environmental uplift.

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A view from the top: trends in impact investing

Many investors and philanthropists are turning to impact investments as equally valid and in some cases even more effective vehicles for social change than pure charity. To complement this growing interest, a number of new innovations are emerging in the field, ranging from new financial tools to better metrics for social impact to new impact investing funds. Mark Kramer shares his views on the promise and the challenges of impact investing.

Interview by Gregory Fleming, Credit Suisse

Gregory Fleming: Approaches to philanthropy seem to be changing, with people like Bill Gates, Richard Branson, and George Soros increasingly relying on entrepreneurial approaches to tackling various social and environmental issues. Is this a fundamental shift or a passing trend?

Mark Kramer: I believe philanthropy has fundamentally changed in the last decade from generating headlines about a philanthropist's generosity to an explicit focus on results. Sophisticated donors today ask not "How much money was given?" but "What did the money accomplish?"

This emphasis on results has led to an expanded toolkit for social impact. Philanthropists continue to support charities of course, but they have also discovered that for-profit organizations can help them achieve their philanthropic goals. Social enterprises that find viable business models often achieve scale and sustainability faster than those that depend only on contributions. As a result, investments are increasingly being seen as equally valid vehicles for social change as charitable contributions.

At the same time, we are seeing a mind-set change among leading corporations about the intersection of business and society. There is much greater recognition that social conditions are important to business success and that business opportunities can often be found in solving social problems. The old antithesis between society and business is dissolving.

Impact investment is a new term for many investors. What is the best way to explain the topic and opportunity to investors new to the field?

Impact investment involves channeling private capital toward delivering explicit social or environmental benefits as well as financial returns. This sets it apart from socially responsible investment (SRI) which applies positive or negative screening to a universe of publicly listed companies, but does not provide capital directly to enterprises that use it to achieve targeted social objectives. A typical impact investment structure today will invest in small enterprises that provide new solutions to social problems, such as access to clean water, adequate housing, or improved public health.

Impact investing is an aspect of catalytic philanthropy by proactively investing in an activity or a program that is designed to catalyze a particular positive outcome. In practice, impact investment opportunities can be found in any country, and across all asset classes, at many different levels of risk and return: backing local social entrepreneurs, capitalizing microfinance providers, pooling funds to finance the construction of charter schools, or developing better delivery channels for medical technologies. Once investors define the impact they seek, they can identify suitable investments to achieve their goals.

Which financial innovations in the impact investing space do you think have the most potential to build scale and make it into the mainstream investment universe?

Most people think of direct investment in SMEs when they think of impact investing, but small social enterprises can be difficult to find, expensive to conduct due diligence on, and slow to scale up. They need to be supplemented with approaches that offer greater opportunities for scale, such as creating new financial instruments that can attract conventional investors.

Consider the newly developed aid-financing bonds, such as the USD 3.5 billion in vaccine bonds issued by the International Finance Facility for Immunisation. These bonds, backed by the British government, convert long-term commitments into readily available cash to fund vaccine development and distribution.

Another example is Sir Richard Branson's non-profit Carbon War Room which is leading a consortium to invest USD 600 million by exploiting new US tax incentives for increasing the energy efficiency of buildings. Property owners can refit at no up-front cost, and the financing is repaid

through a property tax surcharge, providing an incentive to reduce carbon emissions and create jobs.

Social impact bonds represent an even more innovative financing vehicle. Launched last year in the United Kingdom, these pay-for-success bonds fund social initiatives that can save the government money, such as lowering prison recidivism rates. Once the results are known, the government repays the bondholders with a premium based on the savings.

All of these new ideas have great promise, but this is an investment market in its infancy. As more capital becomes available for impact investing, more investing opportunities emerge, and vice versa. A new set of money managers and advisors is also evolving that combines financial and social sector expertise.

Ultimately, I anticipate that billions of dollars' worth of impact investment capital can be stimulated by developing new financial instruments that target specific social problems.

Are impact investment solutions available only to large investors, or also to small investors?

Today, there are opportunities to invest at all levels. And although this may not have been the case five years ago, when mainly large family offices, international organizations and foundations were active in the field, today new investment vehicles are making impact investing opportunities available to retail investors too. Examples range from a number of funds to other interactive online platforms like KIVA and MicroPlace. I expect this innovative trend to continue to push impact investing further into the mainstream.

To many investors, the concept of "social return" is still a very abstract one. What advances have been made in improving measurability in this area?

Measurement is a challenge, but progress is rapidly being made. At one extreme, investors engaged in directly funding SME-style impact investment projects often find they (or their agents) are monitoring small enterprises headed by untrained entrepreneurs in remote regions, where audited financial statements and easy exit strategies simply don't exist yet. Professionally managed funds are being created to allow individuals to access these opportunities with greater confidence, such as the Grassroots Business Fund recently spun off by the International Finance Corporation (IFC) within the World Bank.

Best practice measurement of social returns on investment is a work in progress, but standards are emerging. For example. The Impact Reporting and Investment Standards (IRIS) are now being established through the Global Impact Investment Network (GIIN) (reference: www.iris.thegiin.org).

Do you have any guidance for newer investors struggling to compare the expected social returns of potential investment opportunities?

Social returns are not fungible like financial returns. An investor might be neutral between two investments with the same financial returns, but that doesn't mean he would be indifferent to the choice between an impact investment that created USD 1 million in reduced carbon emissions, compared to one that produced USD 1 million in additional income to impoverished farmers in Africa. One cannot compare two completely different impact initiatives.

I also believe that an academic standard of results attribution, often applied in evaluation, is out of place in the real world of investment. The world is not a laboratory, and the same initiative may yield different results in different places. A better approach is using common sense and agreeing on the evidence basis with all parties in advance.

Investors often voice concern about the potential risks in the impact investment space over the traditional investment space. How can these risks best be understood and managed?

Impact investing is certainly not without risk, particularly when investing globally. Just like conventional investments, opportunities to invest for impact are available at all different levels of risk and a growing number of specialized consultants can help investors find the right mix of risk, return, and social impact.

Looking ahead, what role do you see for impact investment solutions for investors and for the global development agenda?

We are still at the experimental stage in funding aid and development through impact investing. But we are making progress – especially as more impact investment opportunities become available to a wider range of investors. For instance, vaccination bonds or windmill construction bonds have much the same return horizons and liquidity as regular fixed income instruments. Looking ahead, as government budgets remain constrained and private capital is increasingly concerned with achieving good results and good returns, I think impact investment is likely to play an increasingly important role in global development.

Mark Kramer



Mark Kramer is the cofounder and Managing Director of FSG, a social impact consultancy, and the author of multiple influential publications on shared value, corporate social responsibility, catalytic philanthropy, strategic evaluation, impact investing, and adaptive leadership. He is the co-author of the book "Do More Than Give." Before cofounding FSG, Mr. Kramer served for 12 years as President of Kramer Capital Management, a venture capital firm. Mr. Kramer earned a B.A. from Brandeis University and an M.B.A. and J.D., both from the University of Pennsylvania.

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Unlocking capital to drive social impact

Impact investments today are still mostly the preserve of very wealthy individuals or foundations. Retail and institutional clients are only starting to get involved. In order to realize the full, long-term potential of the sector, a next step is to make available more standardized investment products to offer more opportunities for ordinary investors and institutional clients.

Robert Ruttmann, Credit Suisse

Most impact investments today take the form of private equity or debt investments. These deals are typically structured as increasingly innovative, bespoke solutions and mostly bought by large private clients, family offices, and foundations. Retail and institutional investors are only starting to get involved. The reason for this "delay" is largely a function of the limited investment possibilities that can be aligned with their sometimes strict fiduciary duties and liquidity needs.

Democratizing capital flows

So a key question around guiding impact investing into the mainstream has to do with bringing more retail and institutional investors into the fold. On the retail side, a number of very interesting innovations has emerged in recent years, everything from seed-stage investing forums to peer-to-peer funding platforms and even project-focused crowdfunding platforms. For instance, Kiva is an organization that allows people to lend money via the Internet to microfinance institutions in many different emerging economies around the world.

Another innovative example of how retail investors are gaining access to impact investments is MicroPlace, which is the only online broker-dealer specializing in microfinance securities for retail investors. Equally impressive is the Hoop Fund, which is a crowd-funding platform that allows people to invest in fair trade, sustainable farmers and artisans producing everything from handicrafts and clothing to staples like rice and wheat. And although these retail solutions are dwarfed in scale by the potential of institutional capital, they have a very important symbolic value since they represent a transformation at the grassroots level.

A further effort to create standardized impact investing products available to more investors is the development of social stock exchanges. One such example is the initiative to launch a global social stock exchange in London as early as 2013. This would allow both retail and institutional investors to trade stocks exclusively in companies with a clear social and environmental mission, with the idea being to attract long-term, patient capital. The exchange will have much in common with conventional stock exchanges, with listed companies even being regulated by the Financial Services Authority. The big difference is that companies applying for listing will be subject to a social audit.

Although it is still uncertain how institutional investors will respond to the idea of social stock exchanges, the impulse is valuable in terms of providing additional channels for retail and institutional investors to become active in the field. After all, with globally traded debt and equity securities amounting to over USD 80 trillion, the potential to unlock just a fraction of this capital for impact holds much promise. In fact, in a recently published book on impact investing[1], authors Jed Emerson and Anthony Bugg-Levine suggest that just one 1% of these assets could mobilize private capital four times the size of current annual official donor flows.

Widening the doorway

But how do you tempt more people out of mainstream finance and into impact investing? In order to achieve this, Bugg-Levine and Emerson discuss the importance of "widening the doorway" in order to create a greater pool of private capital for impact. To be clear, this "widening of the doorway" is already underway.

[1] "Impact Investing: Transforming How We Make Money While Making a Difference." 2011

One indication of the bigger choice that impact investors have today is the fast proliferation of impact investment funds. In August of 2011, Impact Assets, a non-profit, published a list of the top 50 impact investment funds that deliver both social impact and financial return. This list ranges from funds that have over USD 1 billion invested in microcredit, to much smaller impact funds of only around USD 50 million that invest in social enterprises in some of the world's poorest regions. Five years ago, investors were much more limited in their selection.

Some funds are also offering retail products that invest in small- and medium-size (SME) companies in emerging economies. These funds target SMEs because many believe them to be the best way to achieve the greatest social impact on local economies. This is mainly because SMEs tend to be the backbone of most emerging economies, driving entrepreneurship and opportunity, job creation and training, and ultimately also economic growth and poverty reduction. Several such funds have be founded since 2008, with many being open to retail clients, and some reaching a scales in excess of USD 1 billion.

The role of public markets

In addition to funds, investors today can also invest in a small but growing number of publicly listed companies that are proactively driving a social mission while generating sustainable profitability. These are not traditional socially responsible companies that seek merely to minimize social and environmental risks. These companies proactively pursue a given social and environmental purpose, and do so in financially self-sustaining ways. In short, these are clear examples of how listed companies can play an instrumental role in helping tackle some of the world's most intractable social and environmental problems.

Of course, taking a social business public can in some cases also fuel intense controversy, given the risk that public investors can pressure the management to increase profitability to levels that jeopardize the social mission of the firm (commonly referred to as "mission drift"). But if this obstacle can be successfully navigated via measures to ensure that companies are not bound to maximize profits to the detriment of their social mission, the potential to scale both impact and investor accessibility in this space is formidable.

Tomorrow's leaders of impactful growth

In an effort to help identify a selection of companies demonstrating a clear social and/or environmental mission together with sustainable profitability, the World Economic Forum in partnership with the Boston Consulting Group recently published a report on 16 such companies called "Redefining the Future of Growth: The New Sustainability Champions." Of the 16 companies listed in the report, 13 are listed on public stock exchanges, and all have demonstrated that it is possible to deliver a clear social and environmental impact while generating solid financial performance (figures 1–3).

For example, Kenya's Equity Bank uses mobile phone technology to reach small farmers in rural Kenya, supporting the farmers throughout all the stages of production, including transport, processing and marketing to help them build more efficient and sustainable value chains. In addition to this social impact, Equity Bank continues to deliver strong financial results, with an average five-year return on equity of 27%.

Another example is Manila Water Company, which relies on a micro-business model that enables low-income communities to become part of the water provision system, turning residents from customers into partners in the provision of water in Manila. Not only do the communities gain an additional source of income and better access to water, but there is less incentive to resort to illegal tapping. Also, in addition to this creation of

Figure 2

12-month forward P/E and 5-year historical average of listed "sustainability champions"

Source: Bloomberg, WEF, BCG, Credit Suisse.

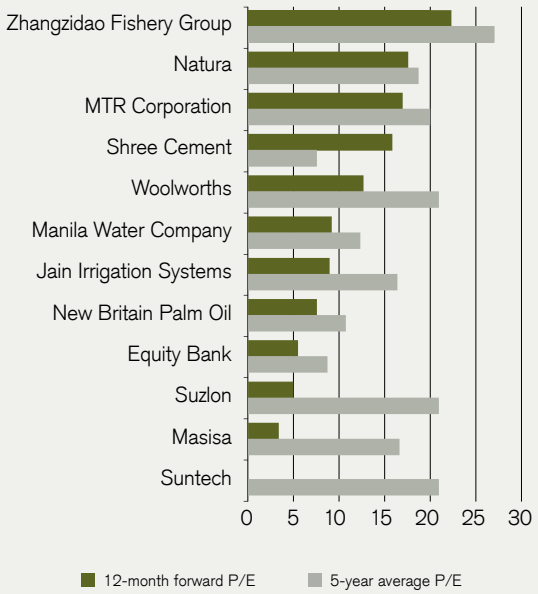
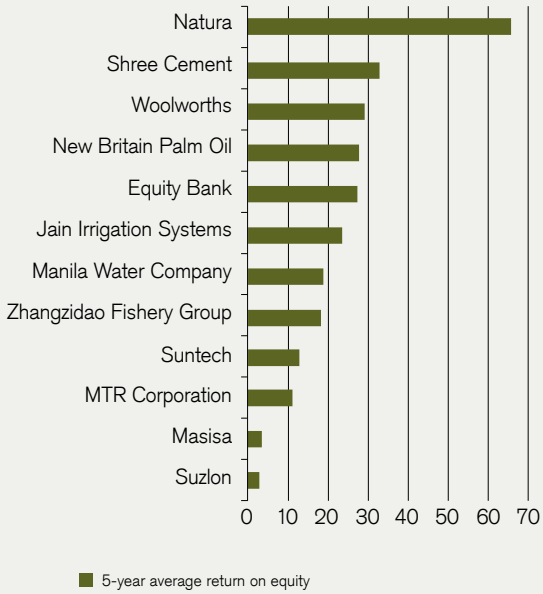


Figure 3

Return on equity of listed "sustainability champions"

Source: Bloomberg, WEF, BCG, Credit Suisse.



inclusive social value, the firm has returned close to 20% on its equity on average over the last five years.

Shree Cement is another innovative and impactful business. It practices waste-to-wealth conversion by using biomass and waste heat to supplement conventional electricity generation in India. It has also been a pioneer in developing ways to make use of bed ash, low-quality limestone, and lead zinc slag in the cement production process. These efforts have also enabled Shree to perform well financially, recording average annual returns on equity of 32% over the last five years.

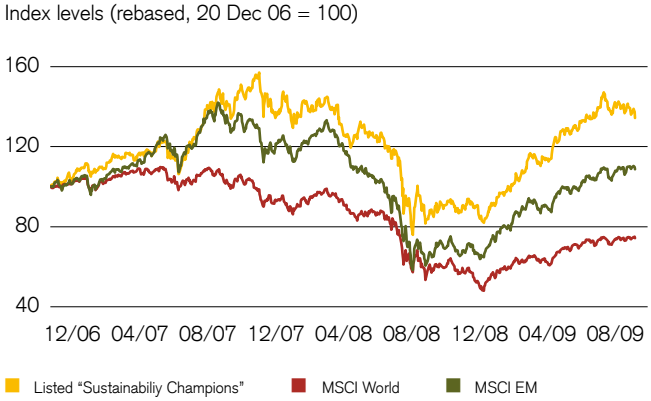
Still, today, the infrastructure to help identify and support publicly listed companies with a clear social or environmental mission is at an early stage of development. Most actors in the financial space are focused more on large-cap companies minimizing social and environmental risks, while only few focus on the smaller companies proactively driving social change in the emerging market context. Moreover, in order for the sector to grow, better metrics to measure social impact in combination with financial profitability will be key, as will robust governance structures to prevent mission drift.

But if these hurdles can be overcome, companies like the 13 listed below can play an important role in guiding new business leadership in driving social and environmental change. At the same time, they also represent another step towards "widening the doorway" to impact investing by expanding the availability of standardized vehicles with greater liquidity. Looking ahead a few years, it seems only a matter of time before more retail and institutional clients play an even greater role in "unlocking" more capital for the purposes of overcoming some of the world's most pressing challenges.

Figure 1

Index of 13 listed "sustainability champions" shows above-market performance

Source: Bloomberg, Datastream, WEF, BCG, Credit Suisse.



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Brief introduction of the businesses

1. Equity Bank (financial services)
Equity Bank offers full financial services including mobile banking to smallholder farmers in remote areas, en-couraging them to invest in sustainable farming and thereby advancing the green revolution in Africa.

2. Florida Ice & Farm (food and beverage)
Relying on technology and "offsetting" water consumption through payments to the community, Florida Ice & Farm aims to be water-neutral in 2012 and carbon-neutral by 2017.

3. Jain Irrigation Systems (manufacturing and agriculture)
India's largest producer of micro-irrigation systems. Jain works closely with customers to teach precision farming, optimizing the balance of fertilizers, pesticides, water, and energy to increase output.

4. Manila Water Company (water utility)
Modernized the water infrastructure in Manila, doubling the number of people with access to clean water to 6.1 million from 1997 levels. Also reduced transportation losses substantially.

5. Masisa (forestry and wood boards)
Chilean wood board producer and forestry firm with sustainability culture that provides training, better pay for local carpenters, and helps them organize to reach underserved markets of buyers.

6. MTR Corporation (transportation, property)
MTR controls the strategic land use of its rail network, encouraging private financing alternatives. Responds to communities in developing environmentally productive open spaces with the tracks.

7. Natura (cosmetics)
Works closely with local communities and NGOs to develop ways to sustainably extract the materials needed for its cosmetics from ecosystem, drastically cutting its CO_2 footprint.

8. New Britain Palm Oil (food)
Close cooperation with local farmers to reduce poverty in Papua, created first sustainable and fully traceable palm oil supply chains. Optimizing sustainability strategy via close cooperation with WWF.

9. Shree Cement (cement)
Waste-to-wealth conversion: uses biomass and waste heat to supplement conventional electric generation, also designed ways to use bed ash, limestone, and lead zinc slag in cement production.

10. Suntech (solar power)
Suntech's research and development has made its crystalline silicon cells among the most efficient in the world, has over 400 researchers globally, from Germany to Australia to China.

11. Suzlon (wind power)
Strong R&D produced prototype for a windmill that taps into the humidity in the air to produce water for drinking and agricultural use – in addition to generating electricity.

12. Woolworths (retail)
Sells its own brands to a degree of 97%, giving it greater control over its supply chain – to establish close ties with its farmers, training them in organic and other sustainable practices.

13. Zhangzidao Fishery Group (aquaculture)
Sustainable fish farms are balanced ecosystems; species such as salmon, which require external feeding, are farmed alongside species that derive their nutrients from these fed species.

Funding growth of social businesses

In this conversation, Julia Balandina and Ernst von Kimakowitz shed light on promises and risks of promoting growth for social enterprises, the financing options available to them, and offer an outlook for the development of the sector.

Why should a social enterprise aim to scale at all?

Ernst von Kimakowitz: The overarching goal of social enterprise growth is to increase the impact it has. This also goes for its impact on a systemic level where scaling a social enterprise can stimulate industry-wide transformation. It is much easier to understand how focusing on social impact generation can go hand in hand with financial sustainability if a larger organization demonstrates this and provides a replicable model.

Julia Balandina: Growth is often driven by the desire to improve more people's lives and to become financially self-sustaining as an enterprise. Apart from serving more people, scale allows a business to be more cost-efficient, thus reducing prices and/or generating healthier margins. This enhanced value proposition (social and financial) makes scalable social enterprises more attractive for investors and donors.

What are the main pitfalls of growth?

Ernst von Kimakowitz: Social enterprises' main goal is creating social value, which is why they need to regard other social enterprises as collaborators rather than competitors because they are working towards the same goal. Consequently, growth strategies need to be aimed at growing the overall market. If growth is driven by gaining market share from other social enterprises, little is won. People will just be served by someone else, instead of more people being served. Mission dilution is a further pitfall for social enterprises that are seeking growth opportunities outside of their original mission.

Julia Balandina: Rapid growth can put a strain on any young business. Finding and retaining qualified staff, building second-tier management and functional areas, maintaining quality and effectively leading a growing organization is not an easy task. Social businesses face another key challenge: preserving their mission while growing rapidly. Tension between the delivery of social value and revenue generation, the need to measure their impact and find financing for growth is often a heavy burden.

What options are available to social enterprises to finance growth and what are their pros and cons?

Julia Balandina: Social enterprises receive funding in three major forms: grants, debt and equity. Grants sound like every company's dream as it is essentially free money. But beware, the use of grants is often restricted to specific projects, amounts are small and the approval process is lengthy. The second source is debt. While a traditional bank loan is often out of reach for young social enterprises due to the lack of security and weak cash flows, foundations, venture philanthropists, and specialized funds provide unsecured debt with interest holidays, affordable rates, and bullet or royalty-based repayment mechanisms. Equity is provided by business angels and venture philanthropists, some foundations and specialized impact investment funds. The key benefit is that investors share the risk of the venture and add value beyond capital. The downside is linked to a high degree of control that the investors exercise over the strategy of the company and their need for an exit.

What are the current developments in financing social enterprises?

Ernst von Kimakowitz: On the macro level, current developments are primarily derived from two sources: traditional philanthropists are moving into venture philanthropy or catalytic philanthropy, and commercial investors are increasingly interested in impact investments in for-profit, socially driven businesses. An emerging pool of financial instruments is available to investors who target social and financial returns and are patient in reaching this dual objective.

Julia Balandina: The pace of innovation in this space is impressive. A number of impact investment platforms and social stock exchanges are being developed to address issues of liquidity and exits. New products emerge across asset classes, allowing some asset owners to allocate over 70% of their overall capital to impact investing. A Social Impact Bond, for

The views expressed by the external authors or interviewees do not necessarily reflect those of Credit Suisse.

example, initially launched in the UK, is being replicated in the USA and in Australia. Also, the first two impact fund-of-funds were launched recently. Innovation also happens by using philanthropic capital to provide first-loss guarantees as well as other return or credit enhancements allowing to leverage commercial capital to social enterprises.

A major challenge of raising capital for a social enterprise is potential mission drift, which can occur due to investor pressure. How can a social business deal with this issue?

Ernst von Kimakowitz: Mission drift can be avoided by ensuring that the investor's and the investee's expectations regarding the desired outcomes and their resulting impact are aligned. It may take more patience and willpower, but waiting for the right investor rather than accepting the first funding offer is crucial to mitigate the risks before a deal is struck and better than trying to fend it off later on.

Julia Balandina: Stating the social mission of a for-profit social enterprise in its statutes, as well as adding mission-related provisions in investment documentation can act as a barrier to mission drift. Some social entrepreneurs protect their mission by creating strong social brands. If the mission drifts, the trust of the customers will be lost, thus negatively affecting the bottom line. Most importantly, however, the management team needs to combine commitment to mission with business acumen.

What does the future hold for funding social enterprise growth?

Ernst von Kimakowitz: It is clear that business as usual is no longer an option. Consequently, the question is not so much whether, but how we want to rethink the role of business in society and induce transformative processes. This is where social entrepreneurship comes into play as some pathbreaking market-based solutions to societal problems have the potential for a game-changing effect on their industry. If they can grow sufficiently, they can pave the way from business as usual to business as desirable. For this to happen, though, we need to substantially increase our efforts to fund these true business leaders.

Julia Balandina: The fundamentals are encouraging – there has never been more capital seeking impactful investments and many innovative social enterprises are reaching the scale-up phase. Nevertheless, it is extremely hard for social entrepreneurs to access expansion finance, while impact investors are struggling to find mature investable social businesses. The sector needs nurturing growth capital to fund and support social enterprises beyond the start-up phase, enabling them to develop a track record of social value creation and financial sustainability. Overcoming this "missing middle" hurdle through systemic solutions, such as innovative financing instruments and public-private partnerships, will be a key success factor for social entrepreneurship to have its transformational impact.



Dr. Julia Balandina Jaquier

Dr. Ernst von Kimakowitz



Dr. Julia Balandina, CFA, is the founder of JBJ Consult, advising private, sovereign, and institutional investors on structuring and deployment of capital for impact. She is the author of the "Guide to Impact Investing for Family Offices and High Net Worth Individuals." A seasoned impact investor, she has been providing growth funding and strategic support to privatelyheld businesses for the last 17 years. Julia has served on multiple boards and investment committees, including SIFEM, Swiss Development Finance Institution, and teaches impact investing and social entrepreneurship at the University of St. Gallen.
She may be reached at julia@jbjconsult.com.

Dr. Ernst von Kimakowitz is Director and co-founder of the Humanistic Management Center, a non-profit social enterprise focusing on knowledge generation, knowledge dissemination and knowledge application in support of impactful business conduct. Ernst has previously worked in strategy consulting and is also a Lecturer in Leadership Skills at the University of St. Gallen. He has published extensively and has given guest lectures and speeches at university and practitioner events around the world. He may be reached at ernst.von.kimakowitz@humanisticmanagement.org.



Social entrepreneurship moves from niche to mainstream

Social enterprises apply business principles and tools to achieve social change, testing the age-old conceptual divide between profit and charity. The social enterprise sector is on the cusp of achieving significant scale thanks in part to the recent influx of impact investment capital, but investors should bring a nuanced view of what social investment opportunities actually look like to build the sector's long-term potential.

Katherine Milligan, Schwab Foundation for Social Entrepreneurship

Over the past decade, social entrepreneurship has gone from niche to mainstream. Few people understood the term when the Schwab Foundation for Social Entrepreneurship started its operations in 2000. Today, there is growing recognition among experts that social enterprises which straddle the space between non-profit and for-profit are emerging as a distinct sector (see figure 1).

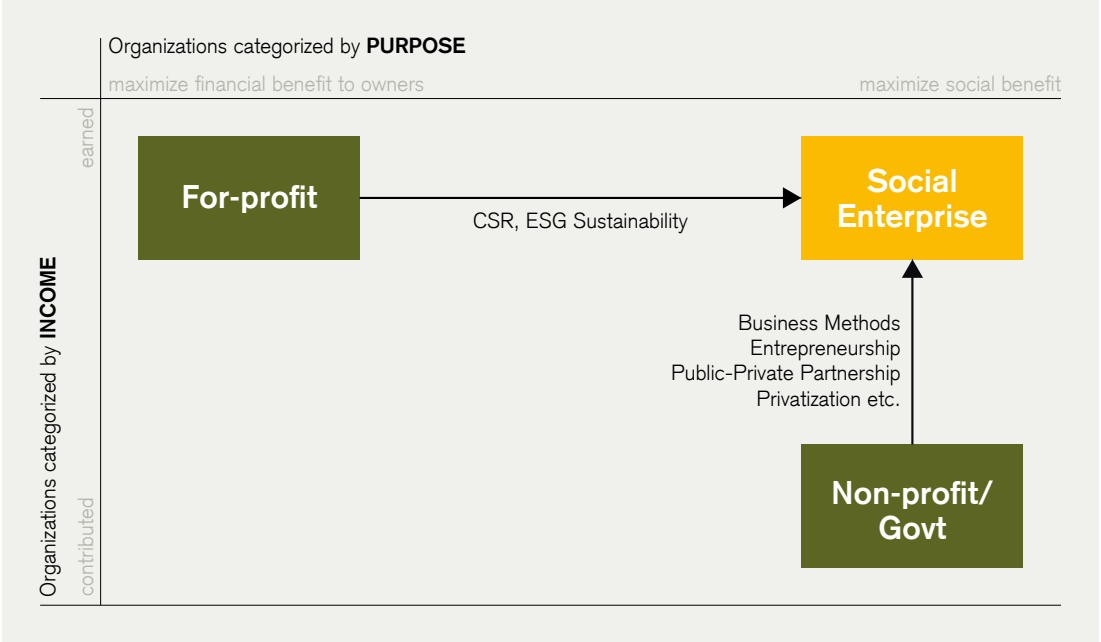
The recent proliferation of certification bodies and legislative initiatives is one indication among many that the sector is reaching a tipping point. The European Union just launched the Social Business Initiative; the UK now has thousands of registered community-interest companies; and several USA states, including California, have passed legislation recognizing a special legal status for privately owned organizations that generate revenue but prioritize fulfillment of their social mission as their primary objective.

Other positive signs abound. Top-tier business school students are joining social enterprise clubs at record rates, forcing faculties to rethink curricula.

Figure 1

Social enterprises blur traditional boundaries between for-profit and non-profit

Source: Adapted from Heerad Sabeti, "The Emerging Fourth Sector," The Aspen Institute, 2009.



Many technology start-ups and winners of business plan competitions have distinctly social missions. And an increasing number of large corporations are recognizing the obvious win-win of partnering with social enterprises. This is critical because it is multinationals who – certainly more than charities, more than most governments even – have the distribution channels, logistics capability, and global value chains to take social enterprises' products and services to scale.

Another indication is the growing interest among donor and investor communities. Donors are attracted because social enterprises have deep knowledge of working with poor communities, are exceedingly cost-effective at bringing innovative products and services to market, and typically create jobs among the local workforce – all of which means that their solutions are more sustainable than traditional NGOs or donor-driven programs.

Investors, for their part, are enticed by social enterprises' application of businesslike operating models to solve social problems, as well as the opportunity to generate a modest financial return on their investment. Indeed, there are signs of a small but coalescing financial services industry specializing in this domain, referred to as social capital, social finance, or impact investing. Investors' networks have blossomed, and by some accounts more than 200 impact investment funds have been registered in the past few years. Recent reports have even declared impact investing an "emerging asset class."

But what do we mean when we say social enterprises use business methods to tackle social and environmental problems? How do the innovations they create improve the lives of those living in poverty? And since, by definition, they work with vulnerable and marginalized populations, what do investment opportunities in social enterprises actually look like?

How social enterprises translate innovation into impact

For the past 11 years, the Schwab Foundation for Social Entrepreneurship has identified leading models of social innovation from around the world. To accomplish this, we screen roughly 1,000 applicants annually and select a global cohort of 25–30 leading social enterprises into our network each year. Today we have nearly 200 organizations from 40 countries in our community, working on everything from renewable energy and sanitation to job training and access to higher education.

Of the 200 social enterprises in the Schwab Foundation network, roughly one third can be classified as social businesses (see social enterprise categories sidebar). Nearly two thirds, including those social enterprises incorporated as non-profits, generate some form of revenue equivalent to anywhere between 20% to 60% of their budget.

It is important to note that some social enterprises will never generate enough revenue to attract investors, even if they are innovative and have a proven model, because of the nature of the problem



they are trying to solve. These organizations – and the impact they create – are deeply worthy of philanthropic support. At the same time, there is a small but growing contingent of social enterprises that, through a combination of grants, below-market rate loans, and equity-like investments, usually over many years, can eventually graduate to the realm of quasi-commercial investment.

As the following examples demonstrate, social enterprises move from innovation to impact by developing businesslike approaches that change the lives of disadvantaged people for the better. The ways in which they do so are as varied as the issues they are trying to solve, but generally start by conceptualizing a more effective way of addressing an unmet need. The enterprise then grows over time by identifying the partners, business tools, and resources needed to scale.

A former management consultant at McKinsey, Felipe Vergara, was increasingly bothered that "access to education is determined mainly by family income, not individual talent," as he says, given that most would-be university graduates do not have access to adequate capital, collateral, or student loan products. This remains an enormous barrier for developing countries struggling to build a skilled workforce – only 2% of students in Mexico, for example, have access to student loans.

This market failure led Felipe to create the social enterprise Lumni, which has pioneered human capital contracts. These contracts are income-contingent financing in which financed students repay a



PHOTO: FIRST BOOK

What is social entrepreneurship?

- The application of innovative, practical, and sustainable approaches to benefit society in general, with an emphasis on those who are marginalized and/or poor. The innovation can take the form of a new product or service, a new production or distribution method, a new labor supply, the reformulation of an existing product for an underserved population, or new organizational structures or funding models.
- The use of business methods and practices to generate direct social and/or environmental impact.
- The optimization of financial value creation as a secondary objective and a means to reach more beneficiaries, not as an end in itself. This should be codified in a social enterprise's governance structure or bylaws.
- A learning process that involves conceiving a more effective way to address a poorly met or emerging need; testing and refining the initial concept; mobilizing the resources and partners necessary to scale the model; and continual improvement through rigorous impact measurement and an openness to incorporate feedback.
- Perhaps most importantly, social entrepreneurship is strongly rooted in values – such as dignity, access to opportunity, transparency, accountability, fair pricing, and empowerment of beneficiaries – regardless of sector or organization type.

Social enterprise categories

- **Leveraged non-profit ventures** engage a cross-section of society, including government agencies, civil society, or the business sector, to drive the innovation through a multiplier effect. Leveraged non-profit ventures continuously depend on outside philanthropic funding, but their longer-term sustainbility is enhanced through their partners having a vested interest in growing the impact.
- **Hybrid non-profit ventures** include some degree of cost recovery through the sale of goods or services to a cross-section of institutions, public and private, as well as to target population groups. This often requires the establishment of several legal entities to distinguish revenue-generating activities from charitable expenditures. While public or philanthropic funding is generally required to sustain some portion of the organization's activity, specific initiatives might be appropriate for soft loans or even quasi-equity.
- **Social business ventures** are set up as a for-profit entity or business to provide a social or ecological product or service. While revenues are generated, the main aim is not to maximize financial returns for shareholders but to grow the social impact and reach more people in need. The entrepreneur of a social business venture seeks investors who are interested in combining financial and social returns on their investments.

fixed percentage of their income for several years after graduation. Over 2,000 students in Mexico, Argentina, and Colombia are currently enrolled at university through Lumni funding, 80% of whom come from low-income families and are the first generation to go to college.

With spiraling health costs straining public budgets, no sector is more in need of more cost-effective solutions than health care. South Asia is home to more than one billion low-income people, yet governments spend on average around 3% of their GDP on public health, meaning that quality healthcare is prohibitively expensive and poor people are often one health crisis away from destitution. Asher Hasan, a trained medical doctor, quit his practice and founded Naya Jeevan, a Pakistani social enterprise dedicated to providing health protection to those who otherwise would have no safety net.

Naya Jeevan partners with multinational corporations to roll out catastrophic health insurance to their low-income workers making less than USD 6 per day. This market includes drivers, nannies, cooks, waiters, and security guards, as well as factory employees, who can be insured at USD 2.50 per month per adult, with a yearly coverage limit of approximately USD 1,880. Naya Jeevan also packages the insurance with a variety of high-touch value added services for clients, such as annual medical checks, preventative care workshops, and access to a 24-hour medical care and claims assistance hotline.

Some social enterprises have transformed conventional practice in a particular industry, but it can take 10–15 years to reach that level of impact. Back in the early 1990s, as a volunteer in inner-city Washington DC, Kyle Zimmer noticed an almost complete absence of new books in classrooms and children's centers. She realized that extreme fragmentation at the lower end of the market proved a critical barrier for the publishing industry and created First Book to change that.

By consolidating the annual book-buying power of hundreds of thousands of small community service organizations and others serving low-income children, First Book has been able to aggregate demand and negotiate bulk rates with publishers. By moving their operation to an online retail site in the early 2000s after the Internet took off, they reduced costs considerably. Today the average price of a book from the First Book Marketplace is USD 2 (including shipping). A triple win, recipient programs now receive mint condition books at much lower prices; publishers enjoy lower-margin but high-volume sales; and First Book takes a small percentage to grow its programs. First Book has distributed over 90 million new books and is now expanding internationally.

Under the slogan "Waste is a Resource," Waste Concern in Bangladesh is transforming the status quo in a different industry – waste collection – by innovating an entirely new funding structure. Since its founding in 1995, Waste Concern has been collecting and recycling household and market waste in Bangladesh's capital city, Dhaka, which it sells to rural farmers as organic fertilizer. Waste Concern's co-founders Iftekhar Enayetullah and Maqsood Sinha also tripled waste collectors' incomes and provide them with health care, day care centers, and free meals.

But when the Kyoto Protocol went into effect a decade later, in 2005, Iftekhar and Maqsood sensed a new market opportunity. They leveraged their engineering expertise to demonstrate how Waste Concern's composting process removes 30,000 tons of carbon emissions per year, which they now sell as carbon credits under the Clean Development Mechanism of the Kyoto Protocol. With the help of The Bill & Melinda Gates Foundation and the UN, Waste Concern is currently replicating its model in 20 cities throughout Asia and Africa.

The emergence of the social enterprise economy: implications for investors

Alarming rises in global inequality have only served to underscore a truth that social entrepreneurs have known for many years: the status quo, with so many people in the world subsisting on so little, is simply no longer an option. Nor are traditional ways of thinking about deploying capital. Just as social enterprises must experiment and take risks until they get their operating model right, so too must capital providers.

Many foundations remain blocked by the idea of investing philanthropic dollars in revenue-generating enterprises, for example. Yet pioneers like The Bill & Melinda Gates Foundation, the Omidyar Network, and the Shell Foundation are all discovering synergies between their grant-making and investment strategies in their quest to scale non-profits and for-profits with high potential for impact. And though some investors are experimenting with innovative financial products like recoverable grants[1], the default tool for many is still a loan. It may be simple, clean, and predictable, but for many social enterprises it is not necessarily the most suitable form of financing.

The social enterprise sector is on the cusp of achieving significant scale and impact, thanks in no small part to the recent influx of investment capital. But to ensure the capital remains a tool to build the sector and not the other way round, investors must take the longer view, get comfortable assuming greater levels of risk, and be willing to deploy a mix of financial tools most suitable for social enterprises' needs. And take heart: you are laying the foundations for a new economy.

[1] Recoverable grants are investments that are converted into a grant if the investee is not successful, but repaid to the investor if the investee meets with success.



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MONEY
CHANGER

Stories from the field

The social entrepreneurs presented here are five leading examples in the Schwab Foundation's network of social enterprises. Working in sectors as diverse as health care, education, and job creation and in locations as far-flung as Latin America, India, Pakistan, South Africa, and the Philippines, these organizations are united by their innovative yet pragmatic approaches to solving social problems. They, along with countless other social enterprises around the world, are charting the way towards more equitable and prosperous societies wherever they operate.

Lumni

Felipe Vergara – Chile

The problem

Approximately 88% of the world's youth does not attain a university education. Of those who do enrol in university, dropout rates among the poor are very high, with 60% of dropouts citing inability to pay as the primary cause for abandoning their studies.

The Lumni model

Lumni is the first organization to successfully pioneer human capital contracts. Whereas traditional student loans require students to pay back both the full principal of the loan plus interest payments, human capital contracts only require graduates to pay back a percentage of their income after graduation for a fixed period of time. Besides providing funds to pay for college, Lumni offers coaching and internship and job placement services to its students. This helps reduce attrition and open professional opportunities for the students. With Lumni, examples of repayment options are 8% of income over 48 months of employment (after the student graduates and begins a new job), or 6.75% of income over 60 months of employment. In most cases the income differential for attending university more than offsets these payments, representing a win-win solution for both the investor and the student.

The organization

Founded:	2002
Focus:	Education, children, and youth
Geography:	Mexico, Colombia, USA, Chile
Employees:	40
Beneficiaries:	2,500 students
2010 budget:	USD 1,267,800

Project under development

Lumni is establishing a privately funded project for undergraduate students in Chile entering the final year of their undergraduate degree. The fund is focused on careers and majors with high income potential, with a concentration on engineering degrees. Nearly 80% of Lumni students are from low-income or very low-income families, and often they are the first generation to attend college.

Cost of project

Variable.

Impact and target region

On average, Chilean students' income increases 50%–300% if they hold a college degree. The indirect beneficiaries of the fund are severalfold assuming low-income families depend on the highest-educated member for household income.

Awards and track record

Felipe Vergara was named the Schwab Foundation Social Entrepreneur of the Year in 2011 and is also an Endeavor Colombia entrepreneur. Lumni has attracted more than USD 25 million from 100 investors in Asia, Europe, and the Americas in recent years, with an average 11.4% return on investment for a previous Chile Fund. The targeted returns of Lumni's existing funds in Chile, Mexico, and Colombia vary between 7% and 10% in local currency; however, returns have been historically above target.

Naya Jeevan

Asher Hasan – Pakistan

The problem

South Asian governments spend less than 3% of their annual GDP on public health programs. Access to high-quality health care is prohibitively expensive for the vast majority of South Asia's one billion low-income population and leaves them vulnerable to medical catastrophes and resulting financial indebtedness. Lack of proper health care has prevented millions from escaping poverty.

The Naya Jeevan model

Naya Jeevan partners with multinational corporations to cascade its health insurance plan up and down their supply chains targeting low-income workers making less than USD 6 per day. This target demographic includes drivers, nannies, cooks, waiters, security guards, and factory employees, who can be insured at USD 2.50 per month per adult with a yearly coverage limit of approximately USD 1,780. Naya Jeevan embeds the core health insurance plan in a package of high-touch value added services for clients, including annual medical checks, preventative care workshops, and 24-hour phone access to their "family physician" for medical consultation or claims assistance.

The organization

Founded:	2007
Focus:	Health insurance
Geography:	Pakistan
Employees:	30
Beneficiaries:	14,000
2010 budget:	USD 341,000

Project under development

Naya Jeevan is expanding its efforts to engage the Pakistani diaspora to cross-subsidize the health care of their relatives in Pakistan. Naya Jeevan will target diaspora communities in the developed world (USA, UK, EU, and UAE) to enroll their designated beneficiaries (family, low-income domestic staff, etc.) in the Naya Jeevan HealthQuest plan. Investment funds will be used to hire and train a sales and marketing team that will be deployed strategically in South-Asian-dense neighborhoods in the USA and EU, while concurrently piloting the Naya Jeevan business model in a few major Indian cities.

Cost of project

The expansion model requires USD 1.8 million in the form of equity or grants.

Impact and target region

Naya Jeevan estimates that 500,000 people in Pakistan and India will enroll in the health plan within three years and 5,000,000 will enrol within ten years.

Awards and track record

Asher Hasan was named the 2011 Schwab Foundation Social Entrepreneur of the Year in Asia. Naya Jeevan is also a recipient of an ILO microinsurance innovation grant.

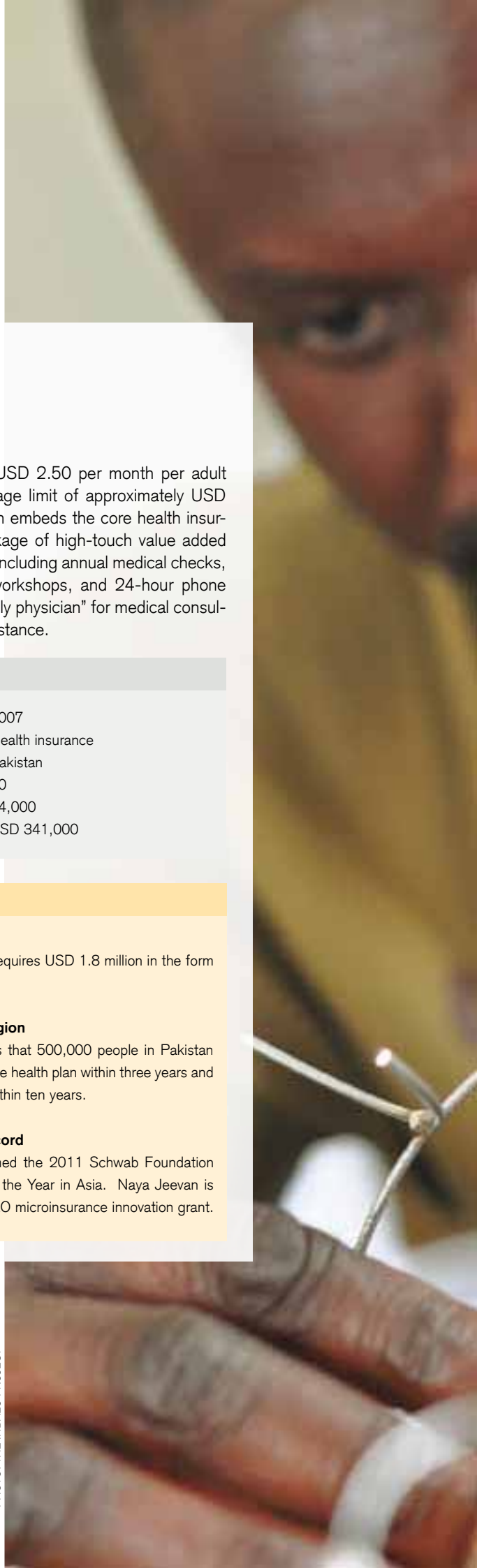
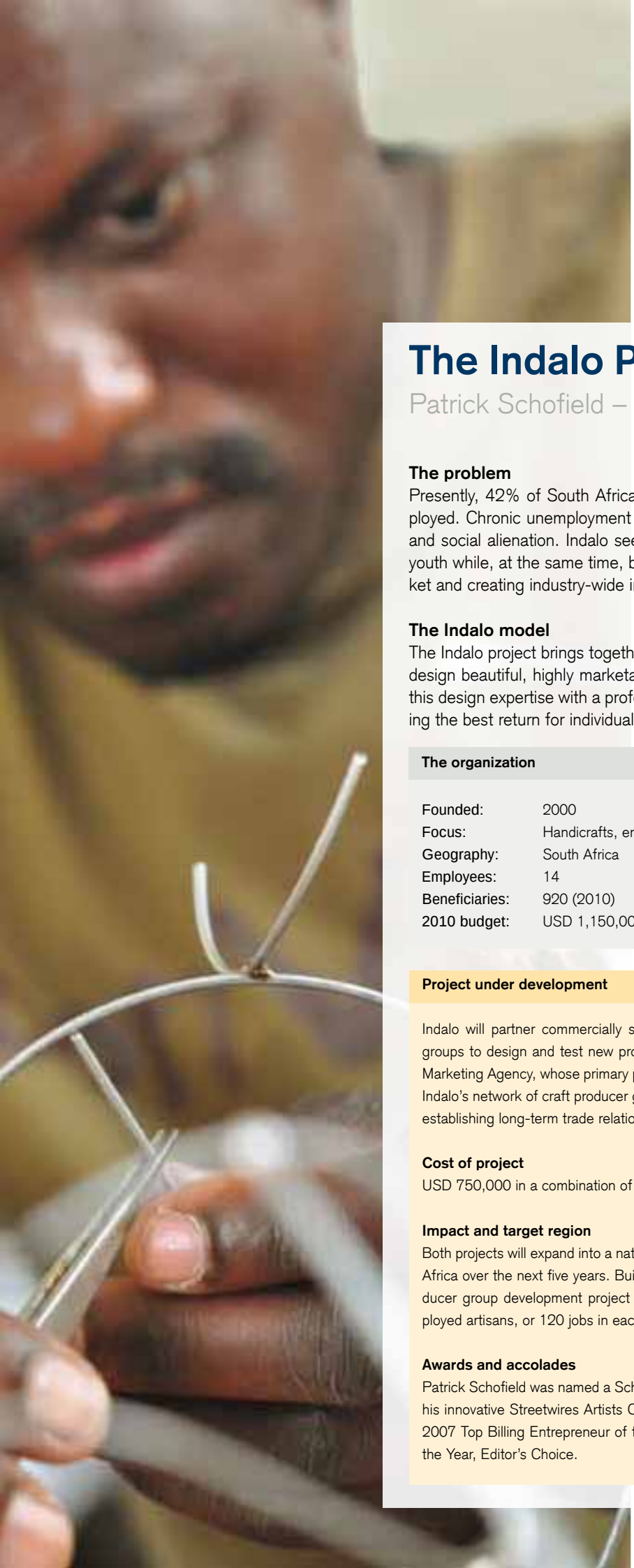


PHOTO: THE INDALO PROJECT



The Indalo Project

Patrick Schofield – South Africa

The problem

Presently, 42% of South Africa's youth between the ages of 19 and 24 are unemployed. Chronic unemployment generates numerous other social ills, including crime and social alienation. Indalo seeks to create employment for South Africa's talented youth while, at the same time, bringing their unique products to the international market and creating industry-wide impact.

The Indalo model

The Indalo project brings together top Western designers with local craft producers to design beautiful, highly marketable interior home and office products. Indalo couples this design expertise with a professional marketing agency to sell the products, ensuring the best return for individual craft producers in both opportunities and income.

The organization

Founded:	2000
Focus:	Handicrafts, employment
Geography:	South Africa
Employees:	14
Beneficiaries:	920 (2010)
2010 budget:	USD 1,150,000

Project under development

Indalo will partner commercially successful designers with 12 newly formed craft producer groups to design and test new products. Funds will also be used to grow the Indalo National Marketing Agency, whose primary purpose is to build an international market for the products of Indalo's network of craft producer groups. It does this through direct wholesale and retail sales, establishing long-term trade relationships between producers and buyers.

Cost of project

USD 750,000 in a combination of grants and low-interest loans.

Impact and target region

Both projects will expand into a nationwide program rolled out across all nine provinces in South Africa over the next five years. Building on regional success and expanding nationally, the producer group development project will create 1,080 jobs for vulnerable and previously unemployed artisans, or 120 jobs in each region.

Awards and accolades

Patrick Schofield was named a Schwab Foundation Social Entrepreneur of the Year in 2009 for his innovative Streetwires Artists Collective and the Indalo project. Patrick is the winner of the 2007 Top Billing Entrepreneur of the Year and the 2002 Cape Times Business Personality of the Year, Editor's Choice.

Hapinoy

Bam Aquino and Mark Ruiz – Philippines



PHOTO: THE INDALO PROJECT

The problem

More than 30 million Filipinos remain outside the formal economy, often lacking market access, basic services, efficient product distribution channels and/or business development opportunities. The informal economy, however, flourishes with thousands of small convenience stores (known as sari-sari stores) whose potential to integrate millions into the formal sector has remained untapped.

The Hapinoy model

Hapinoy facilitates capacity building for medium-sized store owners that supply sari-sari stores throughout the country, creating a more efficient distribution network channel for crucial products and services. Previously isolated communities now have regular market access to a greater variety of goods. Hapinoy's bulk-sourcing approach has also resulted in discounts of up to 15% in low access rural areas, significant cost savings that get passed onto customers.

The organization

Founded:	2007
Focus:	Enterprise development, rural development
Geography:	Philippines
Employees:	30
Beneficiaries:	More than 160 medium-sized store owners who are the direct suppliers to 10,000+ sari-sari store owners
2010 budget:	USD 443,000

Project under development

Hapinoy is establishing a privately funded project to replicate the model beyond Luzon to less developed islands in the Philippines archipelago. In addition, a main objective of the fund is to stock existing and new sari-sari stores in the Hapinoy network with goods and services that have a significant impact on improving day-to-day life for the poor, such as mosquito bed nets, solar energy units, cooking stoves, and mobile money services.

Cost of project

Variable.

Impact and target region

These products have the potential to reach more than 10,000 sari-sari stores that serve hundreds of thousands of customers living in isolated areas, all of whom have little or no other access to these critical goods and services.

Awards and accolades

Hapinoy co-founders Bam Aquino and Mark Ruiz were nominated Schwab Foundation Social Entrepreneurs of the Year in 2011. Hapinoy also won the UN Project Inspire Award in 2011.

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First Book

Kyle Zimmer – India

The problem
Millions of poor children in developed and developing countries spend hours every day in under-funded and under-resourced classrooms, with no access to books, preventing them from achieving their literacy potential and greatly reducing the overall quality of their education.

The First Book model
First Book has created a network of tens of thousands of schools and community organizations serving low-income children across the USA and Canada, and acts as their broker with the publishing industry. By aggregating demand and employing creative strategies, First Book provides deep discounts for the highest-quality books: The average book price on the First Book Marketplace is USD 2 (including shipping). Recipient programs enjoy a wide selection at affordable prices, publishers have access for the first time to the low end of the market, and First Book takes a small margin to expand its impact. First Book has distributed 90 million new books and is now expanding internationally and into digital resources.

The organization

Founded:	1992
Focus:	Education, children, and youth
Geography:	United States, Canada, India
Employees:	55
Beneficiaries:	2.7 million
2010 budget:	USD 45 million

Project under development

First Book is preparing to launch a two-year pilot in Mumbai, India, which aims to equip 25,000–35,000 poor children between 6 and 10 with age- and language-appropriate books. This project will lay the groundwork for an India-wide program to improve low-income children's access to educational resources. Funds will be used to cover project start-up costs in Mumbai (i.e. conduct outreach and engagement), create a network structure with Indian recipient programs and classrooms, acquire and distribute the books, and cover shipping costs.

Cost of project
A USD 600,000 loan.

Impact and target region
25,000–35,000 children in Mumbai, India.

Awards and accolades
First Book is the recipient of dozens of awards for social entrepreneurship, innovation, and education, including the Schwab Foundation 2006 Social Entrepreneur of the Year award, Nonprofit Marketer of the Year, the Social Capitalist Award, Amazon.com's Nonprofit Innovation Award, and Yale School of Management's Nonprofit Ventures Business plan competition in 2005.



A new world of metrics: trends in monitoring social return

How do impact investors know when they are truly creating impact? This practical guide explores cutting edge trends in impact assessment and oversight: the challenges in proving real impact, increased transparency and data aggregation, and new tools aiming to provide impact investors with enhanced clarity to manage portfolios that reflect their alignment of financial and social goals.

Catherine Clark, Duke University, and Jed Emerson, ImpactAssets

One of the most critical questions facing impact investors is how to define the blended value they want to achieve. Investing for impact implies each dollar the investor places into an active investment simultaneously generates financial return and social return. But like financial return, social return is not guaranteed. From initial investment to eventual impact requires a chain of consequences that may or may not happen. How will the investor know?

Fortunately, there are many new developments in impact metrics. We are seeing more aggregation of data, increased transparency, and new tools providing impact investors with unprecedented power to manage portfolios that reflect their own alignment of financial and social goals.

> "Numbers don't really tell you the depth of the impact (…) We want to move beyond the numbers to a little bit of the 'how.' Did we change this person, or reach the person we wanted to reach?"
>
> Premah Shah, CEO of Kiva[1]

The value of great output measures

When thinking about measuring impact, most for-profits start by reporting the outputs of their business. These are indicators and metrics generated as a result of their operations. Consider an investment in a venture selling agricultural technology, like an irrigation pump, to smallholder farmers; typical business outputs could include sales volume, cost of goods sold, sales cycle time, and margin per pump, as well as overall company financial metrics, like net income. A great deal of information can be shared about performance through this kind of data.

But which of these indicators help demonstrate the story of social impact? It turns out you can sell a pump to many new customers, but if these pumps do not help the farmers become more efficient or effective, it is unlikely their income will increase so they can start to pull themselves out of poverty. Is

[1] See "Social Entrepreneurship and the Next Generation of Giving," on washingtonpost.com, November 8, 2011, accessed at http://wapo.st/vcSnnU on December 1, 2011.

this the "return" that you are hoping for as an impact investor?

Clearly, it is important to consider social outcomes as well as business metrics – and to understand that these are not competing metrics, but that performance includes multiple social, environmental, and economic components.

In our irrigation pump example, relevant social outcomes might include changes in the end users' income level, or in their family's health or education levels. These are more difficult metrics to gather because they involve surveying or interviewing customers or other intended beneficiaries. This costs money, and takes time and unique expertise, but is critical to measuring impact.

Designing integrated performance systems

There are great examples of organizations using a blended system of metrics to learn, monitor, and improve on their own performance. For example, microfinance pioneer Grameen Bank has established a star system to reward branches that achieve both financial and social goals. On the social side, this includes reaching out to branch customers to determine what percentage of borrowers send their children to school and which branches have succeeded in taking all its borrowers' families over the poverty line (see figure 1).

The power of aggregating outputs

A new development in the field is the increasing aggregation of data, allowing for metrics to be compared across organizations. For example, the Global Impact Investing Network (GIIN) has started

Figure 1

Grameen Bank's Five Star System

Source: Grameen Bank website, June 2011.

	% of branches compliant
Repayment Branches that maintain 100% repayment rates	**36%**
Earning profit Branches that are profitable	**78%**
Self-financing Branches that met all financing through earned income and deposits	**73%**
Children in school Branches apply to indicate that 100% of the children of their borrowers are educated	**13%**
Moving out of poverty Branches apply for star when they have lifted all of their borrowers over the poverty line	**3%**



to set standard definitions – called the Impact Reporting and Investment Standards (IRIS) – for the kinds of output data that impact entrepreneurs report. Similar to the generally accepted accounting principles (GAAP) that are used across all financial reporting, IRIS allows for "apples to apples" comparisons across organizations. In IRIS' last data report, data was collected from over 2,390 global organizations, and was aggregated across industry, geography, and impact areas (see figure 2). Note that IRIS allows comparisons of outputs across industries and geographies while each company can decide which data points to share or hold back. In addition, IRIS has no standard data verification process at this time.

The risk of outputs

On the other hand, using outputs alone as a proxy for impact can be somewhat high risk in that they do not meet the standard academics and governments set for impact. They define impact by experimental study designs that prove that the outcomes achieved are significantly different from the next best alternative, and that they are attributable to the intervention (see figure 3). Investors should take note: many foundations, governments, and multinationals depend on this definition when deciding whether to scale an intervention through a large capital investment. Paying for proven outcomes is a policy trend circling the globe, from social impact bonds in the UK to pay-for-success programs initiated in Australia, Canada, and the USA.

Figure 2

Overall Statistics from IRIS September 2011 Report

463
Number of organizations reporting through Ande and Pulse

Earned Revenue
USD 1,434,980,390
N = 387 organizations | Median = USD 1,104,267

Clients SERVED
7,994,642
N = 71 organizations | Median = 438

63
Percent of 463 reporting organizations that are profitable

58
Number of countries represented

Based on location of organization's operations

Supplier Individuals SUPPORTED
914,831
N = 243 organizations | Median = 570

Permanent Employees
23,355
N = 288 organizations | Median = 18

1,931
Number of microfinance institutions reporting through mix

Clients SERVED
91,899,981
N = 1,115 organizations | Median = 10,119

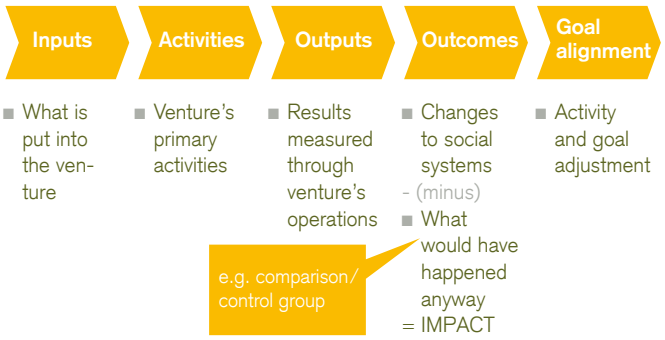
70
Percent of 1,931 reporting organizations that are profitable

Copyright 2011 Global Impact Investing Network (GIIN)

Figure 3

Impact Value Chain / Logic Model

Source: Based on Clark, Rosenzweig, Long, and Olsen, 2003.





Ratings for impact

To meet these even higher standards of evidence, new approaches are emerging to integrate both outputs and impacts in a format suited to investors. These approaches reconcile tensions in how companies might be acting to produce blended value across their business, and across various stakeholders. For example, a company that hires from low-income neighborhoods in the inner city but regularly pollutes through its manufacturing is not necessarily a positive outcome company. And if that company is acquired and the jobs are moved out of the country, the impact investor may be left with a hefty financial return, but negative social performance. Emerging new approaches aim to be holistic, transparent, dynamic, comparable, and attentive to mission risks.

The primary proponent of this approach is the non-profit B Lab and its subsidiary, the Global Impact Investing Rating System (GIIRS). GIIRS is to impact investments and funds as Morningstar is to mutual funds. It provides funds with an impact rating, giving them one to five stars based primarily on an overall assessment of their companies' impact practices and performance. The survey consists of about 160 questions divided into five impact areas: Governance, Workers, Community, Environment, and Socially- or Environmentally-focused Business Models. A company can do well in one area and not in others, and this performance is explicit to the investor. To earn a five-star rating, however, the company has to have strong practices in most of the impact areas above (see figure 4). GIIRS allows powerful comparisons and enables companies to include customized key performance indicators as part of their reports, some of which have been generated by experimental studies.

The value of a GIIRS rating is, of course, dependent on the utility of the data collected in the survey: its accuracy, validity and comparability. As an agency that relies primarily on self-reported answers, GIIRS management realizes the importance of validating the data it collects online. GIIRS currently does this in two primary ways: through in-depth phone reviews with companies and funds before they are rated, and through annual third-party reviews, conducted on a random sampling of the group every year by GIIRS' global review partner, Deloitte. This formal review process, which will review every answer given by each fund or company that is selected for review, is by far the most ambitious attempt at a global verification system for output and impact that we have seen to date, and it will be just getting off the ground in 2012. GIIRS also requires that each survey be 100% complete to be considered for a rating, and thus aims to allow investors to judge overall effectiveness of an investment in a comparable way at the company and fund level.

Using metrics to select, monitor, and adjust a portfolio

If you are not the kind of investor who wants to do intensive due diligence on the potential impact of individual investments, GIIRS impact ratings are a smart shortcut to help you learn which funds are already doing that kind of work. GIIRS is producing its first fund ratings in Q1 2012 for over 300 portfolio companies in 30 countries and 25 investment funds.

Additionally, in January 2012, GIIRS will be releasing a new product aimed at the needs of impact investors and their advisors: GIIRS Analytics. GIIRS Analytics will allow investors, investor advisors and fund managers to access, search, and aggregate social and performance data and ratings for all companies and funds in the GIIRS universe. It will have various views of the data to allow for ongoing management of impact portfolios (see figure 5).

Conclusions

So, what should impact investors do to incorporate these trends into their investment practice? First, they should consider what level of impact and proof of impact they desire and work to align their investment practices with those goals. Impact-driven investors can work with fund managers that have comprehensive systems of due diligence and evaluation to benefit from their impact-focused expertise. The more financially driven impact investor might want to reduce the impact risk, and invest in funds selecting proven blended business models. Impact investors should also use new tools, such as IRIS and GIIRS, as smart shortcuts to explore how their investments perform, financially and socially, over time. Through a tool like GIIRS Analytics, investors can monitor their portfolios while defining hurdle levels for impact and financial return.

We are on the threshold of a new era for impact investing based on transparent and efficient communication of social metrics. And we are excited and optimistic about the lessons that will come as a result.

Figure 4

GIIRS: Sample Fund Rating

Source: GIIRS, 2011.

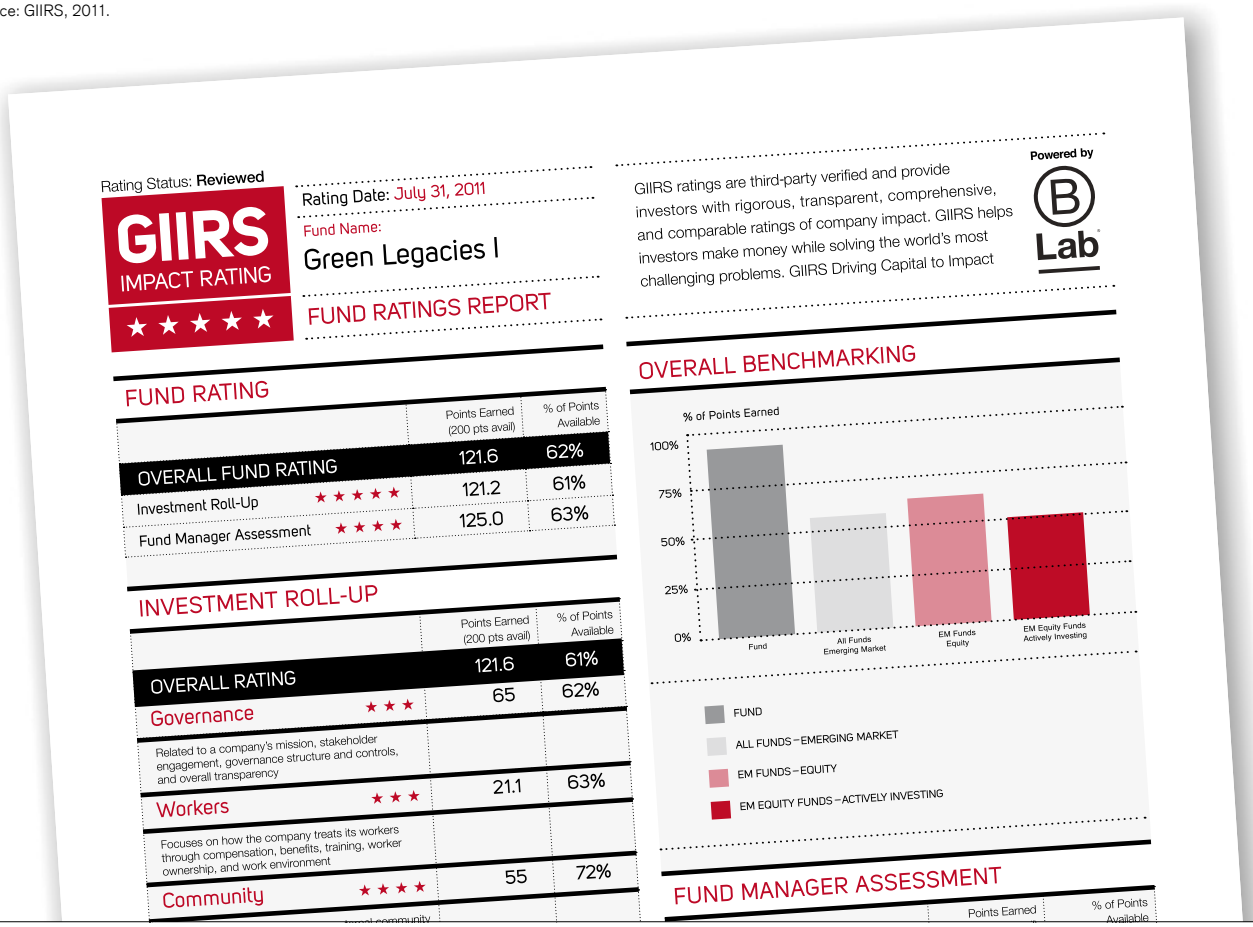
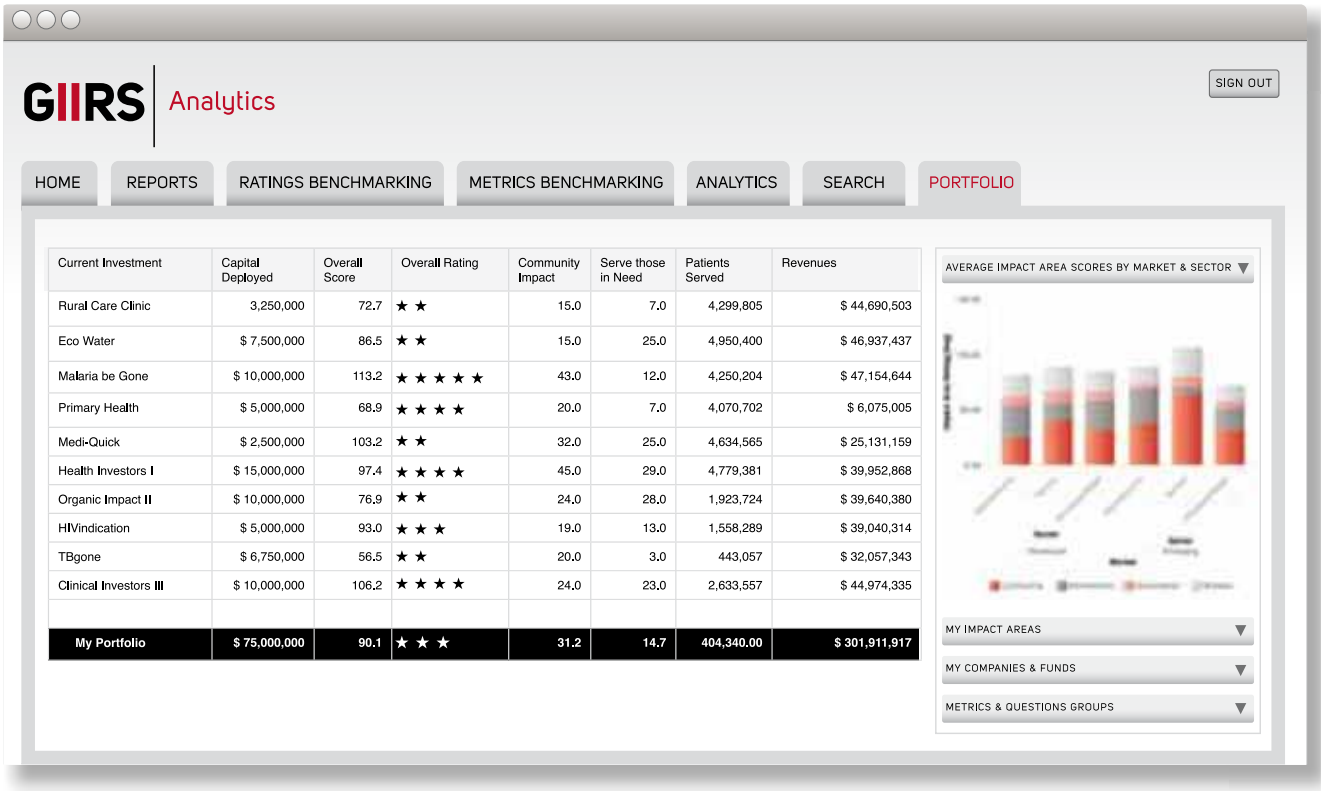
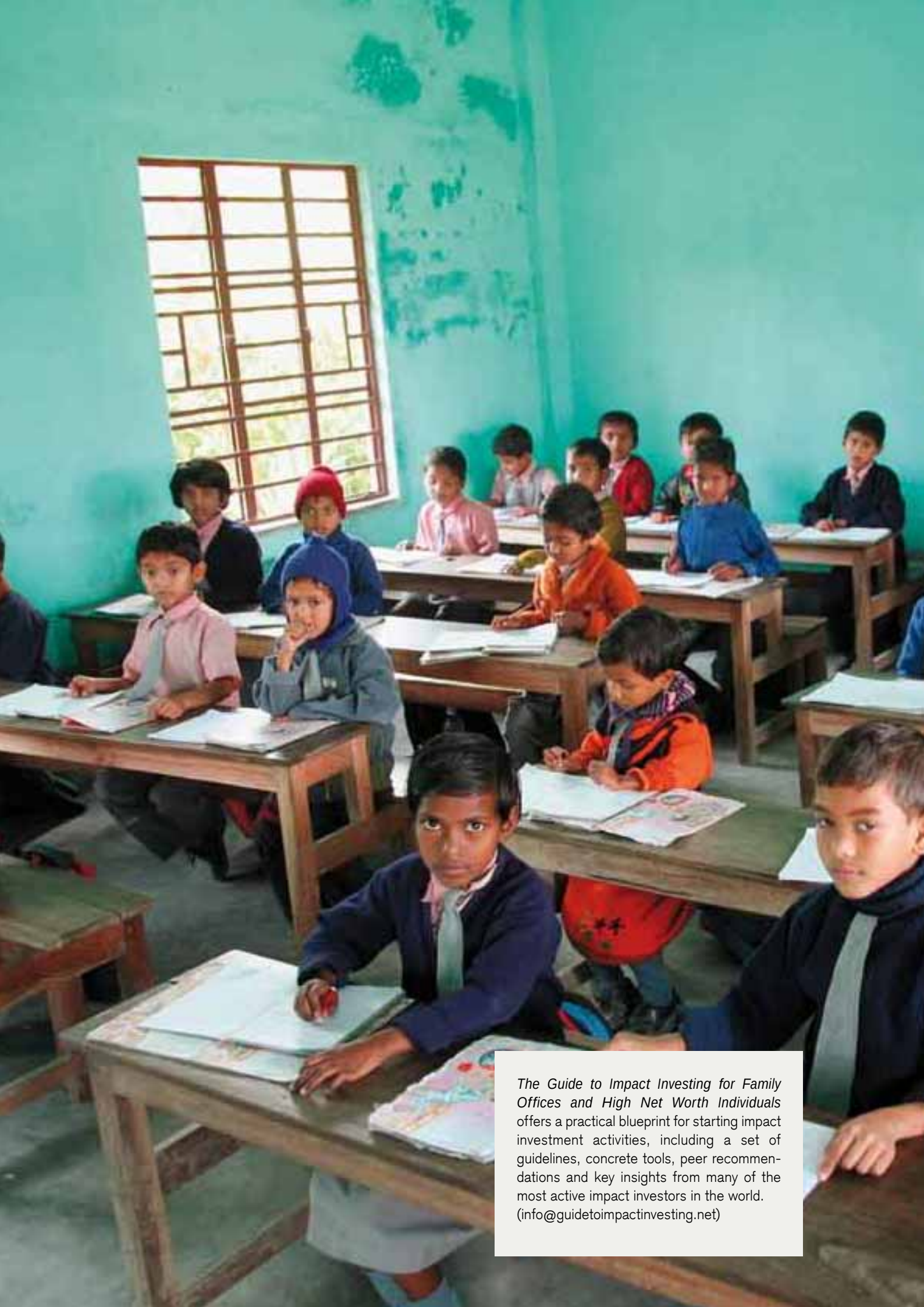


Figure 5

GIIRS Analytics sample screenshot

Source: GIIRS, 2011.





The Guide to Impact Investing for Family Offices and High Net Worth Individuals offers a practical blueprint for starting impact investment activities, including a set of guidelines, concrete tools, peer recommendations and key insights from many of the most active impact investors in the world. (info@guidetoimpactinvesting.net)

Avoiding traps in impact investing: lessons learned

A growing number of wealth holders are turning to impact investing as a way to combine their philanthropic aspirations with their financial objectives. Despite the promise of the sector, the execution of impact investment strategies is not without challenges. To help avoid common traps, this article shares the main insights from over 40 of the world's most active private impact investors.

Dr. Julia Balandina Jaquier, JBJ Consult

Impact investing is an exciting area for private investors – it enables them to use their capital, energy and skills to drive a truly positive change in the world, while still protecting and growing their wealth and transferring it to the next generation alongside a better future. No wonder a growing number of wealth holders are becoming attracted to impact investing.

Realizing this promise is more challenging. As in any emerging discipline, the impact investing market is imperfect and has attendant risks. The achievement of social and financial goals is by no means assured at the outset, and it is not uncommon for tensions to emerge between the two objectives.

If you are considering impact investing, you are probably wondering: "What is the best way to start and what are the pitfalls that I should be aware of and try to avoid?"

Pioneering private impact investors have experienced a plethora of mistakes, and even failures, along the road of impact investing. This article summarizes the recommendations of over 40 leading private impact investors who have actively collaborated with the author in developing the "Guide to Impact Investing for Family Offices and High Net Worth Individuals – Managing Wealth for Impact and Profit" (see box for more info).

Lessons learned: getting started

When asked: "What do you wish you had known at the start of your impact investing journey?" pioneers of impact investing provided the following recommendations:

1. Determine what "impact" means to you personally: start with your values and decide what impact you want to achieve, be it fighting deforestation in Brazil or educating children in Indian slums.
A personal connection will make impact investing more meaningful and will facilitate the development and implementation of a focused strategy, resulting in concrete impact.

2. Start small, but get your feet wet: segregate a small portion of wealth for impact investing, particularly if you are new to it, or to investing in general. Make a test investment in the area you are passionate about. Alternatively, begin with safer instruments, such as a community investment bond or loan guarantee. If you have a philanthropic allocation, you can begin by making a loan instead of giving a grant. Increase the risk profile and size of allocations as you learn, gain comfort and become more experienced.

3. Be rigorous: rigor and professionalism in due diligence, structuring and managing impact investments is critical to success. Be realistic about your own skills and draw on the expertise of experienced investment professionals aligned with your values and your mission.

4. Collaborate with other impact investors to leverage their experience, skills, and resources. Join an investment club or an informal group of peers – spread the risks, learn, and be inspired by others.

5. Measure your impact: do not settle for good intentions and promises that impact will materialize – understand, monitor, and drive the impact performance of the ventures you back.

6. Have fun: allocate a portion of discretionary assets that you can afford to lose or be patient with. Relieve yourself of the pressure of having results fast. Have fun, experiment, and learn.

Lessons learned: from planning to execution

Do your homework
One of the most common and detrimental mistakes is treating impact investing as a hobby. Conducting rigorous due diligence on, and adding value to the ventures you back are key success factors in investing for impact.

TIPS

- Access your investment experience and the required level of engagement. Address weaknesses through appropriate structuring/staffing.
- Do not cut corners – carry out rigorous due diligence, structure investments professionally, including minority shareholder provisions and mission-related clauses. Stay close to your investments during the holding period to add value and monitor progress.
- If you do not have investment skills/time, you can:
  - Start by investing in impact funds, co-invest with and learn from them.
  - Join one of the investment clubs to learn from peers.
  - Engage an impact investment advisor – either to outsource parts of the due diligence/investment management or to teach you and your in-house team.
  - Seed a team or create a pledge fund.
  - Choose less risky and less time-consuming impact investment products (e.g. a micro-finance debt fund or a loan guarantee).

Avoid the mission trap
Impact investors often get carried away with the mission of social entrepreneurs and fail to analyze their management skills and their business acumen. For a social enterprise to flourish, its management needs to not only have a heart and a vision, but also hardcore skills necessary to build a successful business. Further, some social entrepreneurs can be conflicted between making money and delivering social good, often causing tensions when more businesslike approaches are needed or when investments need to be repaid, particularly to wealthy private investors.

TIPS

- Conduct thorough analysis of the entrepreneurs' management skills and business acumen.
- Analyze their flexibility and ability to listen and learn and their willingness to work in partnership with investors.
- Use third parties (an intermediary or advisor) to represent you when negotiating investment terms or ensuring they are adhered to.
- Co-invest with professional impact investors (e.g. local social investment funds) and let them handle these issues.

Beware of the mission drift
Many impact investors have made the mistake of backing people who were not really committed to the social mission of the venture and relaxed these objectives if and when trade-offs between financial and social returns emerged (mission drift). An example might be a social enterprise founded to provide access to electricity for rural villages through solar solutions, which abandons this population segment and moves into urban areas to serve middle-class homes in the pursuit of higher profit margins.

TIPS

- Carry out due diligence on all the people you hire or back, including substantive reference checks.
- Follow your instincts; you will typically get a hunch that people you are planning to back are not authentic.
- Discuss/introduce impact measurement tools to gauge how serious the entrepreneurs or the fund managers are about impact. Link their remuneration to impact objectives.

Be patient and preserve "dry powder"
Social enterprises are often slow to mature, and exit opportunities can take time to emerge. It is not uncommon for an impact investor to hold an investment in a portfolio for eight to ten years and to have to participate in multiple funding rounds. Those who had to exit early for liquidity reasons often had to accept write-downs. Those who could not follow with additional capital in subsequent financing rounds often received diluted returns.

TIPS

- Be realistic about the holding periods and your liquidity requirements – it pays to be patient.
- To the extent possible, try to anticipate the capital needs of the business and do not invest the maximum amount in the first round.



- Share the funding burden among capable and value-aligned co-investors.

Stay close to your investments
It is more complex and costly to undertake thorough due diligence and structure the investment effectively, as one needs to understand local markets, regulations, and cultural idiosyncrasies. During the holding period, the physical distance makes it difficult to influence outcomes, access information, and react if investment performance deteriorates or mission drift occurs.

TIPS

- One option is to stay close to your home turf. If you do invest overseas, make sure you have competent, trustworthy, and hands-on local partners (e.g. local private investors or social investment funds or global funds with a local presence). Undertake due diligence on them, as you will be putting your destiny in their hands.

Choose co-investors wisely
The values and skills of your co-investors are of critical success to your investment.

TIPS

- Check potential co-investors' values, motivations and alignment of objectives. If you are a small investor or you have limited investment experience or time to engage, having like-minded and skilled co-investors is key – it will increase your influence over critical decisions, reduce financial risks, and help avoid mission drift.

High due diligence costs
One of the challenges of investing in social enterprises is high due diligence costs – many such businesses are young and cannot absorb large amounts of capital, while the due diligence costs are significant and often of a fixed nature. In extreme cases, an investor spends more money on due diligence than on actual investment.

TIPS

- Share due diligence with other private co-investors. Some investment clubs aggregate term sheets and streamline the process, which can further reduce costs.
- Co-invest with professional funds and piggyback on their due diligence, particularly in emerging markets, where local presence is critical and difficult to replicate.
- Focus on rollout models – invest in a pilot, incur onetime costs to structure and test the model, and then replicate. Alternatively, pool several projects together to justify higher structuring and due diligence costs.

Do not spread yourself too thin
Focus your efforts and your capital. While one needs to be diversified when investing in early stage ventures, investing too small amounts in too many companies and not being able to be substantively involved in any of them is a common mistake.

TIPS

- Focus on a few sectors and regions within your active direct investments. This strategy will allow you to gain knowledge and experience more quickly, develop effective networks of co-investors, and add more value to your investee companies.

Allow yourself to make mistakes
Do not give up if you make a mistake, they are unavoidable, particularly in an emerging discipline like impact investing – even the most successful investors had to go through mistakes to learn.

TIPS

- Start small and only invest money you can afford to lose in risky areas.
- Do not pressure yourself into getting a "home run" on every deal – take a portfolio approach and diversify risks.
- Allow yourself to experiment, make mistakes and do not abandon the space too early.





Stories of private impact investors

Who are the wealth holders committed to impact investing, and what approaches do they follow? This growing community of investors is very diverse – it includes people from different backgrounds and from different parts of the world. What unites them is their desire to use their wealth, their time, and in many cases their business acumen to catalyze self-sustaining solutions to the most pressing global challenges. Below are examples of four pioneers who continue to define the impact investing space[1].

"What I get out of impact investing personally is to hang out with these really bright, innovative people who are committed to making the world work for everybody and are very passionate about what they're doing. I have so much fun. So for everybody who's still hesitating, just get on in there!"

Bonny Meyer



Bonny is an experienced entrepreneur who has built a successful winery in Napa Valley, Silver Oak Cellars, with her husband Justin. Bonny attributes the success of the business to its values and the culture they created: "There are a lot of people who make great wine, but because of our company culture, people really liked working with us, and customers possibly tasted integrity in our wine."

Bonny and Justin sold their business ten years ago and decided to scale up their philanthropic activities. But then Justin suddenly died and Bonny was on her own.

In a traditional way, she split her wealth into two portions, a larger one for her personal use and to pass on to her children and a smaller one for philanthropy. After several years, she noticed that she was enjoying managing her philanthropy projects much more than the pure financial investments. So she decided to find ways to invest the larger personal portion to "do good" and have more fun with the whole idea of wealth management.

Bonny had already invested in a business decontaminating polluted land. She decided to look for other companies that were improving the world through their business, whether environmentally, socially or even spiritually. She started investing directly in these companies and also allocated capital to some venture funds with a social mission.

Today, over 60% of her portfolio is in impact investing across various asset classes and has started to show robust performance, particularly during the market downturns. Bonny is invested in microfinance, education, and environment solutions – her private equity portfolio boasts 21 companies. For Bonny, this effort is just a start – she is fully committed to having 100% of her wealth in impact investments by 2020.

[1] The stories are adapted from *Guide to Impact Investing for Family Offices and High Net Worth Individuals, J. Balandina Jaquier, 2011*

Sir Ronald Cohen is often referred to as the "father of European private equity." In 1972, he cofounded what became Apax Partners and grew it into the largest, and one of the most successful, European private equity firms.

Sir Ronald came to England as a refugee at the age of 11 and always felt grateful for having had the chance to do well. He also felt the need to give back.

His impact investment journey started in 2000, when the UK government asked him to chair the Social Investment Task Force. He has since been tasked with leading one of the task force's recommendations, the establishment of a social investment bank, Big Society Capital.

This is not Sir Ronald's only engagement in the social finance sector. In 2002, he co-founded Bridges Ventures, an impact investment firm that currently manages over GBP 250 million across five funds. Its first venture fund is on track to deliver on its social promise while exceeding financial targets of 10–12% IRR by a wide margin. Sir Ronald considers impact investment an attractive opportunity in and of itself for wealth holders: "Today, if somebody says to me that I can make 12–15% IRR net over the next ten years by doing something that's socially useful, it's as good as any investment opportunity."

In 2007, together with three other private philanthropists, he invested GBP 1.5 million to create Social Finance, Ltd., with the mission of developing innovative financial structures that have a social purpose. Social Finance launched its new investment product, the social impact bond, last year. It was a clear success: the first bond was oversubscribed and the USA and the Australian governments are developing similar structures. He is Chairman of Big Society capital, a social investment company with GBP 600 million of equity.

Sir Ronald Cohen



"Fulfillment really comes from reaching a balance between what you do for yourself and what you do for others. In making philanthropic contributions, you get fulfillment. But with social investment, the additional satisfaction that you get is to see the whole system change."

Annie Chen



"I can feel connected to, and empowered by the investments that I choose to make with the resources that I have been blessed with. Using capital to create social change would be a wonderful legacy and a meaningful thing to transmit to the next generation, so that our kids can see how wealth can be put to good use through impact investing."

Born and raised in Hong Kong, Annie Chen practiced law for ten years before joining her family office. Her family's wealth originates from the real estate business in Hong Kong.

Annie had always felt uneasy with the traditional concept of simply perpetuating family wealth through the generations, feeling that wealth brings with it the responsibility to contribute. At the beginning, Annie used the same approach as most in her circumstances do: "If you have money and want to do good, you give it away." The only difference was that she wanted to give most of her wealth away and set aside only just enough for herself and her children to live comfortably.

"What I like about impact investing is that it combines financial acumen with social impact and allows me to make a difference by helping build successful businesses with a mission. I invest to inspire people to change their lives through their actions and it makes my life richer to see the results that my capital and my support can produce."

Stephen Brenninkmeijer



Stephen is a fifth-generation Brenninkmeijer, the German-Dutch family that founded the C&A clothing retail chain in 1841.

After 30 years in the family business, Stephen wanted a new professional challenge. He considered the philanthropy space and was particularly intrigued by the concept of venture philanthropy.

As he would in business, Stephen researched the sector, attended conferences, and met experts and like-minded individuals. A year later, he launched Andromeda, the first bottom of the pyramid (BoP) private equity fund. Funded by Cofra, the Brenninkmeijer family holding company, it aimed to invest in innovative, high growth companies operating in or serving BoP markets.

Andromeda invested in seven businesses, ranging from social finance and microcredit platforms to an innovative drug delivery and vaccination company based in Norway and a mobile telephone network in rural East Africa.

The fund was a success, catalyzing much-needed seed capital for ventures addressing social issues and generating returns of over 20% gross IRR. In addition, Stephen was a founding investor of responsAbility, a social investment company with over USD 1 billion in assets under management and reaching over 16 million (poor) people.

After the Andromeda fund closed in 2007, Stephen started his own impact investment vehicle, Willows Investments, and today continues to use his personal assets to fund and support promising ventures with a social mission.

Annie first learned about social entrepreneurship and responsible investing in 2008 and soon decided to convert her portfolio into socially responsible and impact investments. She hired an impact investment adviser and looked at opportunities globally. Her strategy was to ensure that her whole portfolio was at least doing no harm, while also actively pursuing opportunities that could yield high social returns. Now 70% of her wealth is invested in socially responsible investments, with an additional 10% allocated to catalytic social ventures.

Annie's investments include a number of microfinance and social investment funds. On the listed side, she has focused on established SRI funds with at least a three-year investment track record, as well as a passive tracker of the Socially Responsible Index on the MSCI AC World Index (previously tracked the Dow Jones Sustainability World Index). Annie has also invested in Responsible Research, an independent ESG research house based in Asia, and in Social Ventures Hong Kong, a local venture philanthropy platform that advocates and incubates social enterprises.

In addition to grants and investments, Annie commits her personal time and energy to actively promoting social entrepreneurship and developing a vibrant social investment market in Asia.



Creating a capital curve for social enterprises

A key question many impact investors have is how best to arrange the financing mix of the social businesses they support in order to achieve greatest possible impact. Acumen Fund has worked with thousands of social enterprises to help them scale their businesses. The chapter shares Acumen's insight into how best to help social enterprises navigate the path towards scale and sustainability.

Brian Trelstad, Acumen Fund, and Robert Katz, Acumen Fund

Since the term was coined just over three years ago, impact investing has become a hot topic. Understandably, investors, entrepreneurs, policy-makers, and social sector leaders are excited by the prospect of coupling financial and social return[1].

Acumen Fund is one of the more experienced impact investors, having deployed more than USD 70 million in businesses delivering critical products and services to those living in poverty. In the past ten years, we have spoken to more than 5,000 social ventures – and invested in just 57. Even within that subset, only a small proportion of these are operating at scale. Those that are typically take much longer to get there than we initially expected. We are not alone. In one of the most comprehensive studies to date on market-based solutions to poverty, the Monitor Group examined 439 businesses operating in various sectors throughout Africa; only 59 out of this group were commercially viable and operating at scale[2].

While patience is important, it is not sufficient. Ultimately, impact investments are only as successful as the companies receiving the money. So while the momentum builds and more and more investors move into the space, we have been asking ourselves, what type of capital at what stage of a company's growth is optimal to help a social enterprise scale?

We have been working with a team of experts at the Monitor Group's Inclusive Markets practice[3] to get under the hood of Acumen Fund's portfolio in search of answers. The initial findings have already prompted a number of fascinating conversations and are the basis for much of this article. We expect more discussion when a final report is published in the spring of 2012.

Specifically, we have been debating this question: If so few firms are making it to the point where they are investible, then how do we ensure a robust pipeline of companies going forward, ready to be funded by newly minted impact investors?

In other words, we want to construct a capital curve that enables social enterprises, and their investors, to succeed. To understand how such a capital curve might be built, it's helpful to look at the funding path followed by traditional companies.

The four stages of firm development

Raising money to fund a social enterprise is confusing and difficult, more so than funding a traditional start-up company. To cut through the confusion, we first needed to describe how these

[1] For a comprehensive overview of the impact investing sector, see: O'Donohoe, Leijonhufvud, Saltuk, Bugg-Levine, and Brandenburg, "Impact Investments: An emerging asset class," J.P. Morgan and Rockefeller Foundation, 2010. Available: http://www.thegiin.org/cgi-bin/iowa/resources/research/151.html

[2] Kubzansky, Michael, Ansulie Cooper, and Victoria Barbary, "Promise and Progress: Market-Based Solutions to Poverty in Africa," The Monitor Group, 2011.

[3] We are indebted to the team of Ashish Karamchandani, Harvey Koh, Nidhi Hegde, Ravi Swarup, Swati Chaudhary, Sahil Shah, Katherine Fulton, and Mike Kubzanksy for leading this work and pushing everyone's thinking forward.

companies grow. The Monitor study lays out the development journey of the social enterprise across these four stages: blueprint, validate, prepare, scale.

All entrepreneurs begin with a blueprint, developing disruptive ideas or technologies and talking to customers to develop a compelling value proposition. Social business blueprints are often driven more by the potential social benefit than potential profitability.

Business plan in hand, firms then road test their ideas through pilots and market tests, a process of business model validation that often, especially in developing countries, takes years of trial and error.

With the business model in place, a company prepares to capture the full market opportunity, winning market share, establishing supply and distribution chains and building its own capacity to grow. Only then do firms move to the final stage, scale.

How are these four stages funded? New ventures are often funded philanthropically or through government-backed research grants. In a traditional business, there are risk capitalists with venture capital to help companies move through the next two stages – validate and prepare – when the market opportunity is clear, and profitable enough. Think software, or medical technology. Commercial investors enter the equation when a company is primed to reach – or already is at – scale.

For social businesses and their investors, however, the path to scale remains unclear. Entrepreneurs need to do more both upstream and downstream from the firm, they need to innovate, experiment and build a market, often from scratch. Market creation and related experimentation require more patience than a typical venture capitalist can stomach. To understand this unique dynamic, let's examine the case of WaterHealth International (see interview with Mark Kramer on page 10).

One drop at a time: funding WaterHealth

Prasad lives with his parents in Kompally, on the outskirts of Hyderabad. His father is a carpenter, picking up work on construction sites; his mother works in a factory. Their one-bedroom apartment is modest, boasting a TV and a single fan, but the power is irregular at best and they only get municipal water every three days.

A business student in the local college, Prasad's interest was piqued when WaterHealth International began offering safe, clean drinking water nearby. He decided to do some price shopping: his family used to pay INR 12 (about USD 0.18) for 20 liters of untreated water; WaterHealth charged just INR 4 (USD 0.06) for the same amount. It doesn't take a business degree to know that's a good deal.

Prasad's family is among the 1.1 billion people worldwide who lack access to reliable sources of drinking water. A handful of firms see this as an immense, untapped market waiting to be captured using innovative water treatment and distribution businesses.

WaterHealth International (WHI) is one such company. Founded in 1996, WHI's blueprint called for ultraviolet water treatment technology used in community scale water systems. In 2004, they raised fresh equity to validate the business model in India. This USD 4.4 million Series B round was led by Acumen Fund and included the International Finance Corporation and Dr. Anji Reddy.

By 2006, WHI's opportunity had become more attractive, but execution challenges were daunting and the company had to raise more capital. Dow Chemicals and a cleantech venture firm, SAIL Venture Partners, came in for a Series C round of USD 11 million.

As WHI expanded into rural India, others followed. Along with their competitors, WHI was building the drinking water market from the ground up. Unserved customers – like Prasad – were the core of the market opportunity, but building an entire market from scratch is also a classic public good problem. Companies investing in market development and product awareness were, in essence, sowing the seeds for their competitors' entry.

WHI and its peers had to identify promising sites, develop local supply chains, and most of all, convince people to pay for something – water – that had always been free. The market development work paid off: by the end of 2010, there were more than 2,100 community water systems in India, 600 of which were WHI's.

Lessons from the field

The WHI case illustrates the challenges faced by entrepreneurs and investors in determining the right types of capital to support a pathbreaking social enterprise.

How did the company progress from create to validate, then to prepare and scale? In WHI's case,

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their team at Lawrence Berkeley Labs knew they were onto something when they developed the ultraviolet treatment system and secured grant funding to support early research and development. Still, they were unable to make a go of it commercially, and entered bankruptcy a few years later.

Plucked out of Chapter 11 by Plebys International, the company undertook a series of experiments around plant size, site location, marketing tactics, water delivery, and staffing to get the model right. The promise of these experiments convinced a combination of social and commercial investors to support the firm.

Today, WHI has a strong plant-level business. Going to scale will mean operating those plants effectively across multiple Indian states and a number of foreign countries, no small task. Its investors believe that the company has what it takes to deliver on its original promise: a commercially viable business bringing clean water to the billion-plus people worldwide who currently go without.

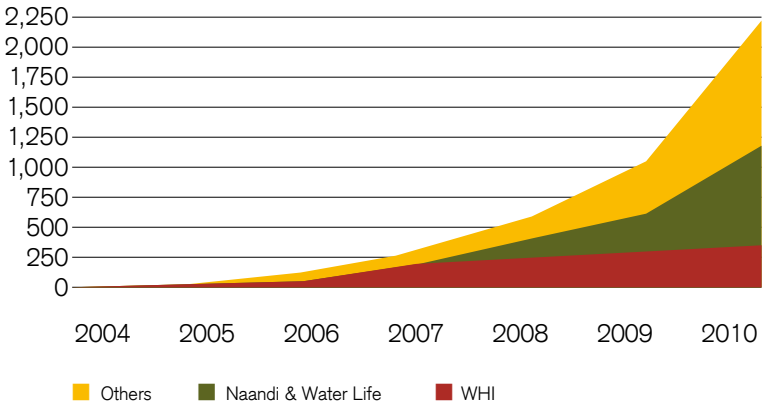
WaterHealth International has moved through the stages of growth using a series of commercial equity capital injections, a bit of Acumen Fund's patient capital and just recently, its first grants. Our analysis suggests that the company spent 12 years validating and preparing to scale – talk about patient capital.

In retrospect, we wish the company had raised some earlier grant capital to help validate the business. Preparing to scale and capture as much market share as quickly as possible, WHI expanded; to finance its growth, it raised a USD 20 million Series D round in 2010. So after 14 years, more than USD 35 million invested and tens of millions of customers, the company has learned a great deal about serving the poor. But is WHI operating sustainably and at scale[4]? Not yet; the firm is growing via a joint venture agreement to move into Bangladesh and a philanthropic partnership with Coca-Cola and Diageo to fund early operations in West Africa.

Figure 1

The Indian private rural water industry, 2004–2010

Source: Acumen Fund.



Social enterprises can be difficult to find and expensive to conduct due diligence on. Below are some lessons we have learned, which may help newer entrants to the sector:

1. Be realistic about expectations: the social vs. financial return trade-off inherent in social investing is hard to quantify but present in every deal;
2. Investible companies are not knocking down the door, so think long term – you are building the pipeline of future investments;
3. Consider coupling an impact investment with a grant, either with your own money or from others, to help develop business plans and provide technical assistance to make enterprises more investment-worthy;
4. Be considerate: social entrepreneurs often will not have the spreadsheets, analyses, and fully fleshed-out business plans mainstream investors have come to expect;
5. Think about pooling your capital with other investors who have developed the expertise and can do the due diligence for you; and
6. Be patient; social enterprises are slow to scale up.

[4] We define "scale" as something pervasive, and "sustainable" as something that lasts. For more detail, see: Trelstad and Katz, "Mission, Margin, Mandate: Multiple Paths to Scale" in Innovations: Technology, Governance, Globalization, Summer 2011, Vol. 6, No. 3: 41–53.

ness model, but the investor group was patient as the company experimented with different models. WHI has crossed the funding gap chasm and with the new joint venture in Bangladesh and philanthropically funded expansion into West Africa, may finally be getting the funding mix right, if a little late.

Adding grants to the financing mix

Unlike commercial investors, grant makers measure their success in terms of social impact per granted dollar. Our experience demonstrates that grants can catalyze social enterprise growth and bridge the gap from enterprise creation to scale, especially when made during the validating and preparing stages.

Grants to social enterprises support market development and seed innovations. Philanthropic capital is also more risk tolerant and accepting of longer time horizons. When given well, grants can also bridge a firm from idea creation to scale and impact investment – and are therefore a key component of an impact investor's toolkit.

In addition to a role for grants, hybrid forms of capital that originate from philanthropic sources but are structured as debt or equity investments can position emerging social enterprises to attract investments from commercial sources of capital. This "Patient Capital" also serves as a bridge between grants and impact investments.

As the sector grows, especially with the excitement surrounding impact investing, we know this is not the last time we will travel down this road. The path to scale is clear, as are the types of capital needed to get there. Grants can and do play a critical role in bridging the social enterprise funding gap. Now it is up to impact investors and grant makers to work together to ensure a robust pipeline of high impact businesses in which impact investors can invest – and that will serve hundreds of millions of low-income customers.



PHOTO: WATERHEALTH

Figure 2

Evolution of WaterHealth International

Source: Monitor Inclusive Markets, Acumen Fund.

1996 | 1997–2011 | 2002 | 2004 | 2006 | 2008 | 2010 | 2011

1 Creating

- Developed and licensed UV Waterworks technology, based out of Lawrence Berkeley National Laboratory

2 Validating

- Set up operations in the Philippines and Mexico
- Unable to break even and filed for bankruptcy in 2002
- Plebys International LLC initiated a buyout and restructured the company
- Entered the Indian market with two pilot plants

3 Preparing

- Raised USD 35 million from various investors
- Set up plants in association with Naandi Foundation and looked at government contracts
- Adopted a franchise model using water health centers
- Enhanced the model with water delivery option

4 Scaling

- Scaled to ~600 plants across India in 2011
- Entered Ghana and conducted several education campaigns for educating the community to increase demand for clean water
- Received USD 6 Million funding from Coca-Cola, Diageo and IFC to develop 50 plants in Africa
- Expanded into Liberia with the aim to set up 30 water health centers
- Inked joint venture to expand into Bangladesh



Microfinance as a more mature impact investment opportunity

Microfinance is one of the more mature examples of an impact investment opportunity. Having attracted nearly USD 13 billion in capital and provided credit assistance to over 95 million people globally, the sector has demonstrated that a tested model to alleviate poverty can also attract significant sums of money. Nevertheless, the industry is still climbing a sharp learning curve and navigating a number of obstacles along the way. Rupert Scofield, co-founder and CEO of FINCA International, shares his views on industry trends, as well as his insight into how FINCA continues to adapt to the challenges of scaling its impact without compromising its social mission.

Interview by Laura Hemrika, Credit Suisse

Laura Hemrika: Microfinance has become a well-known concept, no longer just the realm of development experts. Does this mean your work is done? What lies ahead for microfinance?
Rupert Scofield: While microfinance reaches millions of people, our work is by no means done. We must continue to innovate and broaden client offerings through savings, money transfer, and insurance products. We also have work to do to improve transparency and client protection. Partnerships like FINCA's (cooperation) with Credit Suisse – which is helping us improve market intelligence to make better informed decisions about product design – as well as industry-wide initiatives like the Smart Campaign, are key next steps.

What are some of the challenges in the microfinance industry today and looking forward?
In my opinion, there is a core set of challenges facing the industry – scaling microfinance to reach the three billion people living in poverty; transitioning into and operating regulated deposit-taking financial institutions; remaining sustainable in the face of increasing regulation and government involvement; and the unethical behavior of some MFIs (microfinance institutions). We are addressing the first three of these issues through the FINCA Development Academy, an in-house training institution that will professionalize our workforce in the coming years, ensuring that we have the human capacity to surmount the challenges we face.

How do you make sure you are having the desired impact with your work?
I believe that measurement is key. FINCA was the first international microfinance network to develop a rigorous client assessment tool to evaluate improvements in our clients' standard of living, and provide information about the need for new products and satisfaction with existing ones. Our Social Performance Audit Committee mandates the measurement of social performance on a regular basis, ensuring that we monitor social performance with the same zeal and precision that we monitor financial performance.

What is the role of commercial capital in microfinance?
Commercial capital must play a significant role in the sector because donor funding alone is insufficient to meet client demand for products and services. To best serve our clients, FINCA – like other microfinance institutions – started by accessing debt from capital markets, developing more and better products over time. When the mix of grants and debt no longer proved sufficient, we sourced equity capital from socially-responsible investors.

We are hearing more and more about social business or social entrepreneurship and you have just published a book on it. What is it and why is it important?
For me, social entrepreneurship applies effective business practices, emphasizing sustainability and scalability, to address

social issues and achieve social change. Social enterprises target market failures that, if not addressed, lead to severe long-term consequences. Social entrepreneurship can create positive social and/or environmental impact through a double or triple bottom line approach.
My book, "The Social Entrepreneur's Handbook," constitutes a call to action on the part of existing and would-be social entrepreneurs, and tells the inspiring story of FINCA's transformation from an idea to a global financial services network.

What is the link between microfinance and social entrepreneurship?
Microfinance was the response to a major market failure: the inability of low-income entrepreneurs in developing countries to obtain loans to finance their businesses. Microfinance is a classic example of traditional business practices addressing social issues in a way that is both scalable and sustainable. At FINCA, we now have USD 500 million in loans outstanding to over 900,000 low-income microentrepreneurs on five continents, and we have created over 8,000 jobs.

What are the trends to keep an eye on in social entrepreneurship?
Awareness of, and support for, social entrepreneurship has increased dramatically. More and more universities have academic programs for aspiring social entrepreneurs. In the corporate world, employees and shareholders are demanding accountability for more than financial profits. Social enterprises are cropping up in response to market failures across a wide array of industries and sectors including education, health, and the environment.

What sort of challenges is the social business industry facing today and how can we respond? Is there anything that investors could do to help?
From my perspective, social entrepreneurs face several significant challenges. First, a lack of start-up capital; funding is critical for any social enterprise, making the availability of willing investors a necessity. Second, many social entrepreneurs lack business management training, which can undermine an otherwise promising idea. Third, the lack of social capital; social enterprises tend to be far more successful when they are part of a larger network. Investors can play an important role in the investment process, and with technical and management training for social entrepreneurs.

Microfinance at Credit Suisse

In 2012, Credit Suisse celebrates ten years of engagement in microfinance, providing leadership and developing innovative solutions to link the top with the base of the income pyramid and promote financial inclusion. Today, Credit Suisse enjoys an industry-leading franchise in microfinance, providing clients with microfinance investment opportunities, dedicated sector research, fund solutions, capital market transactions and supporting partners in the field with capacity building initiatives.

Within the Microfinance Capacity Building Initiative (MCBI), the bank works directly with microfinance networks and MFIs in the field to strengthen management training and development and to drive product and process innovation – enabling the organizations to meet their social and financial goals in an efficient and responsible manner. FINCA has been a partner of the MCBI since 2008 to develop its staff and training academy.

How do you see the future of the social business industry?
I am thrilled with how the momentum for transformative social enterprises has increased over the last decade, as organizations create tools and technology to solve social and environmental problems. The issue for the future is that of scale – as the industry grows, social enterprises must create scalable models in order to sustain this momentum. Social enterprise networks will be key for facilitating growth, best practice exchange and resource sharing.

What roles can banks play in social entrepreneurship?
I think banks can play a key role by providing the tools necessary for success: start-up capital, mobilizing investors, training, technology, and physical capital sharing. By enabling access to capital and sharing knowledge and technology, banks will be making an important investment in the betterment of society, with potential for both social and financial returns.



Rupert Scofield

Rupert Scofield co-founded FINCA in 1984 and has served as its President and CEO since 1994. Under his leadership, FINCA has grown from 60,000 clients and a loan portfolio of USD 5 million to over 800,000 clients across five continents and a loanportfolio approaching USD 500 million. Rupert is also the author of "The Social Entrepreneur's Handbook," a guide to prospective social entrepreneurs. Rupert holds two master's degrees in agricultural economics and public administration from the University of Wisconsin as well as a bachelor's degree from Brown University.

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The role of business in catalyzing impact

Most people would agree that philanthropy alone cannot solve the big issues facing the world today such as climate change, extreme poverty, or the rapid depletion of natural resources. Sir Richard Branson discusses the important role market-based solutions can play in complementing the role of philanthropy and governments by using the entrepreneurship, responsiveness, and scalability of business to help tackle the challenges of global development.

Interview by Robert Ruttmann, Credit Suisse

Robert Ruttmann: **Your latest book "Screw Business as Usual" has a light-hearted title, but the main proposition of the book is one you clearly take very seriously: That the potential of business can be instrumental in solving some of the world's most intractable problems. In what areas do you see business adding value where charities and governments may have been less successful in the past?**

Richard Branson: I believe successful businesses have to be good at problem-solving, original in their thinking, and organized to survive for the long term. Many of the big global issues facing us today such as how to eradicate widespread poverty, improve health, and tackle the rapid depletion of our natural resources require organizations to work together, plan ahead, and mobilize market-based solutions. These are skills that businesspeople should be able to bring to the party and help the great work already carried out by the non-profit and government sectors.

What is it about the status quo that has got so many top business leaders from Bill Gates to Sir Ronald Cohen and indeed you active in the hunt for long-term market-driven solutions to global problems? In short, why now?

Our world's increasing population and our insatiable demand for goods and services means we are on a rapid path to destroying the natural resources that keep us alive. Instead of creating a fairer society, we are perpetuating growing inequity in the world. People all over the world are realizing this and demanding that we change the way we do business. So business as usual is no longer an option. What is an option is to reinvent capitalism to truly be a force for good in the world. Bill Gates, Ronald Cohen and many other top businesspeople realize this and are focusing their efforts on raising awareness and ensuring that others follow suit.

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Your book calls for new ways to think about how we can develop business strategies for the benefit of society. How do you convince stakeholders, stockholders, and peers that this is a vision that is in their "enlightened self-interest"?
I have always thought that a business made up of happy staff and happy customers will do well and eventually make its shareholders happy. Go one step further and ensure that your community and the planet are benefiting from your efforts and I think you should guarantee a successful and sustainable company. Companies such as Participant films, which makes movies that entertain and change the world, have proven you can make profit and do good at the same time. While retailers like Marks & Spencer who have saved millions of pounds through their Plan A program and eliminated waste at the same time are also proving that doing good is good for business.

What advice would you offer to business leaders thinking about moving in this direction but not yet sure where to start?
I would move now, as your peers and rivals will have already made that move or will be thinking about it. Your customers and your staff now expect it and you will find yourself left behind if you don't. Large corporates such as General Electric have made the leap. GE launched Ecomagination to create new products and services that help solve energy efficiency and water challenges. It invested USD 5 billion in research and development over five years and has generated over USD 70 billion in revenues.

What role can social enterprises play in changing business as usual and meeting the needs of society? And which social and environmental innovations offer the most promise, in your opinion?
We helped establish the Carbon War Room a few years ago to tackle the problems around climate change and to work with business to deliver market-driven solutions for carbon reduction. It recently helped unlock around USD 650 million of investment into energy efficiency retrofits in Florida and California which will create over 17,000 jobs, and has the potential to be replicated around the world.

There are loads of exciting social enterprises starting to thrive, like Ecotact in Kenya which has created a business to deliver sanitation services and Husk Power in India which is already bringing power to over 30,000 households by using rice husks, a waste product from rice manufacturing. There are tremendous opportunities in the health, education, renewables, and agricultural sectors for new "hybrid" models of businesses to solve issues and sustain themselves, and in many cases make a profit. This area is the greatest new frontier for entrepreneurs.

If businesses and investors can play an important role in mobilizing the capital needed to overcome many of the world's challenges, what advice would you give to investors on how to invest for maximum social and environmental impact?
Don't be afraid to back some unlikely marriages between business, government, and the social sector. Many of today's problems are so complex that it will take some unusual steps to find a solution. It is also likely to take time – so be prepared to wait. Also, learn from organizations like Acumen, Root Capital, Endeavour, and others who have been investing in businesses that can change the world for the last several years.

Clearly, the impact of your entrepreneurial work has already positively affected the lives of many, many people. What is it that inspires your near-restless activism in shaping a positive contribution to the global community?
I have been fortunate to be successful in business but I did not set out to be rich – that was never my driving motivation. I started in business to do something I enjoyed and to make a difference. That motivation still drives me today and I do believe that businesses can change things for the better. I have always thought of Virgin as trying to provide a better service or offer for consumers, and now through Virgin Unite we are trying to take that ethos into a broader range of enterprises and issues.

Sir Richard Branson



Sir Richard Branson is the founder and Chairman of the Virgin Group, consisting of around 200 companies in 30 countries in areas as diverse as leisure, travel, tourism, mobile, broadband, TV, radio, music festivals, finance, health, and renewable energy and resource efficiency (Virgin Green Fund). In 2007, Branson announced the Virgin Earth Challenge, a USD 25 million prize to encourage a viable technology for the removal of anthropogenic, atmospheric greenhouse gases. In addition, Branson helped found The Elders, a group of global leaders organized to help to tackle some of the world's toughest problems. Finally, the Virgin's non-profit foundation Virgin Unite works to support entrepreneurial approaches to social and environmental issues. Branson is the author of several books, the most recent being "Screw Business as Usual."

Authors



Catherine Clark is Director of the CASE i3 Initiative on Impact Investing and professor at Duke University's Fuqua School of Business. A former impact investor who has managed both foundation and private investment funds, Cathy helped develop the standards for B Corporations, taught and directed a research program at Columbia Business School for nearly a decade, and has worked across the government, nonprofit and private sectors for over 20 years to promote social change through entrepreneurship. She is a leading authority in for-profit social entrepreneurship, impact investing and impact assessment. She has consulted many impact investing funds and foundations and currently serves as global research coordinator for the Global Impact Investing Rating System. She may be reached at cathy@cathyhc.com.



Jed Emerson, Executive Vice President of ImpactAssets, is founder of some of the nation's leading venture philanthropy, community venture capital and social enterprises, and co-author of the recently released "Impact Investing: Transforming How We Make Money While Making a Difference (Wiley)." Jed coined the term "blended value," has done extensive consulting for investors in Europe and Asia and has advised firms across the investment spectrum, from foundation mission-related investing to sustainable private equity and public equities. He may be reached at jed@blendedvalue.net.



Dr. Julia Balandina is the founder of JBJ Consult and the author of the "Guide to Impact Investing for Family Offices and High Net Worth Individuals." An impact investment expert with 18 years of principal experience and 1 bn+ worth of investments led globally, she advises private, institutional and sovereign investors and funds on structuring and deploying capital for impact. She has served on seven boards and investment committees, including SIFEM, Swiss Development Finance Institution, and teaches impact investing and social entrepreneurship at St. Gallen University. She may be reached at julia@jbjconsult.com.



Robert Katz is a portfolio manager at Acumen Fund, where he leads the firm's knowledge management and applied research work. Prior to Acumen Fund, Rob cofounded and was the managing editor of NextBillion.net, a website and blog about enterprise and development.



Katherine Milligan is Director of North America and the Middle East for the Schwab Foundation for Social Entrepreneurship. Previously, Milligan did strategy consulting for numerous US non-profits and authored reports published by the Harvard Business School and the International Institute of Economics on international trade. Ms. Milligan earned a B.A. from Dartmouth College and an M.P.P. from the Kennedy School of Government at Harvard University.



Robert Ruttmann works in the Global Investment Products and Strategy Committee office at Credit Suisse. Before this, Robert worked as an equity analyst in Global Research, covering the EMEA markets and the Sustainable Investment strategy. Robert holds two masters degrees from the University of St. Gallen, one in Banking and Finance, the other in International Affairs and Governance. His undergraduate degree is in Economics from Bates College, in Maine, USA.



Brian Trelstad is the Chief Investment Officer of Acumen Fund, where he has led the growth of Acumen's portfolio to more than USD 70 million. Brian is a founding executive committee member of the Aspen Network of Development Entrepreneurs, a Henry Crown Fellow of the Aspen Institute, and the first impact investor to participate in the Kauffman Fellows program.

Special thanks to Jonas Heckman as well as to Kiran Kumar and Rizwan Siddiqui of Credit Suisse Business Analytics (India) Private Limited for making valuable contributions to this publication.

Glossary of terms

Base of the Pyramid (BoP) is a socio-economic designation for the 4 billion individuals in emerging markets who earn less than USD 3,000. BoP also refers to business strategies adapted to focus on products and services that meet the needs of people at the BoP.
Source: World Bank, World Resource Institute

Blended value Proposition states that all organizations, whether for-profit or not, create value that consists of economic, social, and environmental value components – and by extension, investors (whether market-rate, charitable, or some mix of the two) simultaneously generate all three forms of value through providing capital to organizations. The outcome of all this activity is value creation; that value is itself non-divisible and, therefore, a blend of these three elements.
Source: Jed Emerson, www.blended-value.org

Community investing is defined as capital specifically directed to underserved or economically distressed communities to fund small businesses and vital community services, such as child care, affordable housing, and health care.
Source: Monitor Institute, IFC, World Bank, Social Investment Forum

Impact investing refers to investing with the specific objective of achieving positive social and/or environmental impact as well as financial return. Although many investors apply different priorities to an impact investment's expected social return relative to its expected financial return, at Credit Suisse, we define impact investments as those made with the primary intention of creating a measurable social impact, with the potential for some financial upside.
Source: Credit Suisse

Microfinance refers to the provision of financial services (credit, savings, fund transfers, insurance) targeted at low-income clients. It enables individuals to make the most of their potential and is a catalyst for access to financial means. Microfinance offers a reasonable risk-adjusted rate of financial return and has a positive social impact.
Source: World Bank, IFC, UNDP

Philanthropy stems from the Greek: "love of humanity." Popular interpretations today refer to "private initiatives for public good" (J. W. Gardner) or initiatives directed at the "improvement in the quality of human life" (Robert Bremner). Colloquially, philanthropy is most commonly used interchangeably with charitable giving. However, in recent years, more donors are directing a greater focus on results – on creating sustainable (and measurable) social change. That is the reason why we see the appearance of terms like "venture philanthropy" or "strategic philanthropy."
Source: World Wide Initiatives for Grant-maker Support

Social business is a for-profit enterprise whose primary objective is nevertheless to achieve social impact rather than generating profit for owners and shareholders. Social businesses use market principles, produce goods and services in an entrepreneurial and innovative way, and typically reinvest any surpluses back into the enterprise to achieve the social mission. In addition, they are managed in an accountable and transparent way, in particular by involving workers, customers, and stakeholders affected by its business activity.
Source: European Union

Social entrepreneurship refers to the application of innovative, practical, and sustainable approaches to benefit society in general, with an emphasis on those who are marginalized and/or poor. Regardless of whether the social enterprise is set up as a non-profit or for-profit, fulfillment of the social mission is the primary objective, while financial value creation is a secondary objective

and a means to improve the organization's reach and impact. While social enterprises are financially self-sustainable (generally referred to as social businesses), most include some degree of cost recovery through the sale of goods or services to a cross section of institutions, public and private, as well as to target population groups, though public or philanthropic funding is generally required to sustain some portion of the organization's activity.
Source: Schwab Foundation for Social Entrepreneurship

Socially responsible investing (SRI) describes a values-based approach involving predetermined social or environmental values to investment selection. Early approaches of SRI simplistically screened out investments in "sin sectors" such as alcohol, arms, or tobacco. Returns typically underperformed the market due to the smaller opportunity set of investable stocks. As a result, the mainstream investment community has received this approach with a good deal of reservation, since it seems to force a trade-off between "doing good" and "doing well."
Source: Center for Global Development (NGO), Social Investment Forum, Credit Suisse.

Sustainable investing refers to an investment approach that actively recognizes that environmental, social, and governance (ESG) criteria can affect business strategy, financial risk and profitability. As such, the approach integrates ESG criteria into the investment process, considering them alongside traditional financial criteria, with the objective of generating superior long-term risk-adjusted financial returns.
Source: Credit Suisse

Venture philanthropy (also known as strategic philanthropy) is a high-engagement approach to philanthropic giving, analogous to the practices of venture capital in building commercial companies. Donors embracing this partnership approach place an emphasis on funding social purpose organizations that have demonstrated significant potential for impact, and typically match their donation with strategic advice and/or technical assistance to further improve the recipient organization's capacity to deliver social impact.
Source: EVPA; Morino Institute; Skoll Centre for Social Entrepreneurship

PUBLISHER
CREDIT SUISSE AG
Research Institute
Paradeplatz 8
CH-8070 Zurich
Switzerland

EDITORS
Robert Ruttmann (Head)
Patrick Elmer
Gregory Fleming
Laura Hemrika

PRODUCTION MANAGEMENT
GLOBAL RESEARCH
EDITORIAL & PUBLICATIONS
Markus Kleeb (Head)
Katharina Schlatter

Editorial deadline
5 January 2012

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RCE 1550454 01/2012