

Innovative Finance for Development IF4D

InterAction, May 24-25, 2017

Bulbul Gupta

DAY 2

Reflections

DAY 1: Assessing, Learning in Context

- Survey Findings – Where we Are
- Motivations & Intentions – Why Are We Here?
- Instruments & Case Studies – What Approaches Resonated? What Didn't?
- Outside Experts Advice

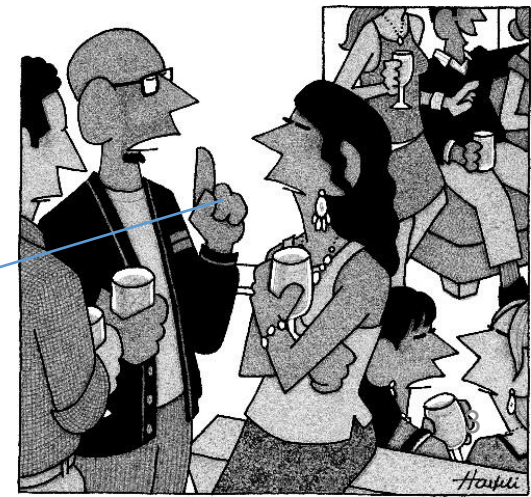
DAY 2: Applying, Telling Our Story

- Innovation Journey – The How - in Context
- Individual SWOT Exercise
- **Lunch Break**
- Telling Your Story Using Lean Data
- Stakeholder Relations – Storytelling in their Language

Session 2, 9:30-11:30

Skinny Budget, Lean Startup, & Lean Data Walk into a Bar...What Happens Next? → *The Business Case for Innovative Finance in INGOs*

The challenge is to accomplish this with the same budget, staff and analytics!



NGO Value-Add in IF4D

Leading with Impact; Leveraging the Under-Leveraged

- Ability to deliver High Social Impact **w/ Intent**
- **User-Centric** (when we don't forget them)
- Global & Local Footprint of Staff & Operations
- Experience with Due Diligence; Impact **Measurement** thru Monitoring & Evaluation
- Elevating the “G” in E + S + G!
(Environmental, Social & Governance)
- Working in Scarcity – places & budgets → more innovation for impact expertise than we know we have

Key Questions

- What have members already tried towards innovative finance efforts?
- What is the hardest obstacle you face – Internally? Externally? Is it related to change management/innovation?
- What were some things that stood out from the case conversations yesterday about their innovation journeys?
- Do these changes have any implication on existing external stakeholders / partners?
- How will this change impact collaboration with existing external stakeholders / partners / funders?



Mercy Corps

Model	Mercy Corps Social Venture Fund provides early-stage financing and post investment support to businesses that improve people’s lives in an enduring way. It supports them to achieve social impact, commercial viability and follow-on investment.
Sector Focus	Agriculture, financial services, last-mile distribution, youth and female employment
Instrument Structure	Equity, debt and quasi-equity
Investment Size	US \$50,000 - \$300,000
Additional Criteria for Investment	Seed or early stage ventures, close alignment with local Mercy Corps’ field office strategy and priorities, innovation/differentiation, potential to scale nationally and regionally (impact over 1 million people)
Example Investment	Vasham leverages a closed-loop business model to provide Indonesian smallholder farms with the financing, expertise, income security and market linkage they need to achieve significantly better standards of living
Challenge	Given the resource and time constraints of its country offices and portfolio companies, Mercy Corps has to operationalize and coordinate its post investment support
Investments	9 investments since start of fund in fall 2015

Internal Change Management Considerations

- Need for strategy
 - “70% of change management efforts fail largely due to employee resistance or lack of leadership support”*
- Key success drivers
 - Active and visible executive sponsorship
 - Dedicated change management resources
 - Employee engagement and participation
 - Frequent and open communication

* Statistic sourced from McKinsey’s article on Change Management

External Considerations

- Need external fund with for-profit structure, separate legal identity for outside investment
 - Some INGOs have separate structure (but often still non-profit), just for reduced NICRA to work with private foundations
 - Have any INGOs done in-country legal structures to raise funds from domestic investors elsewhere?
- Spin-offs of social enterprises incubated
- Stakeholder Relationships to be managed in transition
 - Board, Funders, Partners, Communities, Other?

HOW? Lean Startup Principles

1. **Innovation Thesis**: aligned w/central goals of the organization.
→ **What is your Impact Thesis?**
2. **Innovation Portfolio**: diversify portfolio of products and services, models.
3. **Innovation Framework**: vision, test, *measure*, *iterate*, pivot, then scale & accelerate successful ideas.
4. **Innovation Accounting**: report KPIs.
5. **Innovation Practice**: align with organization framework; validate.

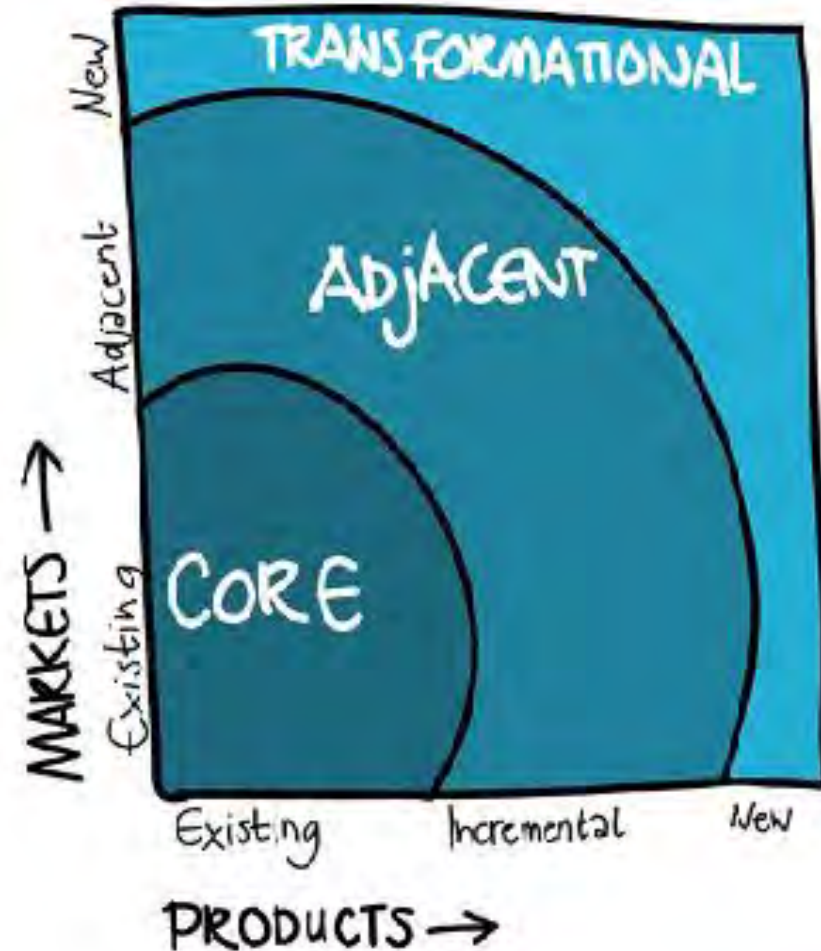
Step 1 – What is Your Impact Thesis?

- Be aligned with the overall strategic goals of the organization.
- Set the boundaries or guard rails for which innovation projects the company will or will not consider investing in.
- Use innovation process as a source of emergent strategy that is responsive to changes in the market – (Agile Planning).

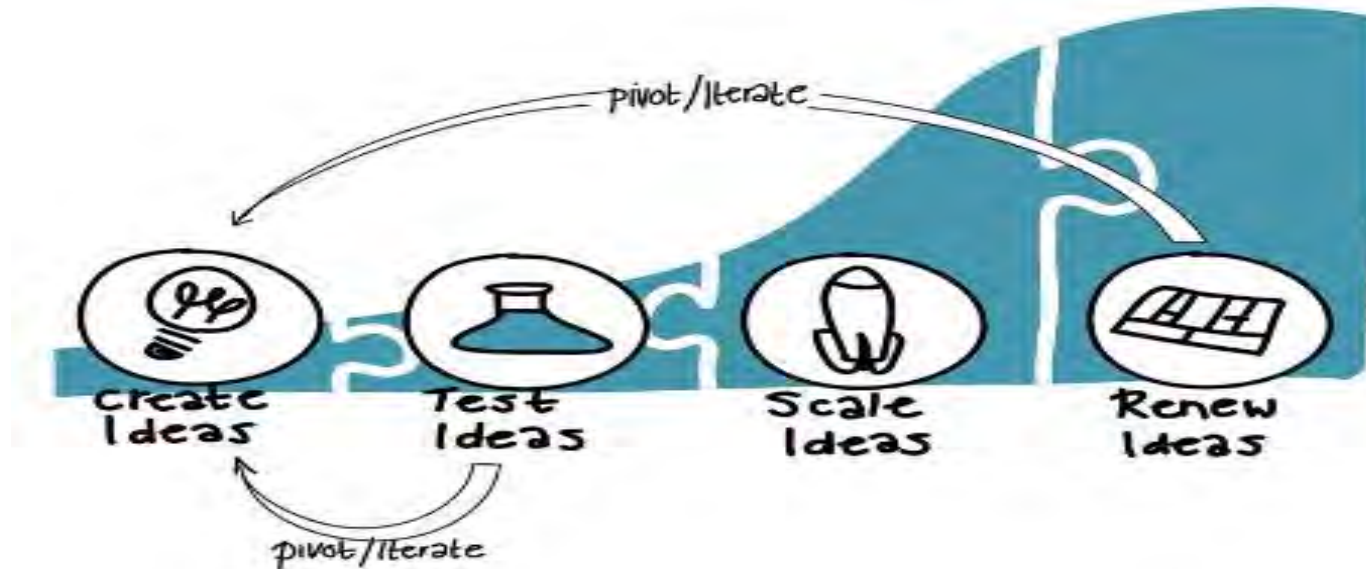
Step 2 – Innovation Portfolio

Portfolio should have early-stage products, as well as mature and established products.

Consider having disruptive products aimed at lower-end or emerging markets.



Step 3 – Innovation Framework



Vision, Test, Measure, Iterate, Pivot → Accelerate

Replicate → Adapt, Innovate, ...

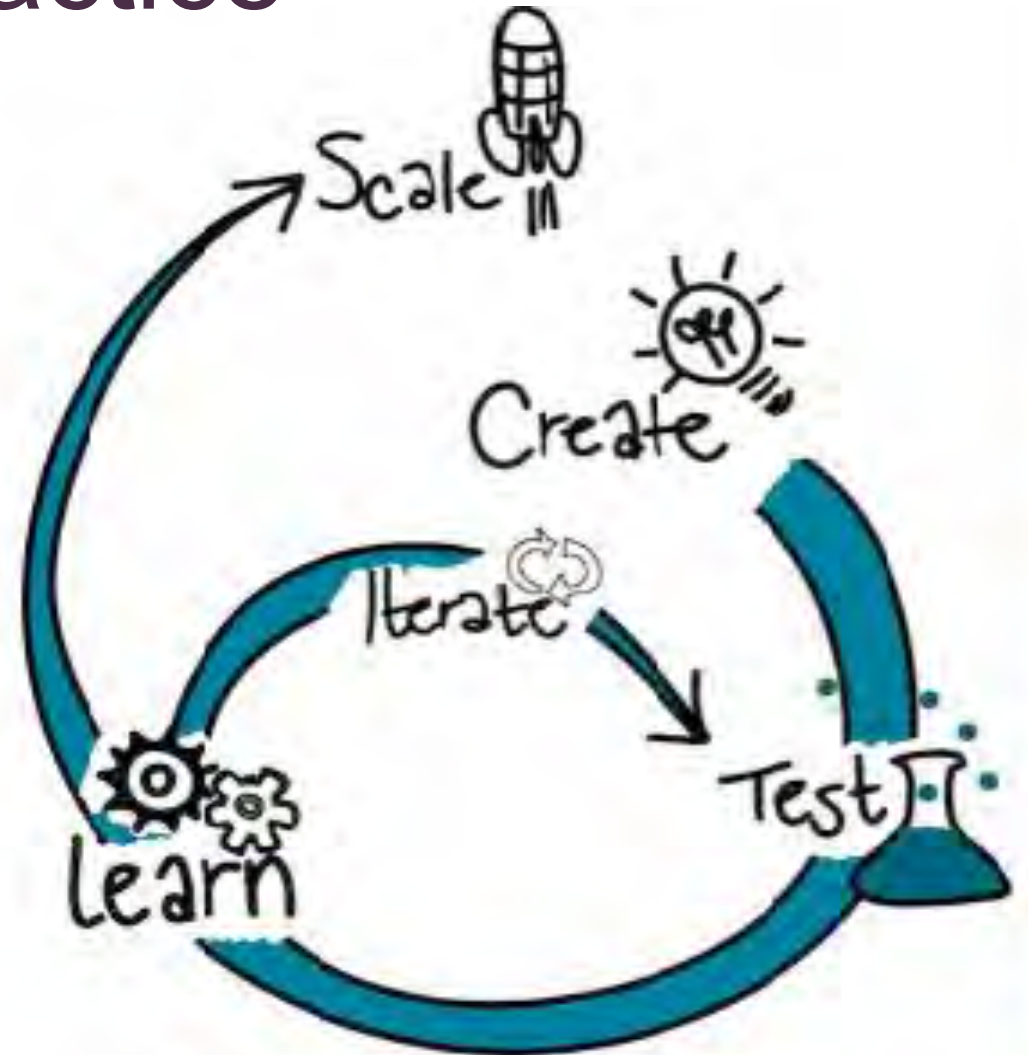
Step 4 – Innovation Accounting

- A framework that ensures the organization has the right investment practices and metrics to measure success
- Essential KPIs consider
 - Reporting KPIs – validation velocity of new ventures scaling
 - Governance KPIs – continue investing if product-market fit
 - Global KPIs – innovation %revenue w/in business



Step 5 – Innovation Practice

- Develop products in alignment with framework
- Validated business model is essential for scaling
- Scale, Replicate & Accelerate Pace of Impact!



Individual Exercise

10 mins.

SWOT Analysis: How well do you think your organizations is ready for IF4D?

Networking Lunch 12-1PM

1-Hour

Session 3, 1-2:30pm

Telling Your Story Using Lean Data

Social v. Private Sector Measurement

Social Sector

- **Why measure?**
 - Transparency & accountability
 - To understand and improve the impact of interventions
- **What is measured?**
 - Changes in lives, practices, policies, systems, and conditions

Private Sector

- **Why measure?**
 - To make data-driven decisions
 - To align with accounting and financial principals
- **What is measured?**
 - Primarily changes in revenue and profits
 - Outputs

While the market solutions for achieving social and environmental impact are growing, measurement practices that assess impact to create an evidence base are not keeping up with this growth.

RISKS AND BARRIERS OF SOCIAL IMPACT MEASUREMENT*

- Defining Positive Impact
- Complexity of Impact Measurement
- Mismatch of Methods with Early-Stage Business Models
- Alignment with Investor Priorities
- Navigating a Confusing Landscape
- Lack of Specificity about Intentionality
- Value proposition

Measuring Impact

- How does your organization approach M&E now?
- How do external investors measure impact?
 - May have a different approach?
 - May have additional criteria? compliance requirements?
 - May need additional data collection?
- How do you align impact with possible investor demands?
 - Stay lean until you know what your investors need
 - Focus on 3 key outcomes to LEAD with for investor pitches
 - Use efficient techniques like Acumen's lean data approach to quickly measure impact and course correct

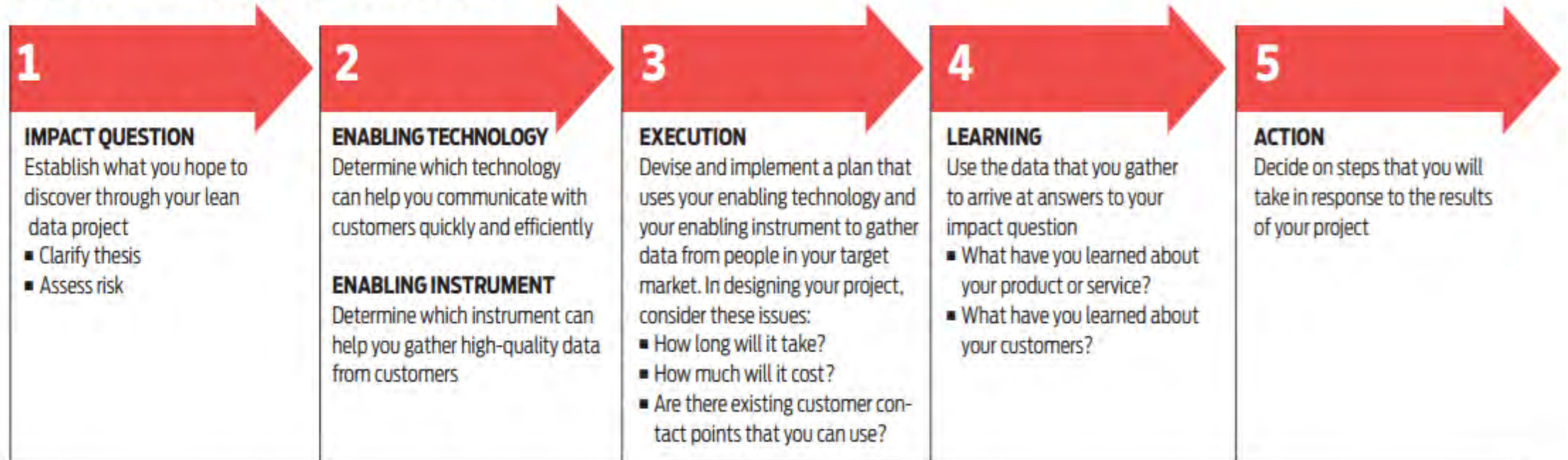


Lean Data* – What and Why?

- The application of lean experimentation principles to the collection and use of social performance data
- Focuses on creating value for a company and its customers rather than reporting and compliance
- Leverages low-cost technology, so enterprises can communicate directly with their customers and get high-quality data quickly and efficiently
- Puts the customer first, not the investor

Lean Data in Action*

How Lean Data Works



- Edubridge used phone surveys to identify trends among successful trainees. It cost \$1500 over 4 months.
- Results were used to shape its expansion strategy

SUSTAINABLE DEVELOPMENT GOALS



SDG Compass

- Developed a 5 step plan to assist companies in maximizing their contribution to the SDGs
- Guides companies how they can align their strategies as well as measure and manage their contribution to the SDGs
- Contains an inventory of business indicators from relevant and widely-recognized sources, mapped against the 17 SDGs and their targets
- Contains an inventory that maps existing business tools against the SDGs
- www.sdgcompass.org



IRIS Metrics

- Managed by the GIIN
- Repository of indicators used to describe the social, environmental and financial performance of an organization
- Catalog enables filtering based on priorities and focus areas
- IRIS is not an evaluation tool, reporting framework or data management platform
- An example of a possible indicator for a livelihoods program
- *Going through major revision now*

Part-time Employees: Female (O18838)

Number of paid female part-time employees at the organization as of the end of the reporting period.

Reporting format	Number of people
Metric type	Submetric
Metric level	Organization
IRIS metric citation	IRIS, 2014. Part-time Employees: Female (O18838). V3.0.

[ID: O18838]

Usage Guidance

- This metric is intended to capture the number of unique female individuals employed by the organization in part-time roles at the point in time defined by the reporting end date.

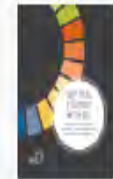
Related metrics

- Part-time Employees: Total (ID: O18864)
 - Part-time Employees: Female (ID: O18838)
 - Part-time Employees: Disabilities (ID: O14571)
 - Part-time Employees: Minorities/Previously Excluded (ID: O16508)

IRIS USERS


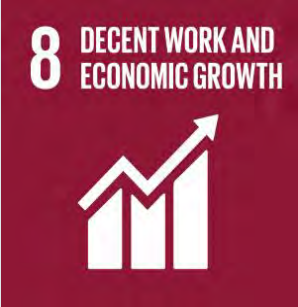
This metric is used by 4 organizations that have registered their use with IRIS.

RESOURCES




Mapping Social Performance Metrics*

INGO's program on improving *livelihoods*

Internal Assessments	SDGs	IRIS
<ul style="list-style-type: none"> • Number of clients served / trained • Number of households impacted • Increase in household income • Number of job placements 	 	<ul style="list-style-type: none"> • Client Households: Total (PI7954) • Distributor Individuals: Poor (PI9516) • Earnings of Distributor Individuals: Low Income (PI2594) • Social Impact Objectives (OD6247) • Employment Benefits (OI2742) • Average Employee Tenure (OI2248) • Fair Hiring/Recruiting Policy (OI1150)


Mapping Social Performance Metrics*

INGO's program on *primary education*

Internal Assessments	SDG	IRIS
<ul style="list-style-type: none"> • Number of children enrolled in primary school • Number of children who completed primary school • Student progress in English • Student progress in Math • Student attendance 	 <p>The icon for SDG 4, Quality Education, is a red square with a white border. It features the number '4' in the top left corner, the text 'QUALITY EDUCATION' in the top right, and a white graphic of an open book and a pencil in the center.</p>	<ul style="list-style-type: none"> • School Enrollment: Total (PI2389) • School Enrollment: Poor (PI7254) • School Enrollment: Female (PI1081) • Student Attendance Rate (PI3786) • Teacher Attendance Rate (PI3651) • Student Tests Pass Rate (PI8372) • Student Dropout Rate (PI9910) • Social Impact Objectives (OD6247) - Access to education

Mapping Social Performance Metrics*

INGO's program on *maternal and child health*

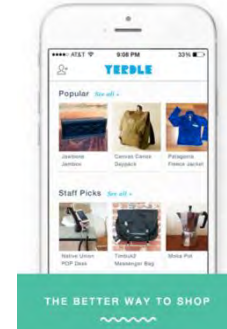
Internal Assessments	SDG	IRIS
<ul style="list-style-type: none"> • Number of women who receive prenatal care • Number of women who receive antenatal care • Number of caregivers trained • Number of households reached with pregnant and lactating mothers and children under five • Decreases in infant mortality • Decreases in maternal mortality 	 <p>The icon for SDG 3, 'Good Health and Well-being', features a green square with a white heart rate line and a heart symbol.</p>	<ul style="list-style-type: none"> • Social Impact Objectives (OD6247) - Specifics: Health improvement • Health Intervention Completion Rate (PI3902) • Healthcare Facilities (PI1017) • Disease/Condition Addressed (PI1533) • Caregivers Employed: Total (OI5323)

B Impact Assessments

- The Assessment covers the impact of a business on all of its stakeholders, including its **workers, suppliers, community, and the environment**
- The Assessment captures best practices regarding *mission, measurement, and governance*
- Assessment is suitable for measuring the impact of for profit entities only



Big brands are doing this...



Investors are already buying into “**impact**”

ANDREESSEN
HOROWITZ

+ serious
= change

 THE WESTLY GROUP


FOUNDERS FUND

SHERPA
VENTURES


FORERUNNER
VENTURES

baseline
VENTURES

newschools
venture fund



HARRISON
METAL


First
Round

BFV

DBL INVESTORS
DOUBLE BOTTOM LINE VENTURE CAPITAL

 EMERSON
COLLECTIVE


OMIDYAR NETWORK™

GREYCROFT

 Red Swan

NEA®

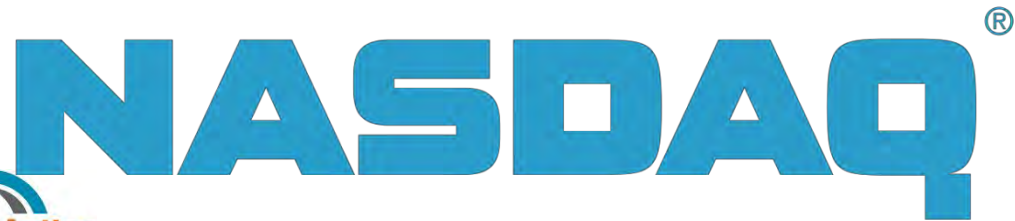
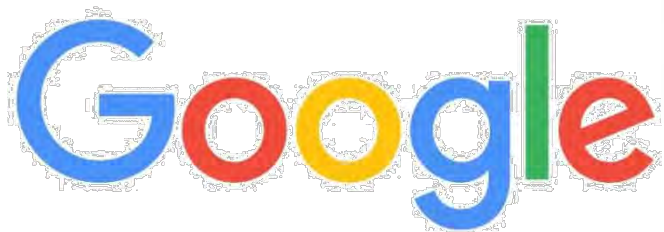

COLLABORATIVE
Fund

Sustainability Accounting Standards Board (SASB)

- Enables comparison of peer performance and benchmarking within an industry.
- Focus on U.S. public equities, approach to industry-specific issues and disclosure of minimum performance standards .
- Sustainability accounting standards for 79 industries in 11 sectors.
- Designed for the disclosure of material sustainability information in mandatory SEC filings, such as the Form 10-K and 20-F.



“Doing Well by Doing Good”



MSCI ESG Index



17 SDGs
applicable to a broad
set of stakeholders



5 Actionable Impact Themes
applicable to a broad
set of stakeholders



Source: MSCI ESG Research

BREAK 2:30-2:45

NEXT: STAKEHOLDER RELATIONS
FIRESIDE CHAT

Session 4, 2:45-4pm

Stakeholder Relations

Understand their incentives & motivations for your impact story to be heard

“The ART of the Deal”

- What do you bring to the Deal?
- What is your unique value add?
- What is the expected return – is that investor right fit for you, given their LP/GP structure, incentives, Board, etc.?
- What is your org already known for re expertise, sector, geography, impact data, RCTs, scale, track record, investors, etc.?

What's Your EXIT Strategy?

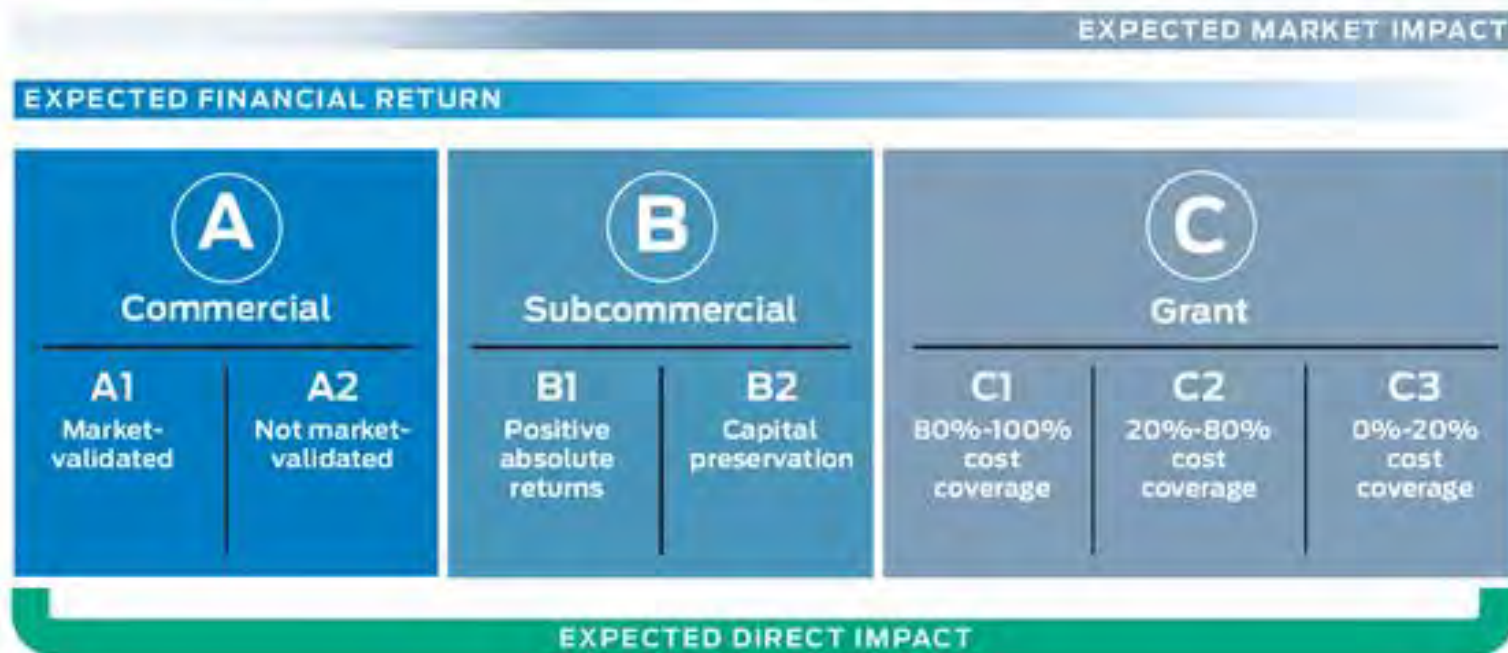
- Exit readiness criteria:
 - Internal: Impact, Financial Sustainability, Organizational Capacity
 - External: Industry, Timing
- Types of exit for social ventures:
 - Write-offs
 - Licensing
 - Spin-offs
 - M&A
 - Corporate acquisition for innovation
 - Initial Public Offering (IPO)
 - Stock Buyback
- Increasing Liquidity Options in Emerging Markets With Healthier Secondary Markets?
 - Utilize social stock exchanges and platforms



Omidyar Network – Deal Dashboard

The Returns Continuum Framework

For all of its investments, Omidyar Network has the same high expectation for direct (firm-level) impact. But expected market impact and expected financial return vary by type of investment.



Internal considerations for sub-commercial returns:

- New models for new markets
- Market infrastructure
- Policy impact

Key Trends Driving Consumption Practices

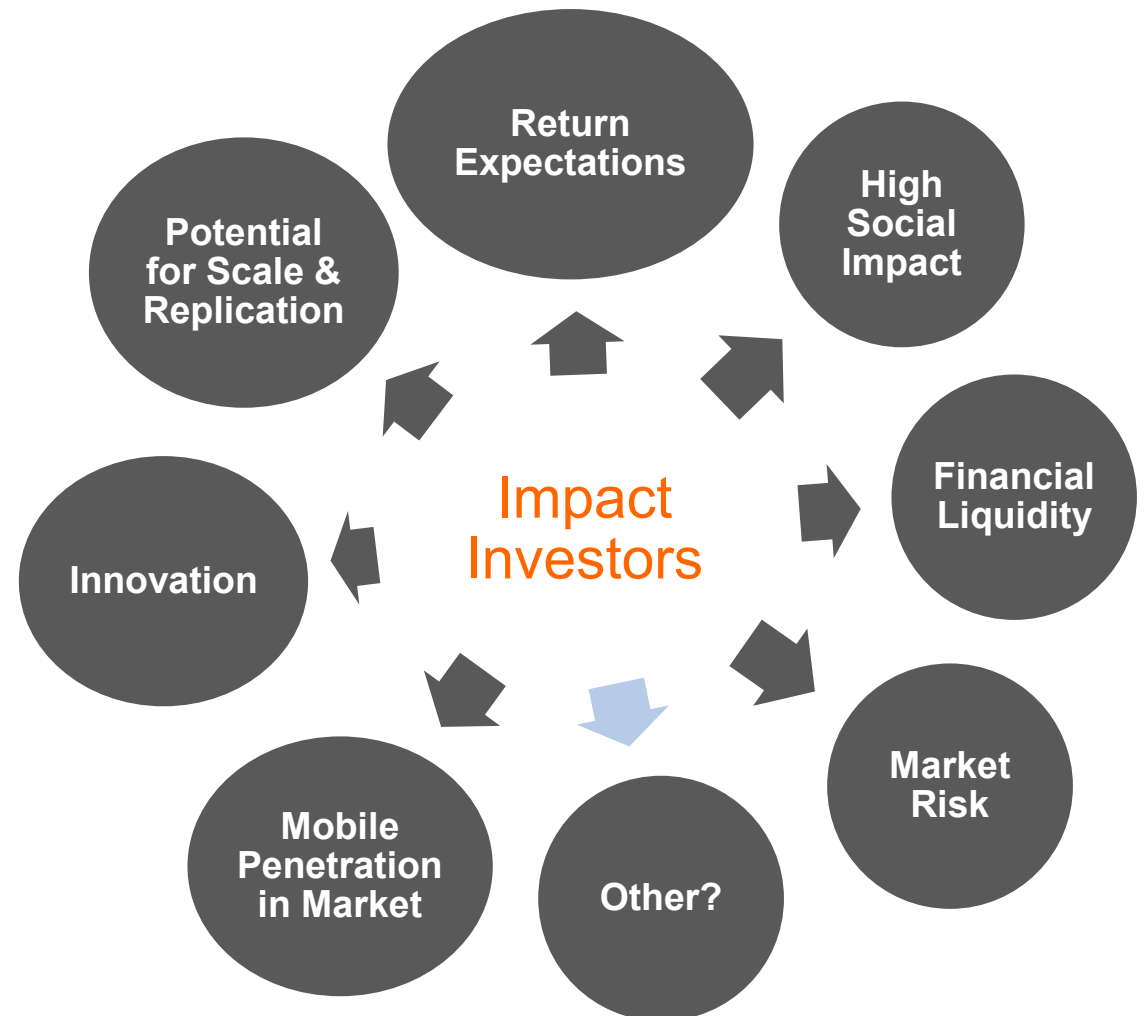
1. Climate Change
2. Demand for Healthy, Nutritious products; organic, etc.
 - Women/Moms make ~85% of household consumption decisions
3. Demand for supply chain transparency, fair labor
4. \$40 trillion wealth transfer from Boomers to Millennials
 - Inc. Impact Investing growing from \$80Billion 2015 to \$2 Trillion + in 5-10 years (JPMC, GIIN report)
5. Millennials drive responsible consumer, employee, investment behaviors – own and their parents
6. Other?

Bilaterals, DFIs, Multi-Laterals

- Bilaterals, multilaterals/DFIs: WB; IFC; IDB–MIF; ADB; OPIC; EIB; N SDG Action Fund.
- Key Considerations:
 - Synergies with current political leadership/Board consensus
 - Strategic alignment with national security, diplomacy, development objectives
 - Invest into job creation, sustainable development with hope of improving security conditions in receiving country
 - Timeframe to make decisions - variable
- Key Instruments: Concessional Loans, Debt swaps, DIBs/SIBs, Bonds, Cash Transfers, Innovative Taxes, Awards & Prizes, Guarantees, Performance-Based Contracts...

Impact Investors

- Mission aligned
- Field Builders
- Hybrid investment & philanthropy Direct Equity, SIBs/DIBs, Impact Funds, Catalytic Grants...



Philanthropy – Foundations

- Maximum Social Impact
- High ability to innovate (with legacy to protect)
- Key Consideration Questions?
 - Mission alignment
 - Synergies with existing portfolio of grants & investments
 - Gestation period, Board approval, etc.
- Key Instruments – Grants, PRIs, *MRIs
 - Grants; voluntary contributions; catalytic support
 - PRIs – low return expectations
 - MRIs – market return expectations

High Net Worth Individuals

- **Key Considerations for them:**
 - High Social Impact → or High Return
 - Highest appetite/ability to take risk
 - Most values-led, personalized decision-making
 - Generally lack of clear timeframe
- **Key Instruments:**
 - Voluntary contributions, Donor Advised Funds,
 - Multi/Family Offices, Investor/Giving Circles, Community Foundations, HNWI Platforms
 - Wealth/Fund Managers, Boutique Impact Firms,
 - Institutional Investors, Pension Funds (aggregates)

Institutional Investors

- Market-Rate Return Expectations
- Need to move large amounts of capital (\$5M minimum into deals, on average)
- Alignment with client demand
- Invest into key instruments:
 - Funds of funds (absorptive capital consideration)
 - JP Morgan Chase - EcoEnterprises Fund, NatureVest;
 - Deutsche Bank – Microfinance Funds...
 - Guarantees, Insurance Schemes

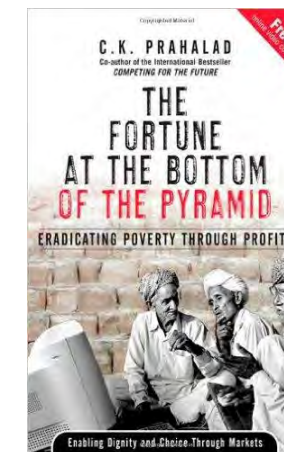
SHARED VALUE INITIATIVE

Fueling Business Growth, Driving Social Impact

“Shared value is not social responsibility, philanthropy, or sustainability, but a new way for companies to achieve economic success.”

- Re-conceiving Products and Markets
- Redefining Productivity in the Value Chain
- Enabling Local Cluster Development

Michael E. Porter and Mark Kramer, [“Creating Shared Value,”](#) Harvard Business Review, 2011



CSR, PPPs → Shared Value, Corp. Ventures

- Key Considerations:

- Alignment with Corporate Strategy for Foundation/Sustainability/Supply Chain next few years
- Risk Mitigation, Compliance, in-country considerations as needed
- Ability to be catalytic for pipeline; legacy; PR, market entry/scale

- Key Instruments

- Starting with P3s → Using CSR \$ to de-risk impact deals (smallholder Ag example)
- Moving to Corporate Venturing w/supply chain finance & procurement partners, supplier diversity efforts; co-investors
- Employees as resources – skills-based mentors for entrepreneurs

Ex: FintTech, Apparel/SAC; Agriculture/Target/SAI, SVI; etc...

Imagine Unilever Bcorp'ifying, one subsidiary & brand at a time...



€51 Billion
worldwide sales in 2012

173,000 employees
work for Unilever

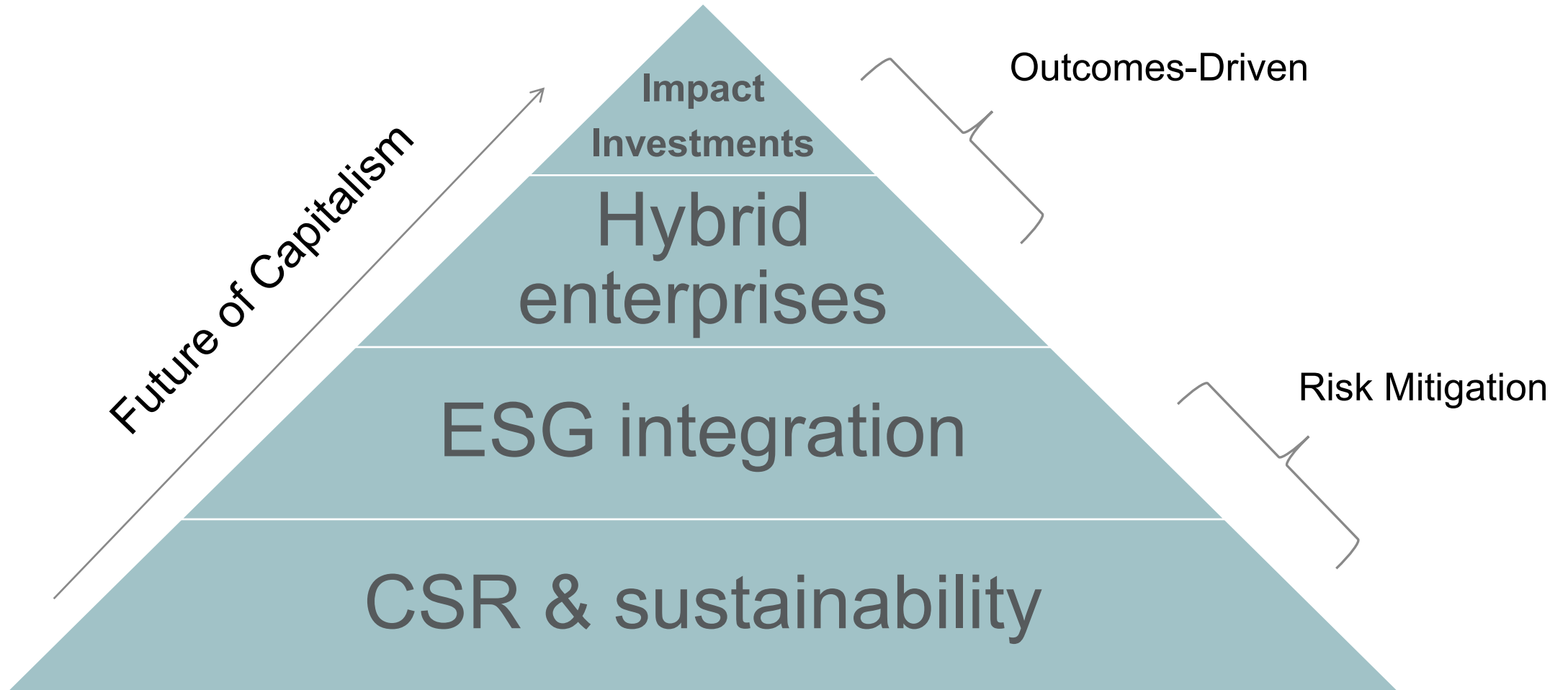
2 BILLION people
use Unilever's products
each day worldwide

400 brands
sold in 190 countries

Fireside Chat with:
Seema Patel,
Division Chief,
Innovation Design &
Advisory,
USAID Global
Development Lab



Why do this? → Future of Capitalism



Remember, it's about the USER



Wrap-up Questions

- What do we understand better now than we did before?
- What is still most unclear and needs more specific training:
 - For Newbies
 - For Intermediate
 - For Experienced Practitioners
- What are top 3 obstacles you have inside your organization to advancing this work?
- What resources do we need for that?
- What is one new/immediate application you see for your work from this training?

Feedback survey & exit

- 1-5 rating per session
- What did you wish you had more time on? Pick 3 out of session names + Networking + Case Studies + SWOT...
- What do you understand better now than before – pick 2 out of 7 session names?
- Lead trainer? 1-5
- Guest speakers? 1-5 per speaker
- Do you feel you have learned enough to go back tomorrow and apply something new right away?
- What resources do you feel you need to advance organizational move towards innovative finance? Pick 3 out of 10.

Thank you!