



Locating Social Entrepreneurship in the Global South

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A world map in a light blue color, showing the continents and oceans, serving as a background for the top section of the page.

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Introduction

Social Entrepreneurship operates at the nexus of civil society, the state, and the market. The term embraces a wide range of activities, organizations, and individuals including non-governmental organizations, commercial enterprises, and entrepreneurs that aim for social and economic value creation. The concept has been embraced by the public sector while Ashoka, Skoll Foundation and Acumen Fund are among a growing number of private organizations that operate in the social entrepreneurship sphere.

In spite of the increased interest, it is important to understand that the institutionalization of social entrepreneurship is still in an early stage. The academic community has yet to put forth an agreed upon definition of social entrepreneurship, instead mainly providing narratives of successful efforts. Practitioners have been receiving media attention and are presented as social change makers and innovators, but there is still no clear answer to the question of what makes them social entrepreneurs or why their efforts qualify as social enterprise.

Defining social entrepreneurship is not an easy task because the phrase has many connotations in academic literature. The term broadly encompasses “non-profit organizations, non-profits associated to for-profit ventures, businesses that integrate social responsibility, or any venture public, private, for-profit or non-profit with any socially beneficial activities.”¹ The problem with the label of social entrepreneurship is a lack of clarity with respect to its meaning. Scholarly analysis tends to describe the practice, rather than define it, which results in ambiguity.² In addition there are limited academic discussions about the concept of social enterprise in developing countries.

Researchers at the Social Enterprise Knowledge Network (SEKN), a network of collaboration among ten of the most prestigious business schools in Iberoamerica, define social enterprises as organizations or enterprises that generate social change through market activities.³ Under



this definition, social enterprises include NGOs and private for-profit businesses as well as businesses engaged in public sector activities which produce goods and services tied to a social goal. According to the network, social purpose, not the legal structure, is the predominant driver of whether a business or organization is a social enterprise.⁴ The international donor and policymaking community has initiated programs to promote a social enterprise model of organization. Philanthropic organizations have also promoted the concept of social enterprise by financing and supporting social entrepreneurs and enterprises aimed at alleviating poverty in the developing world. However, the adoption of social enterprise by mainstream development discourse has not helped clarify its meaning. This lack of consensus reveals the need for an initiative to define social enterprise legally and the importance of coining a universal definition. In the developing world, social enterprise can take a variety of organizational forms, making it difficult to distinguish between conventional businesses and social enterprises.

In March 2013, the Wilson Center's Urban Sustainability Laboratory, Zeppelin University, and Siemens Stiftung hosted a major conference featuring scholars and practitioner in the field of social entrepreneurship to explore how social enterprise and impact investing operate within the development framework. The event focused on the Global South in an effort to understand the role of social entrepreneurship in meeting development goals and empowering the poor. In an effort to advance the dialogue on innovative and alternative solutions to the world's most pressing social problems, the symposium offered a platform for debate and showcased trends in academic literature and practice.

The symposium explored three themes: 1) development aid and innovation; 2) financing of social enterprises; and, 3) local context and empowerment. International financial institutions, non-governmental organizations, and bilateral aid organizations have struggled to address economic and social inequality around the globe. The approaching deadline for the United Nation's Millennium Development Goals has positioned social entrepreneurship as an innovative, effective, and efficient approach that could complement traditional development aid.

Social enterprises employ a wide range of financing options from typical funding mechanisms for private businesses to a complex web of donor funds, charitable organizations, impact investors, and venture philanthropy. When assessing the impact that the range and complexity of funding sources have on the success of social enterprises it is necessary to understand

The approaching deadline for the United Nation's Millennium Development Goals has positioned social entrepreneurship as an innovative, effective, and efficient approach that could complement traditional development aid.

how social enterprises in the Global South have emerged as well as their impact, scalability, and sustainability. This is especially important given the current emphasis in international development on local context and an increased focus on the empowerment of marginalized people as essential considerations for effective solutions to poverty. The potential global impact of social entrepreneurship will be best understood through an in-depth consideration of the political, social, and economic context in which social enterprises are empowering the poor with improved access to basic goods and services or to global markets.

Paul Collier, Professor of Economics and Public Policy, Blavatnik School of Government and Director, Centre for the Study of African Economies (CSAE), University of Oxford, launched the event with a keynote address that outlined the history of intellectual perspectives on the approaches and structures of international aid and ended with a discussion about effective organizations. Professor Collier emphasized the need for effective organizations in developing countries and highlighted the role that social enterprises could play in alleviating poverty.

Stuart L. Hart, Samuel C. Johnson Chair in Sustainable Global Enterprise and Professor of Management, Johnson School of Management, Cornell University, provides companies with a compelling argument for engaging the 'Bottom of the Pyramid' (BoP). Work with this segment of the population is not only opening up untapped markets, but it provides opportunities to tackle the challenges of poverty and environmental degradation. However, Hart cautions a lack of understanding of the differences of BoP logic can cause projects to fail. In BoP work it is important to create a wide value proposition that involves the local community in developing the business model and the process of product design.

Rosedel Davies-Adewebi, Project Manager, Social Enterprise and Impact Investing, UN Global Compact, locates social entrepreneurship in achieving the Millennium Development Goals and highlights the importance of private sector engagement in finding solutions to global challenges. She emphasizes the path social enterprises are paving as an example of how business is changing and starting to create more long-term social impact which is embedded in their operations.

David Wood, Adjunct Lecturer in Public Policy and Director, Initiative for Responsible Investment, Hauser Center for Nonprofit Organizations, Harvard Kennedy School, explores

how to leverage private capital investment for public purposes. He argues that conventional market activity is not enough to achieve social good, which is why it is critical that the public sector is engaged in shaping market outcomes. However, the ways in which public policy can promote impact investing remains unclear. The challenge is to balance the needs of the public and private sectors with the demands of the market. If achieved, this could promote the use of finance to obtain social goals.

Keely Stevenson, Chief Executive Officer, US, Bamboo Finance and Oxford University Skoll Scholar, and Tara Sabre Collier, Consultant, GroFin and Oxford University Skoll Scholar, describe their experience in impact investing and the challenges faced by Bamboo Finance and many others in the industry. These challenges are scale, shared value, and reaching a new market. Stevenson and Sabre Collier advocate for a transformation of how we do business if we are to achieve international cooperation that reduces poverty and creates social inclusion.

This policy brief also presents the challenges faced and successes achieved by two social entrepreneurs, **Javier Okhuysen**, Founder and Co-CEO, salaUno, Mexico City, and **Haron Wachira**, Ashoka Fellow and Founder, Akili Holdings, Nairobi. Their work reveals the importance of understanding better how social enterprises are matched with appropriate investors and the need to focus on scale so that social enterprises can achieve their full potential. Partnerships that blur the boundaries between policy, research and practice are crucial as they shed light on the characteristics of social enterprises and hybrid organizations.

NOTES

- 1 See Dees, J. Gregory. 1998. "The Meaning of Social Entrepreneurship." http://www.caseatduke.org/documents/dees_sedef.pdf and Martin, R. and S. Osberg. 2007. "Social Entrepreneurship: The Case for Definition." *Stanford Social Innovation Review*, Spring: 29–39. http://www.ssireview.org/articles/entry/social_entrepreneurship_the_case_for_definition.
- 2 Dees, J. Gregory, J. Emerson and P. Economy. 2001. *Enterprising Nonprofits: A Toolkit for Social Entrepreneurs*. New York: John Wiley and Sons.
- 3 Marquez, P., et al. 2010. *Socially Inclusive Businesses in Iberoamerica: Challenges and Opportunities*. Cambridge: The David Rockefeller Center Series on Latin American Studies, Harvard University Press.
- 4 Austin, J.E. & SEKN Team. 2006. *Gestión efectiva de emprendimientos sociales: Lecciones extraídas de empresas y organizaciones de la sociedad civil en Iberoamérica*, Banco Interamericano de Desarrollo, David Rockefeller Center for Latin American Studies Harvard University. Washington, D.C.: Editorial Planeta.

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BoP 2.0: Next Generation Strategies for the Base of the Pyramid

It has been a decade since C.K. Prahalad and I first published the article “The Fortune at the Bottom of the Pyramid,” which launched the “BoP” business movement. Since then, many corporate initiatives, entrepreneurial ventures, and innovation centers have been launched focused on the BoP—the more than four billion poor people in the world who earn less than \$4 per day per capita in purchasing power parity.

The strategic logic for BoP business is now clear:

1. With the top of the pyramid (and even the so-called emerging markets) stuck in a prolonged slowdown, the only place left to rekindle rapid growth is with the 4 billion poor at the bottom of the income pyramid. This is especially true for mature, export-dependent countries like Japan;
2. There is an enormous potential market worth trillions of dollars for innovators who can find a way to crack the BoP code; and
3. The BoP is where companies and entrepreneurs can tackle the world’s biggest challenges—pervasive poverty, environmental degradation, and mass migration—with the potential for huge contributions to humanity and game-changing new technologies, strategies, and business models for the 21st century.

BoP enterprises must create wide and compelling value propositions—an entire business ecosystem that delivers value to local people and communities in multiple ways, not just through a single product.

Over the past decade, there have been fits and starts: many BoP ventures have failed; some have been converted to philanthropic programs; but only a few have taken root and gathered commercial momentum. Pioneering companies like Hindustan Unilever in India have blazed the trail by demonstrating that it is indeed possible to dramatically reduce costs, create affordable products for the poor, extend distribution channels to urban slums and rural villages, and collaborate with NGOs with the necessary “on-the-ground” presence and experience. Indeed, the past decade has spawned a whole new business language, including terms and concepts such as: daily-use, single-serve packaging, inclusive supply chains, frugal innovation, community co-creation, social entrepreneurship, and impact investing.

This process of experimentation and learning has been viewed by some through a negative lens, denouncing BoP business either as the latest form of corporate imperialism—a “misfortune” at the bottom of the pyramid, focused merely on profiting from the poor; or a quixotic quest for the impossible—a misallocation of valuable investment capital. In reality, however, rumors of BoP’s demise have been greatly exaggerated (to paraphrase Mark Twain). *Indeed, much has been learned over the past 10 years, and I believe that we are on the verge of taking the BoP business movement to the next level in the coming decade—a BoP 2.0 revolution.*

Just think of how far we have come over the past 10 years: First, it has become increasingly clear that designing low-cost products for sale in the low-income space is necessary but not sufficient to success. The landscape is littered with the remains of failed BoP ventures focused on the sale of such things as low-cost water filters, solar lights, clean cookstoves, and a myriad of other household goods. Reasons for failure: product misfire, low sales penetration, high-cost distribution, and inability to scale. *We now know that BoP enterprises must create wide and compelling value propositions—an entire business ecosystem that delivers value to local people and communities in multiple ways, not just through a single product.*

Consider CleanStar Mozambique (CSM), a BoP venture that I have had a hand in helping to form. The company is a partnership between the Danish biotech powerhouse Novozymes, BoP venture pioneer CleanStar, biofuel plant builder ICM, and financier Bank of America. Sounds pretty complicated, right? Just wait until you hear about the business model.

CSM is creating a business ecosystem that: 1. Brings clean cooking solutions that eliminate indoor air pollution in urban households and that are; 2. Fueled by affordable biofuel which is; 3. Produced in rural Mozambique by subsistence farmers who; 4. Convert to a multicrop system of sustainable agriculture that; 5. Dramatically raises farmers' incomes and food security while; 6. Producing excess casava which is used as the feedstock in the; 7. Biorefinery, which has been constructed near the small city of Beira and which; 8. Has the potential to dramatically reduce the use of charcoal in cookstoves, which; 9. Accounts for a significant share of the deforestation and greenhouse gas emissions in the region.

Conventional wisdom would suggest that CSM is too complicated and has too many moving parts to be successful. But this is conventional wisdom from the established markets at the top of the pyramid. Such logic does not apply when it comes to the BoP. The truth is that natural systems are complex, but resilient at the same time: Stress in one part of the system can be compensated for in other parts. The whole is greater than the sum of the parts. CSM has already proven its ecosystem concept in Mozambique and is now preparing to scale the model up across Africa, and eventually around the world.

What is the lesson for aspiring BoP entrepreneurs? *Create a wide value proposition with multiple, complementary sources of benefit and revenue generation embedded throughout the entire business ecosystem.* Escape the tyranny of the single product/market mentality in favor of an umbrella business concept that simultaneously reduces environmental burden, generates livelihoods, and produces profits for the investors.

Second, we have learned that co-creation is critical to BoP business success, involving local communities in the process of not only product design, but also business model creation. It is now increasingly clear that BoP entrepreneurs must come to view the poor more as partners and colleagues rather than as merely clients or consumers. Such an approach calls for deep dialogue (two-way communication) rather than just deep listening. *We now know that BoP enterprises must develop a new "native capability" that focuses on co-creating business concepts and business models with the poor, rather than on simply marketing inexpensive versions of top-of-the-pyramid products to low-income consumers.*

Indeed, it is telling that, as we enter the second decade of the 21st century, the only real BoP business success stories come from the developing world itself—microfinance and mobile telephony for the poor. Enterprises like Grameen Bank and Grameen Phone in Bangladesh, Compartamos in Mexico, and CelTel in Africa still stand out as the few iconic examples of business success cited by BoP analysts and advocates from around the world. In fact, no global conference on the topic is complete without significant reference to at least one of these "home run" examples.

This raises the question: Is there something about microfinance and mobile telephony that has enabled such stunning success? The answer is yes! When you examine each of these initiatives closely, it quickly becomes apparent that each is really a means to an end, rather than



an end in itself. Indeed, microfinance and mobile telephony are not end products, but rather are *enabling platforms* that deliver a wide range of functionalities and facilitate people's accomplishment of any number of tasks.

Unfortunately, most corporations have chosen BoP strategies that effectively deliver finished products with defined value propositions in the mistaken (though well-intentioned) belief that they know better than the poor themselves what their real needs are. What works in the established markets at the top of the income pyramid, however, does not work so well in the emerging BoP space.

Over the past seven years, my colleagues and I have been focused on developing an approach for companies to effectively co-create new markets in the BoP. The approach is called the BoP Protocol. We have now experimented with this approach in a half-dozen different business contexts in Africa, Asia, and Latin America and have learned a great deal about how to engage local partners and communities in the dance of co-creation.

Many others have also embarked on similar learning journeys to unravel the keys to successfully creating the inclusive businesses of tomorrow that embrace all of humanity and end the scourge of poverty. My colleague Ted London and I have gathered some of the most important emerging contributions in this regard in a new book, *Next Generation Business Strategies for the Base of the Pyramid*.

Our conclusion: There is no "fortune at the bottom of the pyramid" waiting to be discovered. Instead, the challenge for companies is to learn how to *create a fortune with the base of the pyramid*.

Finally, we have learned about the incredible potential to leapfrog to environmentally sustainable technologies starting in the BoP—an approach I have called “Green Leap.” By gaining access to low-cost distributed clean technologies and developing inclusive business models around them, it is possible to engage in a form of modern-day green “alchemy.” *We now know that BoP enterprises have an opportunity to commercialize the thousands of clean “shelf” technologies extant in the world to first address the needs of the underserved at the base of the pyramid.* Some may even one day revolutionize the way we live at the top of the pyramid.

And as Peter Diamandis has made clear in his book, *Abundance*, scores of emerging “exponential” technologies have also begun to hit the steep parts of their development curves. From nanotechnology to 3-D printing, and from biotechnology to solar energy, waves of new sustainable technologies are emerging that have the potential to overtake and creatively destroy the unsustainable holdouts from the industrial era.

The challenge of our time, therefore, is to figure out how to bring these next-generation technologies forward through a global Green Leap. Indeed, emerging clean technologies, including distributed generation of renewable energy, biofuels, point-of-use water purification, biomaterials, wireless information technology, and sustainable agriculture hold the keys to solving many of the world’s global environmental and social challenges.

Because these small-scale green technologies are often “disruptive” in character, the base of the pyramid is an ideal place to focus initial commercialization attention. China’s towns and small cities, Brazil’s favelas, and India’s tier 2 cities and rural villages present such opportunities. Once established, such technologies can then “trickle up” to the established markets at the top of the pyramid—but not until they have become proven, reliable, affordable, and competitive against the incumbent infrastructure.

As a co-founder of the new Emergent Institute in Bangalore, India (www.emergentinstitute.net), I am focused on accelerating the Green Leap by dramatically increasing the number and success of entrepreneurs and intrapreneurs focused on socially inclusive and environmentally sustainable business development for the 21st century. To realize this vision, the Emergent Institute has assembled a complete innovation ecosystem to foster the creation of tomorrow’s distributed and sustainable infrastructure, including an education platform, incubator, seed fund, technology bank, cluster (social) network, learning laboratory, and field support system. The centerpiece is the Flagship Program, which aims to create nothing less than a new model of business and entrepreneurial development appropriate to the challenges we face in the 21st century.

We have indeed learned much over the past decade about how to serve the poor in a way that is environmentally sustainable, economically empowering, culturally embedded, and financially profitable. I cannot wait to see how much we learn in the next decade as we enter the era of “BoP 2.0.”



BOX 1: The Intellectual History of Aid

Paul Collier provided an overview of the changing role of development aid over the past 50 years and its significance for social enterprise. Collier reflected on the predominant intellectual perspectives that have shaped the field of development aid to address the fundamental question: *Why are some societies poorer than others?*

Collier outlined three phases in the intellectual history of development assistance. The first phase, emerging between 1960 and 1980, was based on standard economic answers with a clear focus on capital. This approach was driven by an understanding that people in poor societies were not as productive as those in rich societies because they lacked capital. In this context, aid organizations focused support on building infrastructure in poor countries to foster productivity and generate an increase in capital.

In the early 1980s this approach was challenged as world markets opened up and capital became more mobile, including flows from poor countries. A new intellectual perspective took hold, driven by the belief that endogenous factors—in particular, poor economic policies—affected the production and availability of capital. In this context, aid became tied to policy changes or conditionality intended to have a positive impact on the production of capital.

By the beginning of the 2000s, scholars began to examine why poor societies have bad economic policies. What are the incentives in government for good public policy making? This phase in thinking about development aid focused on understanding the circumstances under which governments produce good or bad economic policies. Citing Douglas North's work on the structure of political power and the state's capabilities, Collier suggested that the exercise of political power through elites or institutions is reflected in the capability of a government to generate its own revenue, for example by establishing a taxation system. These structures are key as they dictate how and by whom economic policymaking

Paul Collier

Professor of Economics and Public Policy, Blavatnik School of Government and Director, Centre for the Study of African Economies (CSAE), University of Oxford

is conducted. Within this current intellectual paradigm, the role for aid is to finance civil society organizations that can hold the government accountable.

A central assumption found in the current perspective is the idea that ordinary people in poorer societies need to be empowered to defend themselves from bad government. Yet, Collier observed, societies, just like governments, can be dysfunctional. Collier challenged the prevailing focus on the role institutions play in determining productivity, which misses intermediaries as important actors in the development of capital. Intermediaries have a direct impact on productivity through their teams and the work they develop.

How then can a society in which individuals earn \$2 a day be turned into a rich society with daily incomes of \$100, asked Collier. The answer depends upon the presence or absence of *effective organizations* which have the capacity to harness ordinary people and transform their productivity through two key mechanisms: scale and specialization. Collier acknowledged that these two elements represent a challenge to management in terms of employee motivation and cooperation. To overcome these challenges, the workforce must internalize the objectives of the organization along with a shared sense of purpose and identity.

Effective organizations are the norm in rich societies, while in poor societies only a handful can be found in a sea of ineffective organizations, said Collier. The role of effective organizations is fundamental to the future development of poor societies. The few effective organizations that operate in poor societies are usually too small to scale up or specialize. According to Collier, social enterprises play an essential role in their capacity as intermediaries to help the development of effective organizations. Collier advocated for development aid to finance the efforts of social enterprises to promote social and economic prosperity in areas of the greatest need. Collaboration between development aid and social enterprises can achieve change in poor societies in terms of capital and productivity, Collier concluded.

Social enterprises play an essential role in their capacity as intermediaries to help the development of effective organizations.

Corporate-Social Enterprise Partnerships: Implications for the Post-2015 Agenda

INTRODUCTION AND CONTEXT

Over the past two years, the UN system has been engaged in a set of concurrent and inter-related workstreams—the process to develop a set of Sustainable Development Goals¹ to build on the Millennium Development Goals (MDGs) and the process to build a global development agenda beyond 2015 (United Nations Post-2015 Development Agenda)². While the final outputs of these workstreams will be for Member States to decide, both processes have benefitted from the input given by a diverse set of stakeholders, including civil society, the private sector, academia, and scientists.

Particularly noteworthy are the growing opportunities for the private sector, namely businesses, to play a crucial role in shaping and supporting the implementation of the UN Post-2015 agenda through the development of strategic partnerships.

DRIVERS OF BUSINESS ENGAGEMENT IN ADDRESSING GLOBAL DEVELOPMENT CHALLENGES

The emphasis on business engagement underscores the increasing trend of private sector participation in advancing solutions to global development challenges. Within the private sector, businesses increasingly have embraced the notion that sustainable development is integral to business success and thus are examining innovative ways to address global development challenges through core business operations, social investments, public policy engagement, and partnerships. This trend is emphasized in a survey conducted by MIT Sloan and the Boston Consulting Group in 2011.³ Results from the survey of 4000 corporate executives showed 70% of respondents stated that sustainability (encompassing economic,



social, environmental, and employee well-being concerns) was necessary to achieve competitiveness in today's marketplace. Additionally, growth in the membership of organizations promoting corporate sustainability, such as the United Nations Global Compact, the World Business Council for Sustainable Development, and the World Economic Forum, underscores a growing alignment between UN priorities for sustainable development and long-term corporate goals.

Concurrently, the precipitous growth of social enterprises, defined as micro-, small- and medium-sized enterprises (SMEs) that aim for positive social or environmental outcomes while generating financial returns, has weakened the prevailing belief that a business' sole function is to maximize shareholder value. Instead social entrepreneurs are creating next practices in the private sector that advance the notion that a company must create long-term value for all its stakeholders, shareholders included. The MDGs and the UN- Post 2015 Agenda provide a framework for the areas in which companies can create long-term value.

SILOED IMPACT

While these trends—development of the UN-Post 2015 Agenda, a growing corporate sustainability movement, and the growth of social enterprise—are converging, market-based sustainability efforts have not kept pace with the growing scale of global development challenges. In addition, the global sustainability movement is fragmented and is characterized by a lack of coordination among actors on development projects. Corporations and social entrepreneurs are piloting innovative products and services often addressing the same challenges within the same regions. Each group's understanding of potential collaborators with which they can scale initiatives tends to be informed by fragmented sets of information and limited interactions, leading to siloed impact of sustainability efforts. Insufficient positive market response to corporations seeking to align sustainability initiatives with strategy and to integrate sustainability initiatives into operations presents challenges to corporate leaders seeking to make the business case for expanding initiatives. As for social entrepreneurs, the asymmetry in impact capital demanded vs. impact capital deployed remains one of the many significant hurdles that must be cleared to scale impact. Taken together, these conditions lead to under-resourced projects that struggle to move beyond the pilot stage and create incremental progress toward sustainability.

Within the private sector, businesses increasingly have embraced the notion that sustainable development is integral to business success and thus are examining innovative ways to address global development challenges through core business operations, social investments, public policy engagement, and partnerships.

OUT OF THE SILOS—BUSINESS TO BUSINESS PARTNERSHIPS FOR DEVELOPMENT

Multinational companies (MNCs) are increasingly engaging in what Monitor Deloitte terms as strategic social partnerships (SSPs)⁴ to increase the scale and impact of their sustainability initiatives. According to Monitor Deloitte, SSPs focus on core business objectives, create mechanisms for efficient risk-sharing and, allow each partner to leverage core skills in service of both business and social impact. Empirical evidence demonstrates that a specific type of SSP—the corporate-social enterprise partnership—yields long-term, scalable solutions to global challenges.

Starting in 2010, a series of publications was released that underscored the role and quantified the impact of businesses, multinational corporations, and SMEs alike on addressing the MDGs. In 2010, Sustainalytics and NDCO published the Business Impact Report.⁵ This report analyzed the contribution of 20 multinational corporations to the MDGs. Specifically, the report sought to compare the impact of corporate community investments, which often take the form of grants that are not necessarily aligned to the core business, to the impact of commercial activities (defined as activities aligned with corporate core business). Their analysis revealed that collectively, the total contribution from commercial activities to MDGs 1, 2, 4, and 5 by the sample group is far greater than the contribution from community investments: 2.9 million beneficiaries from commercial activities compared to only 1.3 million from community investments.⁶

In preparation for this article, 19 examples of corporate-social enterprise partnerships addressing the MDGs were reviewed. The assumption underpinning this review was that identifying the area of most value creation within each partner's value chain is the first step in building the business case for partnerships and the broader sustainability initiatives they support. Thus, the review aimed to determine where in the value chain companies form the partnerships and where in the value chain the partnerships deliver value.

Examples were selected by applying three criteria as follows:

- **Partners involved:** The partnership included at least one multinational corporation or its subsidiary and a social enterprise meeting the following definition—SMEs that aim for positive social or environmental outcomes while demonstrating financial viability. For a list of companies used in this analysis, see Appendix A: Company-Partnership Matrix.
- **Specific set(s) of MDGs addressed:** The partnership formed directly addressed one or more of the MDGs, and activities of the partnership attempt to address one or more of the targets within the specified MDG.⁷
- **Potential for commercial impact:** The partnership formed was not purely philanthropic; rather, the major thrust of activity had a link to the core business of parties forming the partnership.

Examples were chosen from the websites of Global Fortune 500 companies who were members of global sustainability platforms such as the United Nations Global Compact, the World Business Council for Sustainable Development or the World Economic Forum, and from literature highlighting private sector contributions to the MDGs between 2008 and 2012. The application of the three selection criteria reduced the pool of examples relevant for analysis from 45 to 19. A table of sources can be found in Appendix B.

Examples were reviewed using the Value Chain Framework first introduced by Michael Porter in the book *The Competitive Advantage, Creating and Sustaining Superior Performance*.⁸ This framework describes all the activities a company engages in to bring its products and services to a market. It was posited that a company can gain a competitive advantage, evidenced by the company's ability to garner margins higher than those of competitors, by efficiently managing and optimizing the value chain.

The value chain is divided into two elements, Primary Activities and Support Activities. Primary activities refer to the set of processes that are intricately tied to the transformation of inputs (i.e. capital, labor, raw materials) into outputs (products and services) for sale in a market. These activities include:

- **Inbound Logistics:** Processes to receive, store, and distribute the inputs
- **Operations:** Activities required to transform inputs into outputs
- **Outbound Logistics:** Processes to transfer the finished products to the customer (i.e., warehousing, order fulfillment, distribution)
- **Marketing and Sales:** Processes to raise awareness of product or service and provide access to targeted customer groups
- **Services:** Post-sales support (i.e., warranties, training, repair, installation)

Support Activities refer to the set of processes that support the execution of Primary Activities. Support Activities include:

- **Procurement:** Purchase of inputs and resources for the company
- **Technology Management:** Procedures, knowledge, and technological inputs (i.e., R&D, process automation, process design)
- **Infrastructure:** Systems designed to connect various sections of the company and to create integrated processes. Common functions comprising infrastructure include, legal, finance, general management.
- **Human Resource Management:** Selection, management, and development of human capital

A code for each element of the value chain was developed. Additional codes were developed to categorize additional activities observed in the literature that were not reflected in the framework. Examples from the publication *Innovating for a Brighter Future: The Role of Business in Achieving the MDGs*⁹ guided the development of these codes, which are denoted by an asterisk in Table 1: Value Chain Elements Most Represented.

Three questions guided the review:

1. In what part of the value chain does partnership activity concentrate?
2. In what part of the value chain do the partnerships tend to create impact?
3. Which MDGs were most represented in these examples?

To answer these questions, a code representing a specific element of the value chain was applied to the partnership activity and the commercial impact described in the literature. Only one code was applied per category. The codes were then tallied across the partnership activity and commercial impact. Table 1 lists the codes applied the most during the reviews.

With regard to the first question, partnership activity tended to form mostly within the Marketing and Sales (Mkt-M&S) element of the value chain. Eight out of 19 examples (42%) reflected partnerships in which the main activity was providing access to products and services to an underserved group and/or region. The second most observed area of partnership formation was within the Technology Management element of the value chain. Seven out of 19 examples (37%) reflected partnerships in which the main activity was conducting research and developing/improving products for a market. In several of the cases, corporations made an investment or provided a grant to a social enterprise that was developing a technology, product, or services that had relevance to the company's strategic imperatives.

Table 1: Value Chain Elements Most Represented

| Value Chain Activity | Definition | Code |
|--|--|-------------|
| Primary Activities | Activities related to the creation of products and services and their distribution in a market | |
| Services | Post-sales support (i.e., warranties, training, repair, installation) | PM-Services |
| Outbound Logistics | Processes to transfer the finished products to the customer (i.e., warehousing, order fulfillment, distribution) | Mkt-Outbnd |
| Marketing and Sales | Processes to raise awareness of product or service and provide access to targeted customer groups | Mkt-M&S |
| Support Activities | Activities designed to add value to primary activities | |
| Human Resource Management | Selection, management, and development of talent | Suprt-HR |
| Technology Management | Procedures, knowledge, and technological inputs (i.e., R&D, process automation, process design) | Suprt-TM |
| Stakeholder Management | Processes to manage various groups' expectations and demands of the firm's behavior within various communities and contexts | |
| *Social Infrastructure—Social License | Engagement with local stakeholders to gain community approval for company operations | SM-SocLic |
| *Social Investments—Grants | Social investments, philanthropic activities | SM-Grnts |
| *Social Investments—Cause Marketing, Advocacy, Awareness | Raising awareness of issues affecting stakeholders within the firm's operational footprint | SM-Advoc |

*Codes developed to categorize activities observed in the literature but not reflected in the framework

As for the second question, the impact of partnership activities was found mostly within the Marketing and Sales element of the value chain. Ten out of 19 (52%) of the examples presented partnership results that can be categorized into three areas within the Marketing and Sales element:

1. Increase of consumers within a current market segment;
2. Access to a new market segment of consumers; and,
3. Raising brand awareness in remote regions.

Following Marketing and Sales, the second most observed impact of partnership activities was found within Technology Management element of the value chain. Six out of 19 activities (32%) reflected this activity. The commercial impact often involved the development of a product or service tailored for the benefit of underserved communities in key growth areas within the MNC partner’s footprint. Figure 1 depicts these findings.

With regard to question three, impact was often presented in the literature in the form of outputs (i.e., number of consumers and beneficiaries reached). As noted, MDG 7—Ensure environmental sustainability—was the most represented MDG in the set of examples, as many of the examples included partnerships within the Energy Sector. These examples provided both social and environmental impacts as they increased underserved communities’ access to clean energy sources, and these energy sources generally replaced energy sources that lead to high CO₂ emissions such as kerosene and firewood.

Figure 1: Partnership Activity vs. Commercial Impact by Value Chain Element

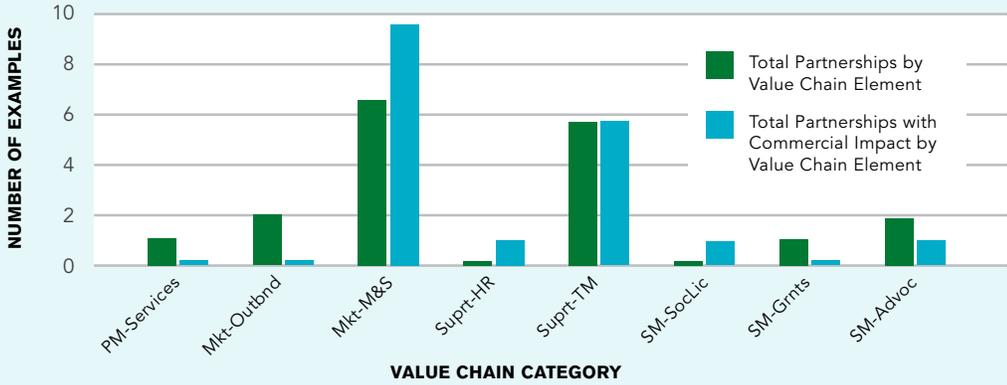
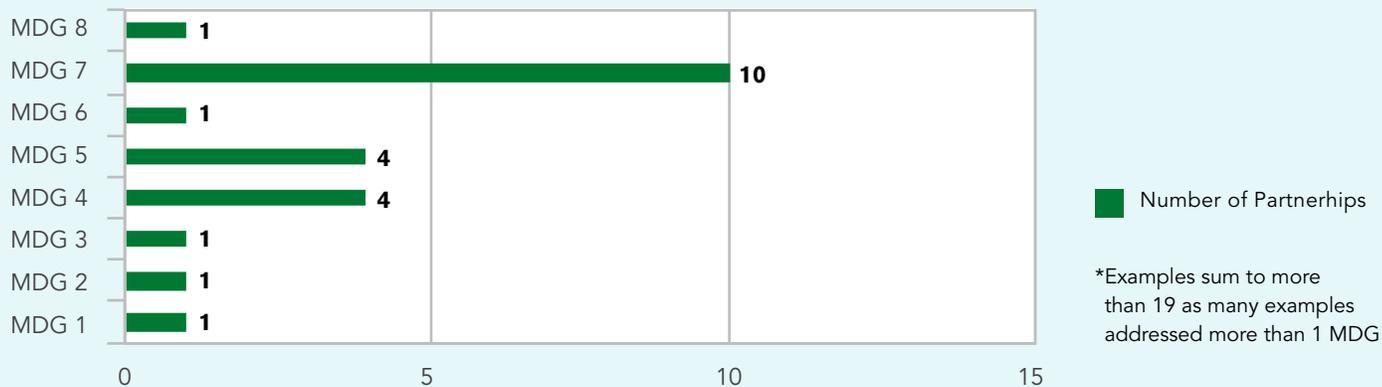


Figure 2: MDGs Presented in Examples



LIMITATIONS AND INTERPRETATIONS

There are some limitations that prevent the generalization of these findings to the universe of corporate-social enterprise partnerships. The majority of the examples were company reported and the selection criteria produced a small sample of examples that are biased toward the incidence of commercial impact. Basic analyses were conducted to understand the nature of the data stemming from the examples reviewed; deeper analyses may be undertaken, particularly to understand if there is a relationship between partnership activities that start in one area of the value chain yet demonstrate commercial impact in another area of the value chain.

Despite these limitations, the initial findings provide an interesting view of the potential of corporate-social enterprise partnerships to advance the upcoming Sustainable Development Goals (SDGs) and potentially present implications for accelerating the broader sustainability movement. As Table 2 shows, the majority of the partnership action was focused within the Primary Activities area of the value chain, and the commercial impact realized occurred in the same part of the value chain.

Naturally, partnerships that satisfy core interests and create mutual benefits for each of the parties involved are those that are the most durable. As commercial benefits are realized from the partnership, they provide a foundation for parties to build the business case for continued investment of resources, talent, and capital into the partnership, which in turn creates the enabling environment for sustainability initiatives to break out of the pilot stage and move toward scale. As many of the examples examined demonstrate, partnership activities resulted in reaching several thousand beneficiaries after several years of continued investment and improvement of the programs launched.

Table 2: Flow of Value: Partnership Actions and Commercial Impact

| Value Chain Section | Area of Partnership Action | | | Total | Area of Commercial Impact | | | Total |
|---------------------|----------------------------|---------|------------------------|-------|---------------------------|---------|------------------------|-------|
| | Support | Primary | Stakeholder Management | | Support | Primary | Stakeholder Management | |
| Number of Examples | 6 | 10 | 3 | 19 | 7 | 10 | 2 | 19 |

While the specific Sustainable Development Goals and their duration have yet to be determined, current deliberations indicate that timeline for achievement of the goals will be at least 10 years with a potential for in-depth assessment of global progress toward the goals at least every 3–5 years.

In several studies conducted with CEOs, including PWC’s 17th Annual Global CEO Survey,¹⁰ global executives express confidence in the ability of the private sector to provide solutions to global development challenges, and they feel equally confident in the role of partnerships to support the scale of these solutions. Partnerships with social enterprises are especially promising in the advancement of solutions due to their high potential for scalability and durability, which are two key elements necessary to make consistent and long-term progress on the Sustainable Development Goals.

MUTUAL BENEFITS: BUILDING THE CASE FOR CORPORATE-SOCIAL ENTERPRISE PARTNERSHIPS

It has been noted that the sustainability of partnerships relies, in part, on the mutual satisfaction of interests and mutual realization of benefits. Examples of corporate-social enterprise partnerships reviewed for this article indicate that these benefits lie within the value chain, thus providing an initial foundation for building the business case for continued investments in such partnerships. Continued investments contribute to the growth and scale of the solutions presented by the partnership that will be vital for the achievement of the upcoming Sustainable Development Goals.

It is understood that, placed in the context of the existing MDGs, partnerships are providing societal and environmental benefits, and the rooting of these partnerships in the value chain can begin to elucidate what the tangible business benefits may be. Prevailing thought posits that within corporate-social enterprise partnerships, the benefit is unidirectional, i.e., the majority of the benefit is realized by the social enterprise partner. The majority of the partnership examples reviewed, however, demonstrate that the benefit flow

is bi-directional. A summary of the most common business benefits realized by partnership type can be found in Table 3 below.

Of all the examples studied, the case of Shell is notable in the potential for the bi-directional realization of commercial benefits. The Shell Foundation has provided research grants and convertible debt investment vehicles to for-profit enterprises that are developing energy products and providing renewable energy access to consumers in emerging and frontier markets. Some of the most notable companies to which research grants and investments were provided are D. Light Design, Husk Power Systems, and M-KOPA. In making these investments, Shell Foundation promotes access to energy innovations tailored to emerging and frontier markets, which are future areas of energy demand. For the social enterprises involved in the partnership, the Shell brand served as a signaling factor to attract follow-on investment by impact investors. The combination of Shell Foundation’s seed funding and the subsequent follow-on funding supported the portfolio company’s ability to deliver products and services and impact at scale. Shell Corporation and the Shell Foundation are two independent entities. Thus the investments are not yet currently aligned with Shell Corporation’s current core business. Yet as Shell Corporation redesigns its core strategy to position itself as an energy company of the future, acquisitions of the companies funded by the Shell Foundation may provide Shell with an entry point to energy markets of the future.

Table 3: Partnership Benefits by Partner Type and Nature of Activity

| *Partnership Type | Benefit(s) Realized by the Corporate Partner | Benefit(s) Realized by the Social Enterprise Partner |
|---------------------------------|---|--|
| Distribution | <ul style="list-style-type: none"> • Increased brand awareness • New market access • New consumer segment access | <ul style="list-style-type: none"> • Increased product/service adoption/sales |
| New Product/Service Development | <ul style="list-style-type: none"> • Increased brand awareness • New consumer segment access | <ul style="list-style-type: none"> • Increased product/service adoption/sales |
| **Strategic Alliance | <ul style="list-style-type: none"> • Adjacent market access | <ul style="list-style-type: none"> • Increased product/service adoption/sales |
| **Strategic Investment | <ul style="list-style-type: none"> • Adjacent market access | <ul style="list-style-type: none"> • Increased product/service adoption/sales • Follow on investment |

*Partnership type development guided by models outlined in the *Framework for Action: Social Enterprise and Impact Investing*.¹¹

**For definitions of these partnership types, please see Appendix C: Partnership Type Definitions.

POLICY IMPLICATIONS

The examples reviewed combined with company leaders' faith in the private sector's ability to leverage its competencies to address global challenges present a promising opportunity to position corporate-social enterprise partnerships as a tool to accelerate the pace and impact of the global sustainability movement. Yet, despite the vast resources and the talents of the private sector, governments remain a critical partner in advancing sustainability movements through policy. Effective policy tends to offer the following opportunities to incent private sector action:

1. Provide insight into key economic and development priorities which serve as guideposts for companies that are seeking to allocate resources to sustainability initiatives;
2. Create signals to markets for future growth opportunities; and,
3. Provide convening opportunities for policymakers, civil society organizations, and private sector actors to meet, exchange ideas, generate necessary data and identify potential areas for collaboration.

The current negotiations on climate change illustrate the role policy can play in influencing the private sector. At a recent talk organized by the Americas Society and Council of the Americas (AS/COA), Christiana Figueres, Executive Director of the UN Framework Convention on Climate Change (UNFCCC), highlighted new opportunities to invest in expanding access to sustainable energy and clean technology that will result from a universal agreement on climate change slated for 2015.¹² Setting political and national priorities provides confidence to financial institutions and other private sector actors to allocate resources toward issues such as addressing climate change.

The Civil Society Windows organized by the Planning Commission of India demonstrates the important role governments can play by providing convening space. India has a vibrant civil society sector working to advance effective solutions to national development challenges. In 2000, the Planning Commission of India was created to serve as a central government agency dedicated to coordinating civil society organizations (CSOs). The Planning Commission set out to create a comprehensive database of NGOs operating in India, from which groups would be selected to join a dialogue to develop policies to build the capacity of CSOs.¹³ This initiative, Civil Society Windows, led to a multi-year collaboration between CSOs and the Planning Commission to build the capacity of CSOs to address development challenges at the local and provincial levels.

As the MDGs did, the SDGs will offer opportunities for policy innovations and coordinated action, providing the fuel necessary to accelerate stalled sustainability initiatives in key sectors.

PARTING POINTS

Companies have long relied on strategic business-to-business partnerships to advance their objectives. As the creation of solutions to global development challenges becomes more linked to business strategy, companies are increasingly engaging in strategic social partnerships to ensure business continuity and create value. As the examples presented suggest, corporate-social enterprise partnerships, due to their market-orientation, potential to develop a constant stream of resources and bi-directional benefits, may be in the best position to deliver the long-term benefits necessary to address global development challenges.

While the examples provided do not represent the universe of corporate-social enterprise partnerships, they provide insight into the value of creating sustainable solutions within the context of the upcoming Sustainable Development Goals. More research must be conducted to understand the nuances, challenges, and opportunities for the formation and duration of these partnerships. Empirical evidence indicates that these partnerships have the most potential to yield benefits in the market-related activities of companies, presenting new sources of revenue while providing greater access to products and services with positive impact on the lives of consumers.

Partnership activity for all the examples reviewed took place in the emerging and frontier markets that represent both current and future economic growth engines but are also areas of acute sustainability challenges. The MDGs, and the upcoming SDGs, provide a guiding framework by which companies can develop products and services to address the commercial and social needs of growth markets. Social enterprise solutions are informed by the social enterprise's propinquity to the markets they serve, which enables tailored solutions for these growth markets. Given the right partnership, risks of operation in unfamiliar markets can be reduced for the corporate partner, while the right set of supports can facilitate the scale of market-appropriate innovations for the social enterprise.

The SDG process provides new opportunities for corporations, social enterprises and policy makers to capitalize on their respective strengths to create sustainable solutions to global development challenges.

To support the discovery of prospective social enterprise and corporate partners, the UN Global Compact launched the Social Enterprise Action Hub (<http://businesspartnershiphub.org/social-enterprise>) in September 2013.

APPENDICES

Appendix A: Company-Partnership Matrix

| Example Number | Company | Company Type | Activity/Program | MDG(s) Addressed | Sector | Action Category (by value chain) | Business Commercial Impact (by value chain) | Partners Mentioned | Social Impact Presented | Source |
|----------------|---|----------------------------|--|------------------|--------------------------------|----------------------------------|---|---|--|---|
| 1 | Total | MNC (Moroccan Subsidiary) | Last mile distribution of electricity/ development of PVKits | MDG 7 | Energy | Mkt-Outbnd | Suprt-TM | 1. TEMASOL, 2. EDF | 1. 106,200 rural customers with access to electricity 2. Savings of 32,000 tons of CO2 emissions over 10 yrs | The MDGs: Everyone's Business— http://www.growing-inclusivemarkets.org/media/mdgreport/mdgreport_full.pdf , pp. 10 |
| 2 | ENDESA - Coelce (Endesa Brazilian Subsidiary) | MNC (Brazilian Subsidiary) | Ecoelce Program | MDG 7 | Energy | SM-Grnts | Mkt-M&S | | 1. 10,977 tons of recyclable waste collected 2. Customer access to credit due to the utility confirming residence from bill 3.Reduction of dengue caused by inadequate waste removal | Innovating for A Brighter Future: The Role of Business in Achieving the MDGs— http://unglobalcompact.org/docs/issues_doc/development/Innovating_for_Brighter_Future.pdf , pp.13 |
| 3 | Nike | MNC | The Girl Effect | MDG 2 & 3 | Educa-tion | SM-Advoc | SM-SocLic | 1. NoVo Foundation 2. United Nations Foundation 3. Coalition for Adolescent Girls | | 1. http://www.nytimes.com/2010/11/11/giving/11VIDEO.html 2. https://www.unglobalcompact.org/docs/issues_doc/development/Innovating_for_Brighter_Future.pdf |
| 4 | CEMEX | MNC | Patrimonio Hoy | MDG 7 | Construc-tion/ Infra-structure | Mkt-M&S | Mkt-M&S | | 1. Participants build their homes 3x faster and at 1/3 average cost to build home in Mexico 2. Access to credit; since 1998 US\$135M in microcredit advanced 3. Job creation, promoters; 95% are women 4. 350,000 able to build homes since 2000 | A Framework for Action: Social Enterprise & Impact Investing— http://www.unglobalcompact.org/docs/issues_doc/development/Framework_Social_Enterprise_Impact_Investing.pdf , pp. 18 |

| Example Number | Company | Company Type | Activity/Program | MDG(s) Addressed | Sector | Action Category (by value chain) | Business Commercial Impact (by value chain) | Partners Mentioned | Social Impact Presented | Source |
|----------------|--------------------|-------------------------|--|------------------|----------------|----------------------------------|---|---|---|--|
| 5 | Hindustan Unilever | MNC (Indian Subsidiary) | Shakti Entrepreneur Programme | MDG 1 | Consumer Goods | Mkt-Outbnd | Mkt- M&S | | 1. Project Shakti and Project Shaktimaan together reach 100,000 villages across 15 states and over 3 million households monthly 2. Earnings of Rs. 700–1000 doubling household income 3. Ability to sell push products, health and hygiene products | 1. Indian Management-February 2012 http://www.hul.co.in/Images/12Feb-IM-HUL's-Project-Shakti-shows-how-economic-development-can-be-brought-about-through-micro-enterprise_tcm114-284421.pdf 2. SlideShare- Suresh Madhuvaru http://www.slideshare.net/sureshmadhuvaru/project-shakti-15663985 |
| 6 | TNT Express | MNC | North Star Alliance | MGD 6 | Health | SM-Advoc | Suprt-HR | World Food Programme | 1. 200,000 truck drivers, sex workers, and corridor-community members access health and safety services at Roadside Wellness Centers | TNT Annual Report 2010— http://bit.ly/1bjYO0z |
| 7 | Shell | MNC | Investing Activities | MDG 7 | Energy | Suprt-TM | Suprt-TM | 1. First Light Ventures 2. IntellecCash to address | | 1. From Gap to Opportunity: Business Models for Scaling up Energy Access— http://bit.ly/1bj59sc |
| 8 | TNT Express | MNC | Jatropha | MDG 7 | Agriculture | Suprt-TM | SM-Advoc | 1. World Food Programme 2. Malawian BioEnergy Resources Ltd. | 1. Increased income and market access for farmers 2. Local market will use biofuels, serving as an alternative for imported fuel 3. Estimated lower carbon emissions | 1. Status of BioEnergy Development in Africa: Harnessing the Potential 2. TNT Annual Report— http://group.tnt.com/annualreports/annualreport10/corporate-responsibility-performance-2010/voluntary-contributions-to-society.html |
| 9 | Shell | MNC | EnviroFit | MDG 7 | Energy | Suprt-TM | Mkt-M&S | | 1. Sale of 300,000 clean cookstoves | 1. http://www.shell.com/ind/environment-society/society-tpkg/shell-foundation.html |
| 10 | D.Light Design | Social Enterprise | Core Business—Provision of solar-powered energy products | MDG 7 | Energy | Suprt-TM | Suprt-TM | 1. Shell Foundation 2. Mahindra Ltd. 3. Acumen Fund 4. Omidyar Network 5. Nexus 6. DFJ 7. Gray-Ghost Ventures 8. Garage | 1.1,798,878 tons of CO2 offset, 2. 7,219,013,138 productive hours created for working and studying | http://www.dlightdesign.com/who-we-are/team/ |
| 11 | Husk Power Systems | Social Enterprise | Core Business—Last mile energy distribution | MDG 7 | Energy | Suprt-TM | Mkt-M&S | 1. Shell Foundation 2. DFJ 3. Acumen Fund 4. IFC 5. Ministry of New and Renewable Energy, Govt of India | 1. 200,000 reached 2. 9,244,800 liters of kerosene saved | 1. From Blueprint to Scale: The Case for Philanthropy in Impact Investing— http://bit.ly/12b8Jwy 2. http://www.huskpowersystems.com/ |

| Example Number | Company | Company Type | Activity/Program | MDG(s) Addressed | Sector | Action Category (by value chain) | Business Commercial Impact (by value chain) | Partners Mentioned | Social Impact Presented | Source |
|----------------|--------------------------------|-------------------|---|------------------|-----------------------------|----------------------------------|---|---|--|---|
| 12 | Intel | MNC | Intel—Grameen Social Business | MDG 8 | Agriculture | Mkt-M&S | Suprt-TM | Grameen Trust | Increased yields and income for farmers | http://www.grameen-intel.com/products/mrittika#downloads |
| 13 | Echoblock International | Social Enterprise | Echale Tu Casa | MDG 7 | Infrastructure/Construction | Mkt- M&S | Mkt-M&S | | 1. Provision of affordable homes to 30,000 families as well as 150,000 home improvements—creating a social impact for 900,000 people | https://www.ashoka.org/fellow/francesco-piazzesi |
| 14 | Selco India | Social Enterprise | Core Business—Last mile energy distribution and financing energy access | MDG 7 | Energy | PM-Services | Suprt-TM | 1. E+Co 2. Lemelson Foundation 3. Karnataka Vikas Grameen Bank 4. Vijaya Bank 5.UNEP | Sale, finance and servicing of over 1,50,000 solar systems | http://www.selco-india.com/impact.html |
| 15 | LivingGoods | Social Enterprise | Core Business—Distribution and sale of health-related consumer products | MDG 4 & 5 | Health | Mkt-M&S | Mkt-M&S | 1. BRAC 2. Clinton Global Initiative 3. Ministry of Health Uganda | | http://www.vaatsalya.com/web/ |
| 16 | Social Enterprise Water Africa | Social Enterprise | Core Business—Manufacture of hand pumps | MDG 1 | Water | Mkt- M&S | Mkt-M&S | | | http://www.tbnetwork.org/download/projects/case-studies/Nut%20processing%20Kenya.pdf |
| 17 | Novartis | MNC | Arogya Parivar | MDG 4 and 5 | Health | Mkt-M&S | | | 1. Presence in 11 states, 181 districts, 257 cells, 2. Reach 33,000 villages, 24,000 doctors, 24,000 pharmacies | 1. http://healthmarketinnovations.org/program/arogyaparivar 2. http://beyondprofit.com/healthcare-as-a-social-business/ |
| 18 | M-KOPA | Social Enterprise | Core Business—Mobile payments for solar-powered energy products | MDG 7 | Energy | Mkt-M&S | Mkt-M&S | 1. Shell Foundation 2. Safaricom 3. GrayGhost Ventures 4. Lundin Foundation 5. D.Light Design | 1. Provision of affordable solar power to over 40,000 Kenyan households | http://www.dobequity.nl/news_homepage/safaricom-limited-has-partnered-with-m-kopa/ |
| 19 | LifeSpring | Social Enterprise | Core Business—Neo-natal and post-natal services | MDG 4 and 5 | Health | Suprt-TM | Suprt-TM | HLL Lifecare Limited, Government, Acumen Fund | 1. Every month, at least 100 babies are delivered in each hospital | http://forbesindia.com/article/breakpoint/lifesspring-hospitals-saves-mothers-and-newborns-using-a-low-cost-model/33492/1#ixzz2m4F5YNC3 |

Appendix B: Table of Example Sources

| Example # | Company | Source |
|-----------|---------------------------------------|--|
| 1 | Total | The MDGs: Everyone's Business— http://www.growinginclusivemarkets.org/media/mdgreport/mdgreport_full.pdf , pp. 10 |
| 2 | Endesa | Innovating for A Brighter Future: The Role of Business in Achieving the MDGs— http://unglobalcompact.org/docs/issues_doc/development/Innovating_for_Brighter_Future.pdf , pp.13 |
| 3 | Nike | 1. http://www.nytimes.com/2010/11/11/giving/11VIDEO.html 2. http://unglobalcompact.org/docs/issues_doc/development/Innovating_for_Brighter_Future.pdf , pp.18 |
| 4 | CEMEX | A Framework for Action: Social Enterprise & Impact Investing— http://www.unglobalcompact.org/docs/issues_doc/development/Framework_Social_Enterprise_Impact_Investing.pdf , pp. 18 |
| 5 | Hindustan Unilever | 1. Indian Management, February 2012— http://articles.economictimes.indiatimes.com/2009-01-16/news/28438280_1_rural-markets-rural-women-urban-markets 2. SlideShare, Suresh Madhuvarsu— http://www.slideshare.net/sureshmadhuvarsu/project-shakti-15663985 |
| 6 | TNT Express | TNT Annual Report 2010— http://bit.ly/1bjYO0z |
| 7 | Shell | From Gap to Opportunity: Business Models for Scaling up Energy Access— http://bit.ly/1bj59sc |
| 8 | TNT Express | 1. Status of BioEnergy Development in Africa: Harnessing the Potential— http://unctad.org/meetings/en/SessionalDocuments/ditc_ted_bf_acf130612_jum.pdf 2. TNT Annual Report— http://group.tnt.com/annualreports/annualreport10/corporate-responsibility-performance-2010/voluntary-contributions-to-society.html |
| 9 | Shell | http://www.shell.com/ind/environment-society/society-tpkg/shell-foundation.html |
| 10 | D.Light Design | http://www.dlightdesign.com/who-we-are/team/ |
| 11 | Husk Power Systems | From Blueprint to Scale: The Case for Philanthropy in Impact Investing— http://bit.ly/12b8Jwy2 . http://www.huskpowersystems.com/ |
| 12 | Intel | http://www.grameen-intel.com/products/mrittika#downloads |
| 13 | Echoblock International | https://www.ashoka.org/fellow/francesco-piazzi |
| 14 | Selco India | http://www.selco-india.com/impact.html |
| 15 | Living Goods | http://www.mulagofoundation.org/portfolio/living-goods |
| 16 | Social Enterprise Water Africa | http://www.tbnetwork.org/download/projects/case-studies/Nut%20processing%20Kenya.pdf |
| 17 | Novartis | 1. http://healthmarketinnovations.org/program/arogya-parivar 2. http://beyondprofit.com/healthcare-as-a-social-business/ |
| 18 | M-Kopa | http://www.dobequity.nl/news_homepage/safaricom-limited-has-partnered-with-m-kopa/ |
| 19 | LifeSpring | http://forbesindia.com/article/breakpoint/lifesspring-hospitals-saves-mothers-and-newborns-using-a-low-cost-model/33492/1#ixzz2m4F5YNC3 |

Appendix C: Partnership Type Definitions

| *Partnership Type | Definition |
|-----------------------------|--|
| Strategic Alliance | Common vehicles used to implement alliances include strategic partnership agreements, licensing arrangements, and joint ventures. These vehicles seek to capture business synergies by leveraging the unique assets of the partnering organizations. |
| Strategic Investment | Many corporations develop venture capital programs that are intended to advance the strategic objectives of the firm, typically by making commercial investments in external companies. |

*Partnership type development guided by models outlined in the Framework for Action: *Social Enterprise and Impact Investing*.¹⁴

NOTES

- 1 Open Working Group on Sustainable Development Goals. 14 March 2012. *First Meeting of the Open Working Group on Sustainable Development Goals Concept Note*. http://sustainabledevelopment.un.org/content/documents/1685OWG_1st_panel_Concept%20note%20rev3.pdf
- 2 UN System Task Team on the Post-2015 UN Development Agenda. June 2012. *Realizing the Future We Want for All. Report to the Secretary-General*. http://sustainabledevelopment.un.org/content/documents/614Post_2015_UNTTreport.pdf
- 3 The Boston Consulting Group and MIT Sloan Management Review. January 2013. *Sustainability Nears a Tipping Point*. https://www.bcgperspectives.com/content/articles/sustainability_vision_mission_sustainability_nears_a_tipping_point/
- 4 Mennel, John, et. al. 2013. *The Roadmap toward Effective Strategic Social Partnerships*. Deloitte University Press. http://deloitte.wsj.com/riskandcompliance/files/2014/01/SSP_report.pdf
- 5 NCDO and Sustainalytics. 2010. *Business Impact Report 2010. Scanning the Contribution of 20 Multinationals to the Millennium Development Goals*, pp.17. <http://www.sustainalytics.com/sites/default/files/BusinessImpactReport2010.pdf>
- 6 Ibid.
- 7 For a list of MDGs and targets, see <http://unstats.un.org/unsd/mdg/Host.aspx?Content=Indicators/OfficialList.htm>
- 8 Porter, M.E. 1985. *The Competitive Advantage: Creating and Sustaining Superior Performance*. NY: Free Press.
- 9 Dalberg, United Nations Foundation, United Nations Global Compact, United Nations Office for Partnerships. 2010. *Innovating for a Brighter Future: The Role of Business in Achieving the MDGs*. <http://www.unglobalcompact.org/resources/182>
- 10 PricewaterhouseCoopers International Limited. 2013. *PwC 17th Annual Global CEO Survey*. <http://www.pwc.com/gx/en/ceo-survey/>
- 11 Rockefeller Foundation, United Nations Global Compact. 2012. *A Framework for Action: Social Enterprise and Impact Investing*, pp. 18–20. http://www.unglobalcompact.org/docs/issues_doc/development/Framework_Social_Enterprise_Impact_Investing.pdf
- 12 Figueres, Christiana. Public Presentation at the Americas Society and Council of the Americas, New York, NY, January 14, 2014.
- 13 Kumar, Lalit. "Leaders Roundtable." India Collaboration Lab, New Delhi, India, October 22, 2013.
- 14 Rockefeller Foundation, United Nations Global Compact, pp. 18–20.



BOX 2:

Aligning Social and Economic Interests: Bringing Affordable Eye Care to Mexico

SalaUno co-founders Javier Okhuysen and Carlos Orellana left behind careers as investment bankers to travel the world in search of a scalable model of social entrepreneurship that could be replicated in Mexico. They found what they were seeking at the Aravind Eye Care System in India. Okhuysen and Orellana then studied the eye care health system in their native Mexico.

After recounting the origin of SalaUno, Okhuysen offered statistics on health and eye care in Mexico: cataracts are the second greatest cause of disability in Mexico where an aging population has the world's second highest incidence of diabetes per capita, which carries the risk of cataracts. These conditions presented Okhuysen and Orellana with the opportunity to create social and economic impact in an area of healthcare that needed attention. Based on the model created by Aravind, SalaUno was created in 2011 with the mission of transforming the lives of the blind in Mexico.

In order to achieve its goal, SalaUno developed a business strategy that ensured people in need could afford their services. In Mexico, the average cost of a cataract surgery is US\$ 1,600, an amount that is unaffordable for many. Analyzing the payment options of their patients, SalaUno focused on creating partnerships with government institutions, NGOs and the private sector to help finance surgeries. In addition, they worked with partner institutions to grant micro credits to their patients.

Javier Okhuysen
Founder and Co-CEO,
SalaUno, Mexico City

Okhuysen discussed the position of SalaUno in the health value chain. Their strength has derived from focusing specialization on five main types of eye care service, where most profit (both social and economic) is yielded. Additionally, they continue specializing by hiring experts in other sectors and adapting models that have worked for other organizations in order to improve their customer service, efficiency, growth and cash management. These areas of improvement, also known as a value creation tool kit, are constantly reevaluated to make sure they are meeting impact targets. To date, SalaUno has successfully attended to approximately fifty thousand patients and operated on close to four thousand, from which 73 percent of surgeries were cost-free through strategic partnerships and subsidies.

Their mission is to keep growing and expand operations to different cities in the Mexico within the next six years. Mr. Okhuysen insisted that success of a social enterprise can be achieved when social and economic interests are aligned. Okhuysen emphasized the importance of reverse innovation, finding inspiration from social enterprise models around the world and adapting to local realities to generate greater social and economic impact.



A world map in a light blue color, showing the continents and oceans, serving as a background for the top section of the page.

David Wood

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Public Policy and Impact Investing: How Policymakers Approach the Topic

With the recent rise of interest in impact investing, public policymakers have begun to use the topic as a frame for policies meant to draw private capital investment to public purpose. Across a range of issues—poverty alleviation, small business development, sustainable agriculture, or energy efficiency and renewable energy production—governments worldwide have looked for policies that leverage private capital investment to support solutions to important social problems.

There are a number of reasons the public sector has adopted impact investing as a focus. Among them:

- As a theory, impact investing—using private tools to serve public goals—conforms to (what we might characterize as neoliberal) goals of private sector engagement and public-private partnerships, or a preference for market-based solutions;
- The prominence of impact investing in private sector and philanthropic discussions, particularly involving private wealth, offers the promise of private resources; and
- Post-financial crisis budget constraints have reinforced the notion that the public sector cannot just go it alone.



These sorts of imperatives have led a growing set of policymakers to think of impact investing as something they ought to promote and impact investors as potential partners in social innovation.

Of course, impact investors are not magic sources of flexible, patient, and socially minded investment. Public sector engagement in impact investing is an acknowledgement that conventional market activity will not, or will not do enough to, solve important social problems—so there is a role for the public sector in shaping market outcomes. Of particular interest for the public sector are those public policies, rules, regulations, and incentives that enable market-based solutions that address intractable issues such as poverty alleviation or nascent sectors such as renewable energy generation. Public policies can play a role in driving private sector investment towards social goals by reshaping the market so that financial rewards more closely track socially superior outcomes.

POLICY INTERVENTIONS

There is a wide variety of policy efforts to promote impact investing.¹ In brief, three types of policies that illustrate how governments are approaching the topic involve building a field of practice, driving financial resources towards impact investing, and developing investable enterprises.

Field Building

One approach policymakers have made to impact investing is to use government to draw attention to the field and to highlight its importance. In Senegal, the government recently convened the Impact Investing Working Group of the Presidential Investment Council, a task-force convened as part of a multi-sector advisory group that addressed how private finance could increase its positive social impact.² In Colombia, impact investment forms part of the mandate of the Department of Social Prosperity, becoming one of the tools that government sees as promoting social innovation or mitigating social marginalization.³

These field-building efforts can be ways to signal government support for the field, to validate impact investing in the private sector, to provide implicit matchmaking services between

Public policies can play a role in driving private sector investment towards social goals by reshaping the market so that financial rewards more closely track socially superior outcomes.

investors and investees, and to educate potential new entrants into the field. They also are relatively light-touch interventions—not necessarily politically complicated nor resource intensive, and while they lay the groundwork for future action, they do not always bring resources or stimulate near-term action to investments.

Mobilizing Impact Investments

Governments may also look for more direct ways to encourage new sources of capital to engage in impact investing. This may take the form of reducing regulatory barriers—in South Africa, for example, a revision to Regulation 28 of the Pension Funds Act opens the door to investment in alternative asset classes often associated with impact investing and at the same time explicitly mentions “developmental investment” as a state-sanctioned goal for private investment activity.⁴ Government may also help build vehicles that attract private investment: the Venture Capital Trust Fund in Ghana is a state-sponsored venture capital fund that partners with private investors to promote small and medium-sized business development in that country.⁵

Direct incentives or regulatory mandates are perhaps the most obvious form of government support for impact investing. In the United States, these may come in the way of tax expenditures—such as the Low Income Housing or New Market Tax Credit programs—that support economic development or affordable housing projects. These programs are in turn supported by the Community Reinvestment Act, a regulatory regime that directs private banks to invest in underserved communities in which they operate.⁶

Policies that focus on the supply side of investment capital are often meant to bring impact investing to scale by engaging investors who otherwise might not focus on the social utility of their investments. They raise the worry of subsidizing investment activity that would already take place or of subsidizing the inefficient delivery of public goods by increasing transactions costs. This is especially true if the investors cannot find investment opportunities that link financial and social returns.

Building Investable Enterprises

Policymakers may seek to address the demand for capital to support the public good with social enterprise programs, with the hope of building enterprises that can attract private

investment. This might be the explicit labeling and support for enterprises that include social benefit in their corporate charter, as is the case with benefit corporation legislation in various parts of the United States, a type of policy that focuses on how to reliably signal to interested investors that enterprises take social benefits seriously.⁷

Alternatively, it might be an extension (or relabeling) of technical assistance business development programs, with an emphasis on those enterprises that work in marginalized communities or that produce goods and services that particularly benefit those communities. In Peru, the Mi Chacra Emprendedora program provides technical assistance to rural enterprises in poor communities, with an emphasis on expanding their income-generating possibilities.⁸ By placing the subsidy directly in the enterprise, the government is able to narrowly target its goals.

Focusing on the demand side for impact investment capital can help ensure that social benefit is a primary focus of government intervention, and it may help impact investors solve the question of where to find investable deals. But to successfully motivate investors, these programs must be coordinated with suppliers of investment capital while maintaining the social outcomes they promise.

CONSIDERATIONS FOR IMPACT INVESTING POLICY DESIGN

This quick overview of a set of policy initiatives meant to stimulate impact investing suggests a few considerations for policymakers as they navigate their own role in the field.⁹ I will highlight two:

- Policymakers need a clear account of the social benefits they hope to achieve through impact investing and a justification for the various transaction costs and subsidies implied by public-private partnerships. Increased private investment alone is not a useful goal for impact investing policy, and so there must be standards for social impact that merit the attention and effort devoted by the public sector.
- Intermediation is a core focus of impact investment policy. All three kinds of policies above are meant to facilitate the growth of a market where social impact is built into the investment process from asset owners to their investees. Ensuring that there are intermediaries who can manage both social and financial goals, or building market structures that ensure these outcomes regardless of investor intent, is a primary goal for impact investment policymaking.

The appeal of using private capital for social purposes is obvious. Policymakers should be wary of spending time and resources to promote investment that never takes place as well as of wasting time and resources subsidizing activity that does not produce intended social benefits. As policymakers take up this challenge, we will see whether they can balance these competing demands in ways that promote more socially useful finance.

NOTES

- 1 For more information, see *Impact Investing: A Framework for Policy Design and Analysis*, <http://iipcollaborative.org/london-principles/>
- 2 For more on the Senegal case, see *Breaking the Binary: Policy Guide to Scaling Social Innovation*, http://hausercenter.org/iri/wp-content/uploads/2012/06/Breaking_Binary_Policy_Guide_Scaling_Social_Innovation_2013_1604.pdf
- 3 For more on the Colombia case, see *Breaking the Binary: Policy Guide to Scaling Social Innovation*, http://hausercenter.org/iri/wp-content/uploads/2012/06/Breaking_Binary_Policy_Guide_Scaling_Social_Innovation_2013_1604.pdf
- 4 See David Wood's article "South Africa's pension fund regulation" on the WEF blog, <http://forumblog.org/2013/05/south-africas-pension-fund-regulation/>
- 5 For more on the Ghana case, see *Breaking the Binary: Policy Guide to Scaling Social Innovation*, http://hausercenter.org/iri/wp-content/uploads/2012/06/Breaking_Binary_Policy_Guide_Scaling_Social_Innovation_2013_1604.pdf
- 6 See *Impact at Scale: Policy Innovation for Institutional Investment with Social and Environmental Benefit*, http://hausercenter.org/iri/wp-content/uploads/2010/05/FINAL_Impact-at-Scale_InSight_IRI_February-2012_FULL-REPORT.pdf
- 7 Visit the B Lab website for more information on benefit corporation legislation, <http://www.bcorporation.net/>
- 8 For more on the Peru case, see *Breaking the Binary: Policy Guide to Scaling Social Innovation*, http://hausercenter.org/iri/wp-content/uploads/2012/06/Breaking_Binary_Policy_Guide_Scaling_Social_Innovation_2013_1604.pdf
- 9 See the *The London Principles* for a set of considerations for policymaking in impact investing, <http://iipcollaborative.org/london-principles/>



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Alignment of Corporate Shared Value and Impact Investing

“We are continually faced with great opportunities which are brilliantly disguised as unsolvable problems.” —Margaret Mead

In today’s world, it is easy to feel overwhelmed by seemingly insurmountable challenges and hopeless injustices. Despite the fact that the planet can produce enough food, almost a billion people are chronically undernourished,¹ and 2.4 million children die annually from preventable diseases.² There are 1.3 billion people—nearly 18% of the world’s population—who live without electricity, and indoor air contamination from fuels like wood and coal causes nearly 2 million deaths per year.^{3 4} 1.1 billion people lack adequate water access and 2.6 billion lack basic sanitation, leading to millions of fatalities due to illness and infection⁵ On top of all this, our consumption obsession and the progression of climate change appear to be outpacing our potential survival.

So what should give us hope that humanity can change the course?

Our history shows that we have overcome great adversities before and that we are capable of sparking powerful changes.

Just imagine what life would be like without these achievements: We have nearly eradicated polio, ended the plague, and even seem to have cured the first baby of HIV. We have overcome slavery in most of the world, and have catapulted business productivity and global connectedness with the invention of the computer and Internet. We have engineered vehicles to fly in air and space and even visited the moon. We have reduced the rates of deforestation in our most precious rainforests.⁶ We have cut global poverty in half: the proportion of people in the developing world living on less than \$1.25 a day was 17% in 2011, down from 43% in

1990 and 52% in 1981.⁷ Some projections state that if this decline continues, we could eradicate extreme poverty within one generation.

These many examples illustrate humanity's capacity to change course. Continuing to change course and address the global challenges of tomorrow will require a paradigm shift. It will ultimately require the re-alignment and deployment of the capacities of government, civil society, and business. The emergence of the impact investment industry is part of a broader shift toward this alignment.

Impact investing has the potential to channel colossal amounts of money from private investors into market-based enterprises, addressing many of the world's biggest challenges and enacting the many changes necessary to improve humanity's fate.

IMPACT INVESTING

Impact investments are financial investments intended to generate a measurable social and/or environmental impact. Unlike philanthropy, these investments are made in businesses or vehicles that are typically sustained by their financial performance in the market and in many cases target an average of 10–25% internal rate of return (IRR).⁸ While the term 'impact investing' is relatively new, the practice is not. However, over the past decade, capital has



begun to flow into these impact investments more substantially in both emerging and developed markets. In fact, 2012 data demonstrate that 99 impact investors intended to deploy US\$ 9 billion of capital collectively in 2013.⁹ Furthermore, JP Morgan ambitiously estimates that impact investment assets could grow to as much as US\$ 1 trillion within the next decade, generating a financial profit for impact investors of US\$ 183–667 billion.¹⁰

Momentum for this investment approach across asset classes is sparking visibility in mainstream media, creating new academic programs, incubators, and industry associations, as well as initiating government policy shifts. Furthermore, the industry will likely accelerate as baby boomers transfer their wealth to the next generation, which has been documented to place greater emphasis on social and environmental priorities.

BAMBOO FINANCE

At Bamboo Finance (www.bamboofinance.com), we were among the first and largest commercial players in the impact investment marketplace. We created Bamboo Finance in 2007 as a commercial private equity firm making direct investments in companies designed to improve the lives of low-income people. Essentially, we finance social entrepreneurship. Our aim is to deliver a strong financial return (goal: 20%+ IRR per equity investment) as well as create social value for society (goal: change a system hindering human development, such as poverty). Bamboo Finance has raised US\$ 250 million from private investors such as high net worth individuals, several pension funds, and a sovereign wealth fund. Since 2007, the Bamboo team has assessed more than 1,000 businesses seeking equity finance, primarily in Africa, Latin America and Asia, and by 2014 managed a portfolio of 46 companies in 25 countries. Our portfolio is brimming with companies that have found novel ways to deliver affordable quality healthcare, financial services, energy, housing, education, and livelihoods to low-income and poor communities that have never had access before.

Bamboo Finance Social Impact Criteria

| | | |
|---|---|--|
| <p>The Company provides essential goods and/ or services affordably to low income communities unreached (or undeserved) by existing businesses.</p> | <p>Usage of the product/ service result in improvements in quality of life and/or, efficiencies that translate into increased income or reduced expenses.</p> | <p>The company generates employment/income among a low income population or a population with limited opportunities.</p> |
|---|---|--|

In just a few years, Bamboo Finance portfolio companies have used a market approach to provide financial inclusion to over 7 million people, increase access to electricity for over 200,000 people, and enhance access to health care to over 1 million people—and we are

only one US\$ 250 million fund.¹¹ We have exited one investment yielding above 20% IRR and several others in the portfolio have increased in value since our investment and paid dividends. However, while Bamboo Finance is both a participant in and an advocate of impact investing's advancements, we are fully aware of its challenges.

The impact investing industry must grow significantly in order to tackle the world's biggest problems—this will require overcoming key structural issues in the industry's funding sources (capital supply), deal flow (capital demand) and fund economics.

IMPACT INVESTING STRUCTURAL SCALE CHALLENGES: CAPITAL SUPPLY

Comparing the US\$ 9 billion reportedly pledged in 2013 to the US\$ 1 trillion estimated potential for impact investment, it is clear that capital supply is a huge factor in scaling the impact investing industry. Mainstreaming impact investing into our core capital markets will require more diverse funding sources with deeper pockets. The nascent field has primarily been financed by family offices, high net worth individuals, and some philanthropic institutions. These sources have been important and catalytic, but are limited in size. With its recent proposed classification as an emerging asset class by JP Morgan, impact investing has begun to attract consideration from larger and more conventional institutional investors. It gains further attraction as institutions and individuals in the '100% Club' (such as KL Felicitas Foundation) have constructed full portfolios of impact investments across asset classes and then demonstrated their performance at or above traditional market indexes.¹² Given the past few years of uncertain financial performance in traditional markets, many large traditional investors are looking for new growth opportunities not closely correlated with their current assets. Thus, impact investing presents an attractive value proposition for financial returns and diversification.

However, when these large institutional investors explore the possibilities of investing in impact investment funds or vehicles, they have difficulty finding opportunities with the scale and track record to fit their risk profile, return expectations, and exit timeline for liquidity. That is, the majority of impact investment fund products on the market are not yet large enough to absorb the minimum investment size required of large institutional investors. For example, it may be common for a pension fund to set a minimum investment of at least US\$ 100 million while requiring that its commitment not constitute a majority of the fund's overall size. At the same time, the median allocation of most impact investment funds in the Global Impact Investing Network's (GIIN's) most recent survey was only US\$ 25 million, with a mean of US\$ 100 million.¹³ Structurally, there's a very visible gap, and evolution will need to include larger fund sizes and/or fund managers with multiple fund products offered before large institutional investors can participate more readily in impact investments.

The impact investing industry must grow significantly in order to tackle the world’s biggest problems—this will require overcoming key structural issues in the industry’s funding sources (capital supply), deal flow (capital demand) and fund economics.

IMPACT INVESTING STRUCTURAL SCALE CHALLENGES: PIPELINE AND DEAL FLOW

In order to attract institutional investors, the industry will need to develop enough volume of investable businesses at a larger scale and must be able to demonstrate some successful exits with consistent returns. Even if the capital supply expands exponentially, in order for this to work, prospective portfolio companies must have financially viable business models, be well managed, and be able to measure their positive impact on society in the long term.

Today there is a shortage of companies that can prove they meet this track record criterion. Disruptive social business models do often take time to prove and refine. For example, the Grameen Bank took more than 15 years to break even in Bangladesh; as microfinance became more sophisticated, successors were able to break even in as little as one year. Today microfinance institutions serve 75 million borrowers with loans outstanding of more than US\$ 38 billion.¹⁴ The point is that when markets are not yet developed, there is often insufficient evidence of their growth potential and a perceived risk that can discourage investment.

Many social enterprises are still proving business models, testing new markets that take time to penetrate, and stimulating demand for technologies and products whose adoption hinges on uncommon distribution and marketing strategies. Thus, the result is that many social enterprises are operating on a relatively small scale. The constraints of the limited scale are compounded by the fact that start-up and risk capital for early stage companies are not prevalent. This can generate a catch-22 that mimics the ‘commercialization valley of death’ in the renewable and clean energy industry; disruptive social businesses that have a huge potential market and substantial growth potential will often call for additional funds and refinements to take the business to the next stage, further dissuading investors to bear the risks, even if the upside potential is huge.

Since 2007, Bamboo Finance has reviewed more than 1,000 deals to ultimately invest in the 46 companies now in our portfolio. A significant number of the opportunities reviewed were promising, but were simply too early stage or were seeking too small of an investment amount to fit our own model, given the high transaction costs in due diligence and management. In *Blueprint to Scale*, the Monitor Institute states that Acumen Fund reviewed more than 5,000 companies in the past 10 years, but only invested in 65 of those.¹⁵ Other Monitor

studies show a similar pattern; in 2010, after a study of impact-designed businesses across nine countries in sub-Saharan Africa, consultants analyzed 439 promising social enterprises and found that only 32% were commercially viable and had potential to achieve significant scale, with just 13% actually operating at scale.¹⁶

So, just as institutional investors lack a large diverse menu of available fund products that can absorb their large minimum requirements, impact investment funds and intermediaries likewise struggle with the scale realities of many businesses focused on social impact innovation today.

IMPACT INVESTING STRUCTURAL SCALE CHALLENGES: FUND ECONOMICS & TRADE-OFFS

This challenge of scale has the potential to make or break the impact investing industry. Specifically, *failure of companies' ability to thrive may not be because their models are flawed or their markets are not viable, but because the right capital and management support was not available at the right time for the company to thrive long enough to prove their models and transform their relevant industries.*

A basic consideration of fund economics illustrates why scale is so vital and why these trade-offs are so difficult: Daily operations of a fund are typically financed by the income from a management fee charged to investors (e.g., 2% of the assets for private equity funds). This fee covers the fund's expenses, such as staff, offices, travel, marketing/fundraising, social performance measurement, auditing, etc. The ratio of number of portfolio companies to team members managing the portfolio is therefore critical.

If a fund makes small investments in a large number of companies, its investment coverage team will be spread thin. If the team does not have capacity to execute strategy and perform activities in the company that add much value, it can ultimately hurt the returns of the fund. Additionally, with investment managers spread thin in a stand-alone fund, fund managers never develop the multiple specialized products that allow them to achieve economies of scale and match the diversity of the assets in the industry.

On the other hand, if a fund's investment team has fewer companies and makes larger size investments in each company, the team has the resources to contribute time and operational/strategic expertise that add value. This support increases the likelihood that the company will survive and even thrive. While these enabling factors are key to growing any business to scale, they are even more pertinent if the goal is as complex as addressing poverty or tackling climate change. *Until the industry can evolve to larger fund sizes and larger transaction sizes, the cost structure will make investing in small companies difficult and even more contingent on philanthropically oriented catalyst funders and the broader business ecosystem.*

To ensure that the fund economics work, commercial impact investment fund managers must have a portion of their portfolio made up of large size investments. Making larger size



transactions does not mean that a fund manager is diluting the potential for social impact. In some cases, it just means the fund manager is not diluting the capacity to add value to the company. While investors are not limited to these two sides of the spectrum, the trade-off in service to the company that comes with smaller investments serves to convey the importance of developing solutions.

Bamboo Finance's first two private equity funds totaling US\$ 250 million are almost fully invested as of 2014, and we are starting to design and market new funds as well as explore approaches to evolve this marketplace. At this point, being a specialized fund manager with multiple funds and some institutional investors as limited partners (LPs) has allowed us some, but still quite limited, economies of scale. However, when Bamboo's first portfolio was growing slower than originally anticipated, we narrowly resisted the temptation to broaden our deal flow pipeline by diluting our social impact criteria or lowering our financial return expectations. Since then, we've worked hard to localize our offices, strengthen our partnerships with incubators/accelerator programs for sourcing deals, and coordinate with co-investors/business service providers to leverage shared monitoring responsibilities and market intelligence. This is part of building a supportive ecosystem for social ventures as well as of making the fund economics of impact investing more viable.

However, another virtually unexplored avenue for resolving impact investing's biggest hurdles is private sector partnership. The greatest untapped opportunities may lie in aligning impact investing with the 'corporate shared value' strategies of large corporations.

CORPORATE SHARED VALUE

If impact investing's biggest immediate hurdles are capital supply, deal flow, and eventually yielding exits with impact, then large corporations are uniquely positioned to help fill these gaps.

There is a strong business case for corporate engagement with impact investors, especially along the following lines:

- Providing patronage and/or capital to social ventures alongside, before, or after that of impact investors, and being active in management of these and ultimately in the uptake of the company's solution to scale;

- Integrating social ventures within the large corporations' own supply chains, especially in emerging markets; and
- Pursuing socially or environmentally beneficial modifications in their current business models (new products/services/specialized business units) aimed at enhancing their competitive advantage by using financial support from impact investment vehicles.

If this seems like an unlikely course of action, remember that providing banking to the poor once seemed an unprofitable business model, and today microfinance is a multi-billion-dollar industry. Banks are no longer ignoring the needs of low-income people in most places; financial services were deepened to reach many of the world's poor. The interests of the poor in this case, just as in the case of any new industries sheltered by consumer protection regulations and practices, must be carefully safeguarded.

So why would large national companies and multinational corporations want to partner with impact investors today?

It's all in the name of shared value. The 'shared value approach' is a concept officially outlined in the 2011 *Harvard Business Review* article "Shared Value: How to reinvent capitalism and unleash a wave of innovation and growth."¹⁷ The shared value approach framework purports that producing societal benefits is actually critical for a firm's long-term commercial survival and thus must be intrinsic to the business models and operations of large corporations. This philosophy is already part of the DNA of social entrepreneurs and the thesis of impact investors. However, companies such as Google, Intel, Unilever, Nestle, McDonald's and Wal-Mart have begun to integrate shared value initiatives into their core activities. For example, Wal-Mart's shared value efforts included reducing its packaging and cutting 100 million miles from the delivery routes of its trucks—this move towards dramatic reduction in carbon emissions also shaved off US\$ 200 million in costs. Likewise, Nestlé's shared value initiatives included analysis on nutritional deficiencies in low-income countries and formulation of fortified products to address these gaps. Today, these popularly positioned products account for nearly 10% of Nestlé's sales¹⁸, with significant coverage at the base of the economic pyramid. It's important to highlight that shared value is not CSR (corporate social responsibility), which is generally meant to allocate profits to a social purpose for enhanced impact or for good public relations. Instead, 'shared value' as an approach is actually an intentional set of strategies that aim to make companies more competitive. According to Porter and Kramer, who coined the term, shared value is generated principally via three channels: a) re-conceiving products and markets; b) redefining productivity in the value chain; and c) enabling local cluster development.

With the advent of the corporate shared value approach, large national and multinational corporations may be able to unlock several pathways to greater portfolio performance for impact investors and the next stage in impact investing's evolution.



CORPORATE SHARED VALUE AND IMPACT INVESTING: A CLEAR CASE FOR ALIGNMENT

With mounting pressure from governments and civil society, as well as increased global rivalry and opportunity, some of the world's biggest corporations are seeking a competitive edge through the shared value approach. Large corporations and their boards are hungry for growth and are desperately turning to new markets or innovative breakthroughs for sustained shareholder returns.

Meanwhile, large corporations comprise a virtually unexplored deal-sourcing arena for impact investors needing larger transaction sizes. Large companies typically have established track records and existing human resources, supply chains, and economies of scale. Impact investment fund managers could adopt the portfolio strategy of creating joint ventures or directly investing capital in large private companies to be used specifically in creating new product lines, initiatives, or subsidiaries aimed at 'shared value'. This could help ameliorate one of the impact investing field's biggest hurdles, by facilitating larger size deals and minimizing execution risk. Syndication and co-investment between large corporations and impact investors could also develop. Both will likely produce larger deals and thus make the transaction costs (of due diligence and monitoring) more efficient. Besides their economies of scale and generally more sophisticated logistics and technology, large corporations offer additional benefits in risk mitigation via diversified revenue streams, larger pools of R&D overlap, and expertise in new market development. All of these factors could align to increase the probability of exits and reduce the funding gap within the impact investing space.

Granted, some of the potential caveats of large corporate collaboration include mission drift, lack of long-term commitment to experimentation and innovation, inflexibility of bureaucracy, and shareholder priorities set in shorter time horizons. However, ensuring that corporate shared value priorities are in place may provide a sufficient counterweight.

Bamboo Finance has been developing an investment strategy involving the engagement of large corporations, and we have seen firsthand how this approach can translate into effective investments. A few of Bamboo Finance's direct experiences with shared value partnerships are explored below to shed light on avenues for symbiosis.

BAMBOO SNAPSHOT: RE-CONCEIVING PRODUCTS AND MARKETS WITH CARECROSS

One of Bamboo Finance's most successful shared value joint ventures with a large corporation was with CareCross. CareCross is a large African holding company that controls several businesses across the healthcare value chain. Its operations include generic pharmaceuticals and medical supplies manufacturing as well as managed care networks of 4,000+ healthcare professionals such as doctors, dentists, laboratories, HIV treatment programs, etc. CareCross generates more than US\$ 100 million in revenue annually, and since its inception in 1998, it has served more than 1.5 million people. Bamboo Finance invested directly in CareCross to enable the company to pursue a new shared value endeavor. The endeavor greatly expanded and diversified the company's revenues while also expanding health care options for economically vulnerable people in Africa.

Historically, Care Cross' target market and customer base was middle and upper income South Africans, but in 2008, the company identified a strategic advantage in reaching a new market: low-income people who struggle to get quality care from South Africa's overburdened and under-resourced public health system. CareCross decided to design a new product at a reasonable price point for this low-income demographic. By bundling its drug production, doctor network, sales, and distribution capacities, CareCross was able to introduce one of the first (and only) affordable health care subscriptions for low-wage workers in South Africa. Coverage includes unlimited doctor visits (primary care), drugs (acute and chronic), dentistry (extractions and cleanings), and optometry (vision screenings and glasses), for a monthly fee of roughly US\$ 25. The monthly fee is evenly split with employers typically, making it more affordable for the working poor (which also enhances productivity and lowers employee turnover for the corporations). CareCross leverages its core business units for the healthcare delivery, but had to innovate with new marketing techniques to attract people who were not familiar with pre-paid healthcare subscriptions.

In just four years, this product already contributes significantly to the overall revenue of the company and now reaches nearly 25,000 low-wage workers. Ultimately, the company is finding that treating low-income people with quality healthcare is no more expensive or risky

than serving wealthy people. Why? CareCross leverages its economies of scale with its other products and services, so there is no need to subsidize low-income people to make health-care affordable. Additionally, lower income patients tend to be less accustomed to pre-paying for healthcare (only seeking doctor's care in cases of emergency which is expensive). With CareCross' pre-paid subscription, low-wage patients are now more likely to get preventative care and catch disease earlier. They now rely less on emergency room visits and this is less expensive for CareCross to treat and certainly better for the health and wellbeing of a patient.

As an impact investor, Bamboo Finance's investment of nearly US\$ 6 million in CareCross for a minority shareholding and participation as a board member helped it to leverage its corporate strengths and develop a new product for a new market of low-income people. In addition, the product itself has enabled many multinational and large corporations in South Africa to provide their low-waged workers with health care, which is not a typical worker benefit.

Moreover, investing in a large African corporation allowed Bamboo to place a larger amount of capital in one deal, leverage an existing corporate infrastructure to minimize execution risk, and significantly enhance impact and measurement. It would have taken a small venture more than 15 years to build the operations needed to reach 25,000 people while adequately collecting data on all their healthcare outcomes (as CareCross did in less than four years). The company aims to reach 200,000 low-wage workers in the next few years, and the founder, Dr. Nauta, believes that this product is "the tail that wags the dog" and will eventually surpass its many other business lines.

With mounting pressure from governments and civil society, as well as increased global rivalry and opportunity, some of the world's biggest corporations are seeking a competitive edge through the shared value approach.

BAMBOO SNAPSHOT: RE-CONCEIVING PRODUCTS AND MARKETS WITH HUSK POWER

Another example of a corporate shared value approach to re-conceiving products and markets is within Bamboo Finance's energy portfolio with Husk Power.

Husk Power is a biomass gasification company that aims to empower the rural poor by bringing them electricity and economic opportunity. Husk Power designs, installs and maintains 25-kW to 100-kW 'mini power plants' using rice-husks, an abundant and low-cost renewable resource. Since 2008, Husk has delivered renewable electricity to more than 200,000 low-income people by creating 80+ power plants in underserved regions of India. Husk Power offers an affordable power solution for low-income communities: pre-paid lighting for US\$ 2 per month. Moreover, the company is contributing to the development of the village economy by training over 250 mechanics and operators and creating employment for 350 people, including local entrepreneurs.

Husk has received multiple rounds of impact investment capital from foundations, development finance institutions, and private equity firms. Impact investments via firms like Bamboo Finance, Acumen Fund, and LGT VP were important to the company's growth, but before this, Husk Power's first supporter was the Shell Foundation. At the company's inception, the Shell Foundation provided extensive business support to help Husk refine its business model, offering grant finance to help the company build its scale-up capacity from 1 to 3 power plants per month. Additionally, the foundation connected Husk Power with investors and was able to leverage its links to Shell to source technical expertise from world-class experts. This engagement was vital to planning, design, process improvements, quality management, and regulatory compliance. Without this technical guidance and seed capital, Husk Power may not have been able to secure the additional financing required for the company's growth. Shell Foundation is an independent charity, with its own governance structure, yet leveraging its corporate founder to access relevant technical and business skills that can supported its Husk Power to increase their impact. Very few entities besides Shell possess the technical capacity to have helped Husk Power over the pioneer gap.

Shell Foundation has provided US\$ 160 million in early-stage support to disruptive new social enterprises with the potential to deliver large-scale impact. In addition to Husk Power Systems, other examples include GroFin, which finances small and medium enterprises in Africa and D.Light, which provides energy solutions to low-income households. As its portfolio of partners matures the Foundation has found new ways to work with corporate partners such as Shell, Unilever and C&A – both by accelerating product development and also creating links to international supply chains to scale the impact of successful inclusive businesses.

As Bamboo Finance launched its newest fund product concepts in 2013 (Solar for All Fund), a key part of the strategy is linked to leveraging corporate partnerships along the solar energy value chain."

BAMBOO SNAPSHOT: ENABLING LOCAL CLUSTER DEVELOPMENT WITH AAVISHKAAR

Bamboo Finance also has direct experience with these corporate shared value modalities: redefining productivity in the value chain and enabling local cluster development. Our portfolio company Aavishkaar and co-investor CISCO are a compelling and unique case of this type of synergy.

Aavishkaar was one of the first impact investment funds focused on rural communities in India and sectors such as agriculture, education, energy, technology, and financial inclusion. Although its specializations are seemingly unrelated, the technology giant CISCO was a key financier of Aavishkaar II's first closing for US\$ 70 million. This investment came from CISCO's Indian business line, not from its philanthropy line. Since CISCO's Globalisation Centre was established in India, the investment is geostrategic. The company stated, "Cisco is committed to India and sees making investments in the country as an important way to learn about the local market, align technology innovation, and help spread the benefits of technology to a wider group of people."²³ Additionally, Aavishkaar's investments in health and education are beneficial to local labor force development in a region where CISCO employs thousands of people.

In areas where firms like Aavishkaar do not operate, some large corporations have set up funds on their own to seize shared value. For example, Anglo-American's Anglo-Zimele initiative has established four funds that bridge sustainability, social inclusion and cluster development in South Africa. The funds have helped catalyze over US\$ 7.2 billion into more than 150 Black Economic Empowerment enterprises between 1993 and 2007 with significant results for local job creation.²⁴

CONCLUSION

Large corporations considering shared value strategies are already overlapping with impact investors in some small ways. More intentional cooperation has the potential to resolve challenges with sourcing and placing capital if impact investors integrate large national and multinational corporations in their investment strategies. We are well aware that this is not the only action required to grow the industry; certainly continuing to support early stage and smaller growing companies is an absolute necessity to social innovation. However, as described in the cases above, re-imagining joint ventures, co-financing relationships, and direct project or subsidiary funding of large corporations could increase portfolio diversification, mitigate risk, and provide a solution to the difficulty of placing more impact capital in the near term.

As impactful and scalable shared value business models begin to build their evidence base, corporations will be key to the success and replication of these models. In order to create the world we want to live in, we absolutely must transform the way we do business, as well as the capital markets that fuel these businesses. We have changed the course of humanity before, and we are capable of doing so on an even grander scale.

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BOX 3:

Turning Subsidized Farming into Subsistence Farming

Haron Wachira's professional background in software development and consultancy had not brought him in contact with Ashoka, but he had worked directly with rural Kenyan communities. His first involvement with these communities was through the Saturday School program, which aimed to understand how farmers commercialized their produce and then help them optimize their processes to develop sustainable businesses.

Wachira observed that farmers were producing at a loss once they commercialized their produce. He focused on implementing sustainable practices, yet the farmers resisted, unable to imagine how small changes in their approach to production could have a positive impact on income generation. How do these communities survive when producing at a loss, Wachira asked.

Rural communities in Kenya are highly dependent on aid provided by NGOs and the government. Remittances are another important source of income. This reliance on outside funding and assistance allows for production processes that operate at a loss, creating a cycle where farmers do not observe shortfalls because they are receiving continuous subsidies and financing.

To demonstrate the advantages of innovating production processes, Wachira created a value chain financing model that could compete with the benefits the farmers received from subsidies. By pushing the profits backward, all involved in the chain of production have an interest in commercializing a product that will generate benefits. All members need to play their part for this integrated chain model to function. Wachira created software that traces the products along the value chain so farmers could observe their efforts and the creation of profit.

Haron Wachira
Ashoka Fellow and
Founder, Akili Holdings,
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