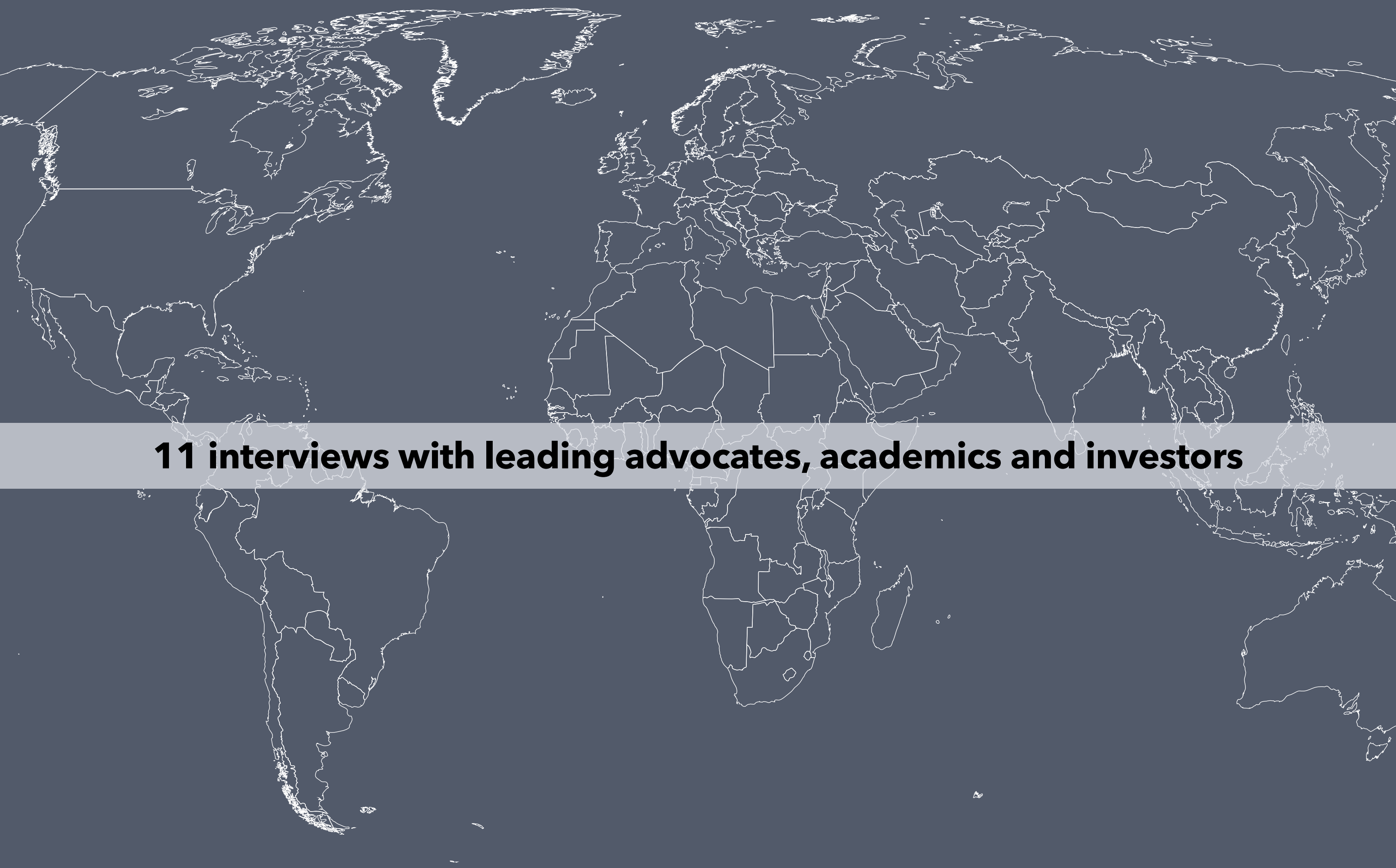
Impact Investing Insights

A NextBillion E-Book



11 interviews with leading advocates, academics and investors

next billion

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Acknowledgments

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Citi Foundation

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The Sustainatopia Conference and its founder, John Rosser, whose support was instrumental in facilitating our coverage of the conference, and lining up the interviews in this e-book.

All the individuals we interviewed, who graciously consented to share their time and knowledge on camera – along with their respective organizations, which helped to facilitate their participation in these interviews.

Table Of Contents

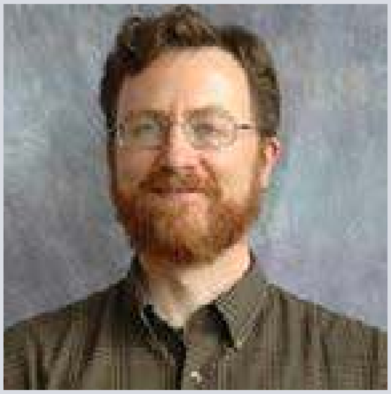
An Introduction to this E-book

Impact investing is a fascinating, at times confounding sector. It's been the subject of unbridled enthusiasm among socially focused investors and entrepreneurs, with early advocates proclaiming its potential to transform capital markets into a force for good in the world. It's also been the subject of a bit of a backlash, as skeptics compared these lofty expectations to the relatively paltry amounts being invested. Meanwhile, advocates, entrepreneurs and investors alike have passionately discussed questions ranging from the best ways to assess and maximize the social impact of capital, to the risks of ordinary investments claiming the impact label in an effort to tap into investors' growing interest in socially responsible investing.

But although the evolution of the sector has been fitful at times, that interest has continued to grow. And in recent years, it has extended to major fund managers, wealthy families and foundations, development finance institutions – and increasingly, to retail investors as well. A wealth of new research and resources has followed, along with a growing amount of attention in the media and on the global conference circuit.

In the spring of 2014, NextBillion Financial Innovation editor James Militzer attended one of those conferences, the Sustainatopia Impact Conference. While there, he conducted interviews with 11 top investors, academics and advocates about their views on the sector's vast potential, and its equally large challenges. We have compiled the resulting videos into this e-book, which covers a broad cross-section of the topics and trends that drive impact investing today. It's the first in a series of e-books we'll be publishing in 2015, compiling some of NextBillion's topical series into handy resources that can be easily viewed and shared. We hope you'll find them both interesting and informative.

James Militzer is the editor of NextBillion Financial Innovation. He worked as a freelance writer, editor and videographer prior to joining NextBillion in 2012, initially as editor of NextBillion Health Care. After graduating from Central Michigan University with a degree in broadcasting, he spent several years teaching English in Mexico and Japan, and traveling through Europe and Asia. After returning to the U.S., he established a monthly newspaper and non-profit that served Latino immigrants. He spent over 10 years as a freelance writer and editor, working for numerous publications and other clients. He also has worked as a Spanish interpreter and copywriter/videographer at the University of Michigan Health System.



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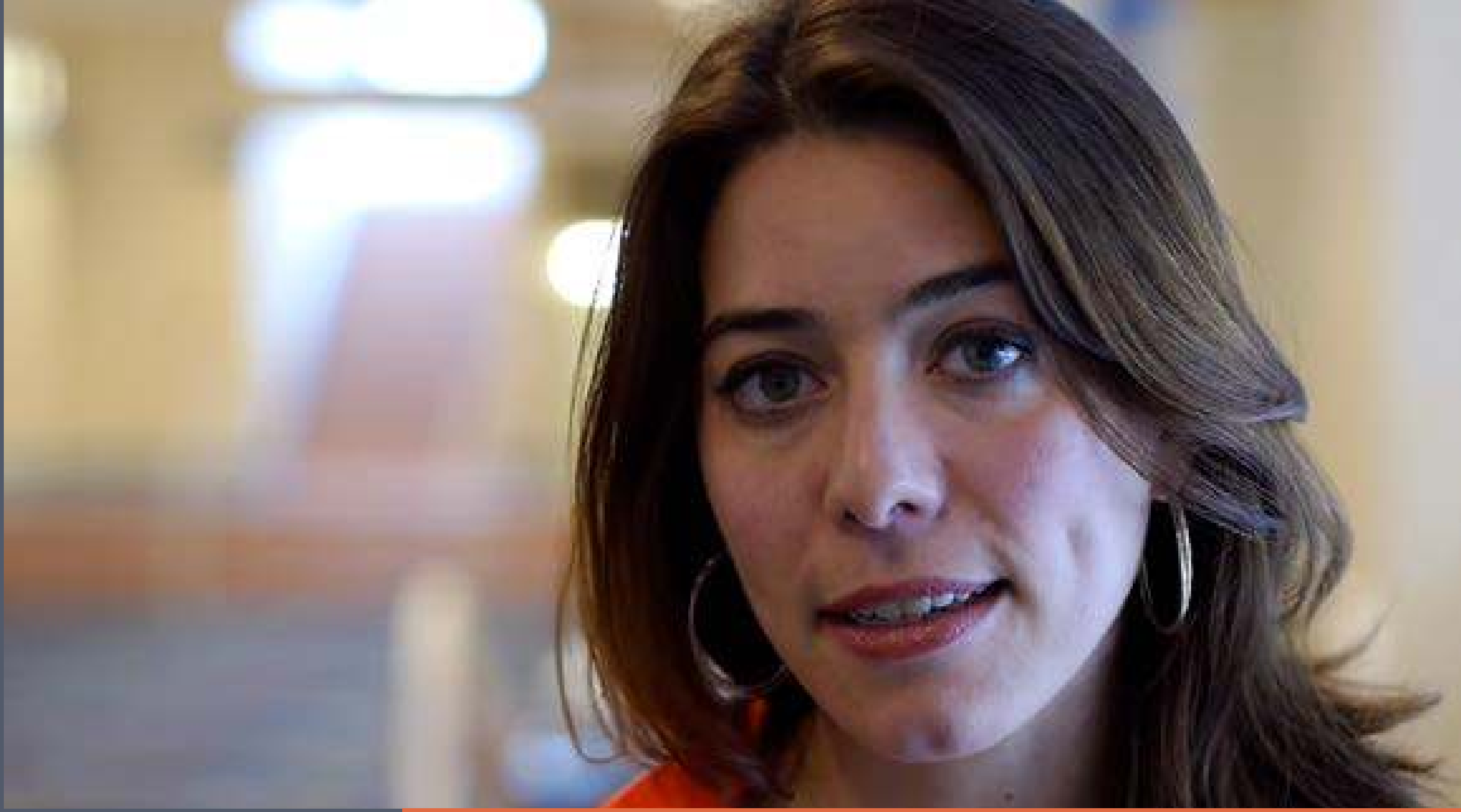
Layout and design by Charles Tidwell of The William Davidson Institute at the University of Michigan.



Abigail Noble, head of Impact Investing Initiatives at the World Economic Forum

A Small Drop in a Large Bucket

Originally published Wednesday, May 7, 2014

The World Economic Forum's Abigail Noble, on why impact investing needs to go mainstream

Let this sentence sink in for a minute: "So far less than US $40 billion of capital has been committed to impact investments out of tens of trillions in global capital" (emphasis added).

The quote is from the World Economic Forum, explaining the rationale behind the 2012 launch of its Mainstreaming Impact Investing initiative. In light of the underwhelming totals being channeled to impact investments — and the vast amounts currently untapped — the initiative aims to "identify the factors required to accelerate the flow of capital to impact investments from traditional and mainstream investors and progress the industry among investors, intermediaries and policy-makers to ensure it reaches its full potential."

Abigail Noble leads the World Economic Forum's impact investing work, and NextBillion Financial Innovation spoke with her at the recent Sustainatopia Impact Conference. Foremost on our agenda was the question of how to bring "$40 billion" a bit closer to "tens of trillions."

"With the Mainstreaming Impact Investing initiative, we're looking at the challenges and constraints that mainstream investors, such as pension funds, venture capital and private equity, face in getting engaged in impact investing - and how we can unlock some of those constraints," Noble said. Among those constraints, she mentioned deal size. "The average private equity deal is about $35-36 million dollars. The average impact private equity deal is about $2 million. So for private equity funds to get engaged in impact investing, it's going to cost more, because it's double bottom line, to do the due diligence. And the size of the deal is much smaller, so they need to think about the fee structure."

Click to view full interview

However, she said, innovative solutions exist — "whether it's pooling the capital, thinking about a different approach to due diligence, or crowd-sourcing some of the data. So we're looking at lots of different opportunities. And some of the things that we're hearing is that pension funds are more interested in Environmental, Social and Governance criteria, which is putting pressure on the private equity funds to look at more impact deals. University endowments and sovereign wealth funds are also starting to look at the impact investing space. So things are moving on the institutional capital side, and funds are interested in how they can get up to speed on making impact investments."

But should these investors expect market returns? Or is it necessary to condition them to accept smaller returns in exchange for a social impact?

"One thing to keep in mind is that there's a range of returns," Noble said. "Some investments only make a 0-1 percent return. But if you look at impact private equity funds like Leapfrog (Investments), they're making in the 20 and up percentile in returns. One of the things that I find most encouraging is that we looked at the GIIN ImpactBase survey data, and found that over 70 percent of impact investment funds surveyed target an 11 percent rate of return or higher. And that's targeted, it's not actual – it's going to take a few years for us to see enough exits to know what the actual returns are. But if you compare that to what state and municipal pension funds across the U.S. are looking for, it's somewhere in the order of 7.5 to 8.5 percent returns. So even if these impact investment funds get a few points lower than what they target, it's still within the range of what pension funds are looking for. So I think it is feasible to get institutional investors interested in investment deals based purely on returns or expected returns."

To go mainstream, Noble feels the sector needs to update its image. "I think it's really important for us to tackle this mindset of trade-off, and that whenever you target a social impact or social return, there's necessarily going to be a lower financial return," she said. "I think that's the case in some situations, and that's why philanthropic capital and development finance capital is very important. But it's not the case for all situations. And I think when we start to think about how targeting social and environmental impact and returns can actually boost or make a more long-run stable financial return, then we start to have a more meaningful conversation."

She mentioned the effects on financial markets of environmental shocks like climate change, or destabilizing events like social unrest related to youth unemployment. "When you have more stable political and social situations, it's a better business climate, and you have more stable financial returns. Impact investing is a very real way to create a more stable and inclusive market economy, and once we start to adapt that mindset, we can see how you can target both social and financial returns and, over the long run, create the world that we want to see."

But if investors are encouraged to focus more on financial returns, could less profitable investments with strong social impacts be left behind? What should governments around the world do to move impact investing forward? And how will the millennial generation affect the sector? For Noble's take on those and other questions, check out our full interview above.

Pay for Success:

Can social impact bonds provide the fabled "win-win-win"?

Originally published
Friday, May 30, 2014

Rick Edwards, a partner at Third Sector Capital Partners

Goldman Sachs recently made headlines by investing in Roca, a Massachusetts nonprofit that tries to keep young men out of jail. The investment was notable not just because Goldman was focusing on social impact, but because it also hopes to make a profit. Under the seven-year deal, Roca will try to help 1,000 young men – and if they spend 22 percent fewer days incarcerated than their peers, the state will save enough to pay back Goldman's $9 million loan. A larger drop in recidivism will earn it up to $1 million in profit. (On the other hand, if Roca's interventions prove ineffective at keeping men out of jail and prison, the bank will lose almost everything it invested.)

Goldman Sachs' investment is part of the largest social impact bond or "pay-for-success" effort launched to date in the United States. Pioneered in the United Kingdom, the approach is billed as a way for governments to finance social services during a time of tight budgets. If successful, it could be a prime example of the oft-cited "win-win-win" scenario, bringing benefits to government, investors and service providers, and the public – especially those directly impacted by the social services.

To prepare itself to be a successful candidate for social impact bond/pay for success opportunities, Roca had worked extensively with Third Sector Capital Partners, which describes itself as the leading non-profit advisory firm that's advancing the mission of performance social sectors in America. Rick Edwards is a partner at the organization, and he spoke with NextBillion Financial Innovation at the recent Sustainatopia conference.

"Pay for success is changing the way governments procure their social services around this country," he said. "Historically, there have always been what we call cost reimbursement contracts between the government and a social service provider. They tend to pay based on hours, or input, or how many people are treated going into a project or program. What we are doing is converting the mentality of arranging those procurement contracts to what we call outcomes – where the government contracts with that same social service provider, but only pays them based upon measurable outcomes that they achieve, and that are validated.

"There are so many social service programs that are needed in this country," he continued. "There are urgent social needs that are not being met – not that the government doesn't want to try to meet them, they just simply don't have the dollars to allocate to those programs in their budgets. There are trillions of dollars needed ... and there just isn't enough capital to do that. So our role is to bring in philanthropists ... and also new financiers, high net worth individuals, banks in the commercial banking sector, sub-debt lenders, so we can really attack these bigger social program issues and scale them. It's something that historically has worked with grants, but now with the use of outcomes, we've got other financiers who are comfortable saying, 'Wait a minute, if you can show me that you actually have an outcome that I can measure with a cash flow, then I can get my debt repaid, and so therefore I'm willing to lend debt dollars against that same project that traditionally only would attract grant dollars.'"

Though this would seem to shift a lot of risk onto service providers, who won't get paid unless they can demonstrate their effectiveness and who likely can't absorb the loss as well as the likes of Goldman Sachs, Edwards says this can be an opportunity rather than an obstacle. "There are service providers out there now who are very comfortable with the way they evaluate themselves in metrics or outcomes, and they judge themselves on how well they have a rigorous program to actually measure and achieve outcomes for the population they treat. There are some providers who have not gone to that degree of measurement or self-evaluation yet, [but] I think it's a healthy issue in the sense that we believe we can work with providers to scale them up, create much more impact with the programs they already have, and also get them comfortable with their own self-measurement."

But by privatizing funding or services that were formerly public, could the profit motive lead providers to cut corners or inaccurately report their results? Could this lead to less reliable public services over time, if providers and investors withdraw from services that aren't generating returns and the government is unprepared to step back in? And what could the approach mean for social enterprise? Edwards answers these and other questions in the video below, part two of our Impact Investing Insights series.

Click to view full interview

Originally published Friday, June 20, 2014

Start Small, Stay Small:

Can better finance help Latin America's microenterprises take the next step?

According to a recent World Bank report, "a massive 60 percent of Latin America employees work for businesses with five or fewer employees." And while the region generates a high number of new businesses, these companies grow much more slowly than their counterparts in other middle-income regions. In short, in the words of World Bank economist Augusto de la Torre, Latin American companies "tend to start small, and stay small."

Part of the problem, according to George Petty, is that the region lacks finance for the much-discussed "missing middle" – making it hard for microenterprises to grow into the kind of dynamic, stable, small and mid-sized firms that generate much of the employment in higher-income countries. Petty is managing director of Venture South International, a company which lends to micro, small and medium-sized enterprises through subsidiary companies in Colombia and the Philippines. We spoke with him at the recent Sustainatopia conference, at which he was moderating a panel on impact investing in Latin America.

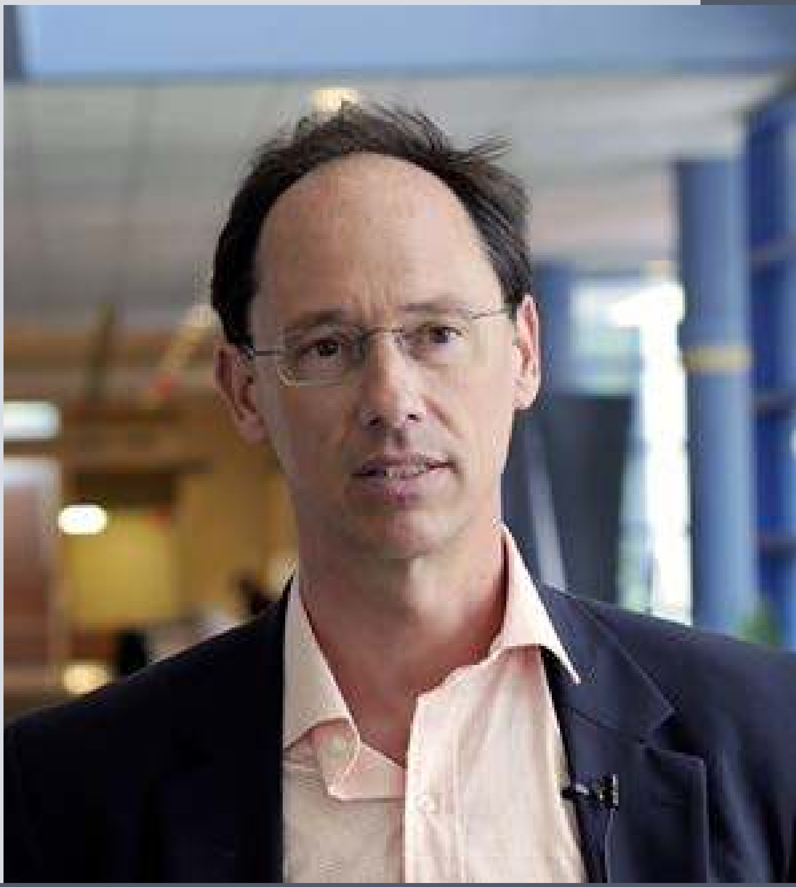
Asked why the region's businesses are struggling to access appropriate finance, he mentioned several factors. "In one respect, microfinance has been so successful because it's been very specific loan products, and very easily replicable. And once you get up to larger loan sizes – $5,000, $10,000, $20,000 – you're really looking at businesses which need more specifically catered loan products. And the microfinance lenders haven't really grown up into the space of microfinance very much.

"In terms of the banks – on paper, they can lend into this space, and they should be lending into this place. But my feeling is there are a couple of barriers to that. First of all, the central bank requirements are quite onerous, and the reporting requirements the banks have to the central banks, in terms of their guarantee requirements for the loans they make, are quite complicated. And often the small businesses can't meet all the guarantee requirements that the banks require. Beyond that, I think it's frankly just more profitable for the banks to be lending at higher levels. And I think there's a sort of lack of interest – they have to get their hands dirty, they have to get out of their air conditioned office and go off and meet the clients. What we're doing is choosing the hands-on microfinance approach, where you're meeting your clients in their place of work, in their home, getting to know their neighbors – but we're using bank loan products."

This approach provides a needed product to businesses, but it isn't always easy for lenders. "It can be a tough space to start off in," Petty said. "You really need to know your clients, because each of these businesses are quite different, and often their financing requirements are different. And once you do that you can be profitable, but you have to have the scale – and by scale, I mean over a $5 million portfolio – to really make it worthwhile to do. And getting there is the trick."

In spite of the challenges, he sees Latin America as a promising region for both business lending and impact

George Petty, managing director of Venture South International



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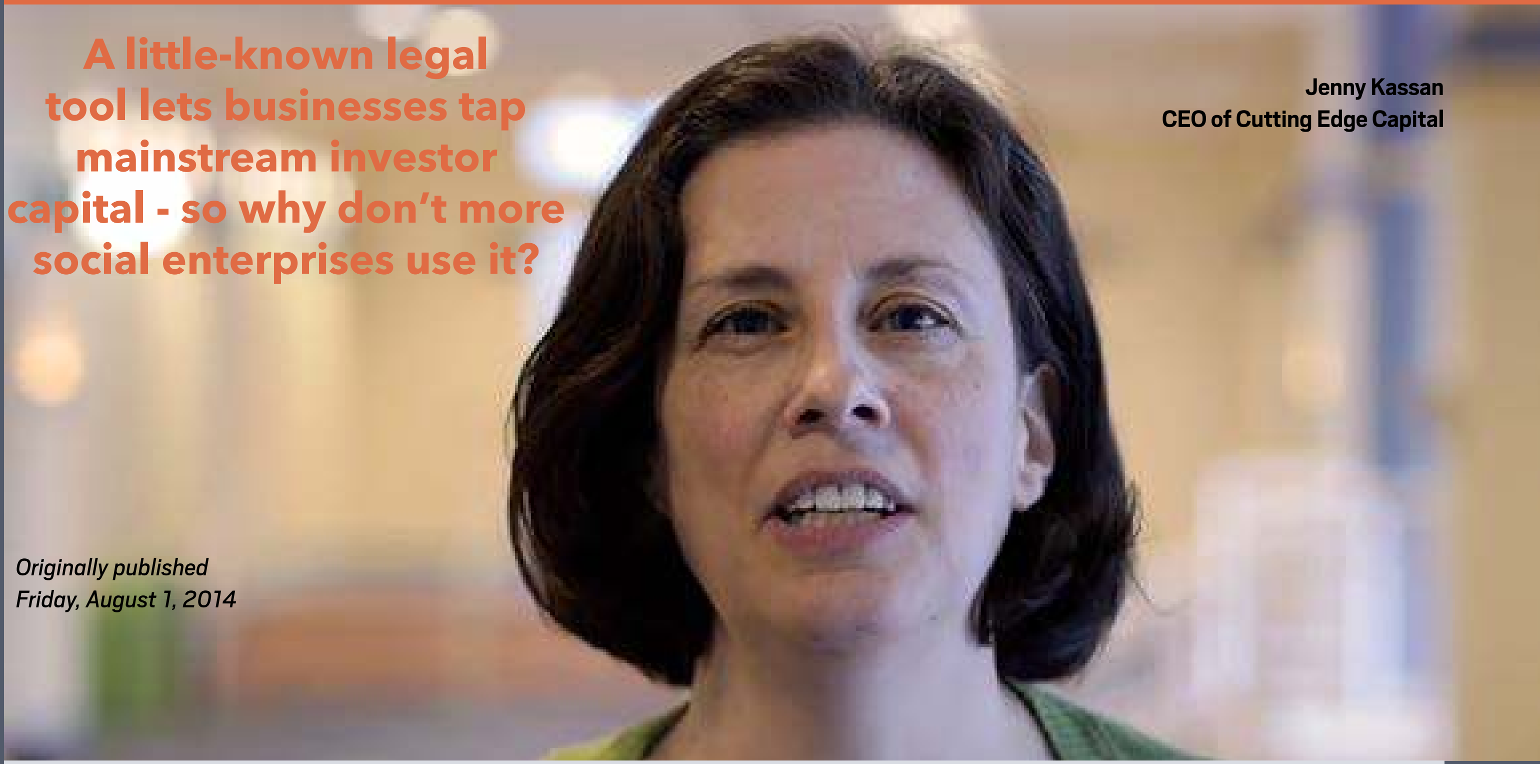
investing. "There's enormous wealth there, but you're looking at 30, 40 – even 60 percent poverty in most of the countries, though it varies by country. So the need is self-evident, and there are a lot of excititng things going on." But even so, he said, the region is sometimes overlooked in the global development and impact investing community. "I think there's a little bit of an impression from some of the government agencies that there's less need, because the region is more economically advanced than, say, Africa. So there's not $10, $15, $20 million deals which are happening – many of them remain quite small. But they're happening. And what's exciting about it is that the ecosystem is developing. You're getting the financing from a company like mine, but you're also getting the small businesses – whether they're organic soap producers or fair trade coffee or whatnot. And you get the feeling that a critical mass is developing to be able to grow the space further."

Petty discusses the hot spots (and dead zones) for impact investing in the region, and the opportunities available for both lenders and investors, in the video below, part 3 of our Impact Investing Insights series.

The Best-Kept Secret in Impact Investing:

A little-known legal tool lets businesses tap mainstream investor capital - so why don't more social enterprises use it?



Jenny Kassan
CEO of Cutting Edge Capital

Originally published
Friday, August 1, 2014

A common complaint in impact investing is the lack of investment options for non-accredited (ie: non-wealthy) investors. As Jenny Kassan, CEO of Cutting Edge Capital, describes it, "Under existing law, if you're not an accredited investor, which means you have at least $1 million in assets (not including your home) or $200,000 in annual income, you don't generally have a lot of options. So even if you want to be an impact investor, you may not really be able to figure out how to make that happen." Many feel that this limitation hamstrings both socially focused "mom and pop" investors and the social enterprises that could benefit from tapping this investor market.

But Kassan, whose company helps social enterprises try to raise capital in a way that's aligned with their mission, says regular folks – and the businesses that could benefit from their capital – actually have more options than most people think. For instance, she describes Cutting Edge Capital's main tool: a little-known method called the direct public offering, which allows a business to sell securities directly to mainstream investors.

"The direct public offering is a tool where you do a registration at the state level, with the state securities regulators, and that allows you to offer an investment opportunity of whatever kind you want – it could be equity, debt, revenue share – to the general public," she says. "You can accept accredited and unaccredited investors. And our clients ... have had some really good success with it. We find that when regular folks have the opportunity to invest in a social enterprise in their own community, people are really excited to do that. So for example, we have a client that's going to be building a new grocery store in a low-income community in Oakland, and that company was able to raise $1.2 million dollars from California residents, mostly focused in the Bay area. And people were just really excited to support something that's going to be helping a low-income community – and they're also going to be making a decent return on their investment."

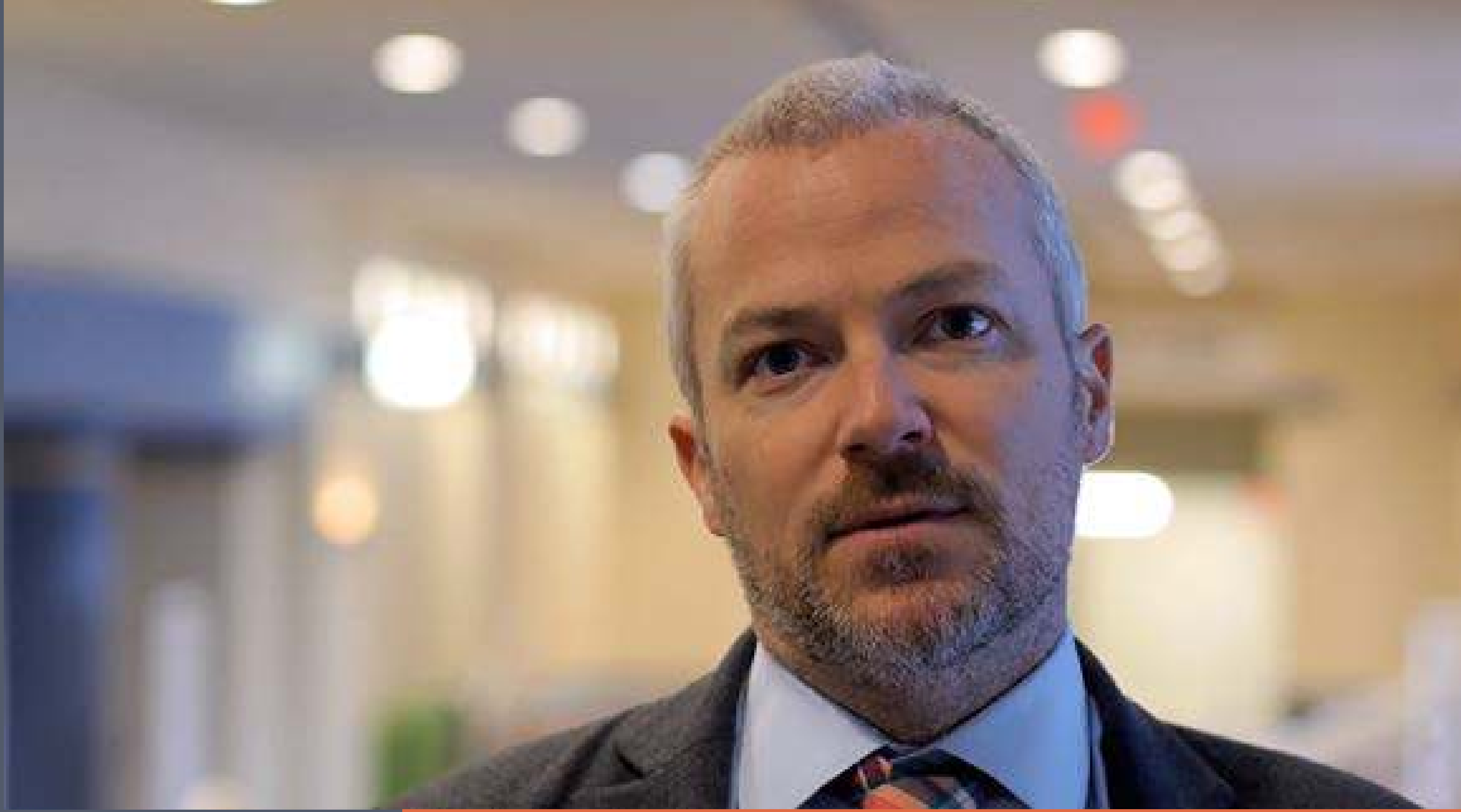
According to Kassan, every state has laws that make this possible – though few companies realize it. "We have clients all over the country – we've done this in New York, Connecticut, Massachusetts, Oregon, Washington, Utah – so every state actually has the legal framework that allows companies to register their offering and be able to accept both wealthy and non-wealthy investors. [But] we're really surprised by how few people are aware that this is possible. There's been a lot of hype around this new law called the Crowdfund Act, which is part of the JOBS Act. And a lot of people who are talking about it are saying 'Wow, for the first time regular folks will be allowed to invest in whatever they want!' Actually, this has been legal for decades, but it is still not very well-known, and not very commonly used."

So with all the complaints about the lack of impact options for mainstream investors, is it fair to say that the fault lies with the social enterprises who fail to take advantage of existing opportunities? "I would blame ... a few different parties," Kassan says with a laugh. "I would say that a lot of lawyers and financial professionals haven't educated themselves about all the different options that are available. So when small businesses come to them asking about how to raise money, they usually just tell them the mainstream way to do it. They either aren't aware of, or don't want to go to the hassle, of doing something that would allow them to accept investment from a larger piece of the population.

"Nobody really knows about it – and we find that when social enterprises find out about it, they're often really excited about doing it. Now it's not the easiest thing in the world to do. You do have to do a registration process with the state, and there are fees that have to be paid, and you have to create a prospectus. So I don't blame businesses that decide that it's not the right way for them to go. But I do wish that more people knew that it was an option."

In the video below – Part 4 of our Impact Investing Insights series – Kassan also discusses the JOBS Act and how it changes the landscape for impact investing (hint: she's skeptical about some aspects of the bill), how other state and federal regulatory changes could affect impact investing and crowdfunding, and whether the impact sector will truly go mainstream in the coming years.

Click to view full interview



Benjamin Skinner, co-founder and senior vice president at Tau Investment Management

The Supply Chains of the Future:

Originally published Friday, August 15, 2014

How Tau Investment Management is using strategic supply chain investment to transform the garment industry

In late 2012, a fire at the Tazreen garment factory in Bangladesh claimed the lives of 112 workers – and it later emerged that two American apparel makers in Walmart's supply chain were using the factory around that time. A little over a year later near the Bangladeshi capital, a concrete building called "Rana Plaza" collapsed, killing over 1,100 people and injuring 2,500 – the worst accident in garment industry history. Since 2005, garment factory fires and collapses have killed at least 1,800 workers.

Yet in spite of these tragedies, the industry has been a boon for Bangladesh's economy, accounting for roughly 78 percent of its total exports and dramatically improving the lives of millions of (predominantly female) workers. But though both retailers and the Bangladeshi government have taken steps to improve worker conditions in the garment industry supply chain, challenges remain.

Tau Investment Management is addressing these challenges through a novel application of what could be termed "impact investing" – though Tau itself is reluctant to call it that.

"Impact investing is a term that we don't wear automatically," says the company's co-founder and senior vice president, Benjamin Skinner, interviewed at this year's Sustainatopia Impact Conference. "The impact from us comes because we're showing that it's highly profitable to do business in a different way. We believe that what we're doing is turnaround and growth equity. It's that simple."

Tau is aiming to raise and deploy a billion dollars to tranform the supply chains of major global brands, which it is currently investing to improve working conditions and transparency in textile manufacturers. "We fix supply chains, in a nutshell," he says. "We look for industries

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... where investment and know-how are needed to turn around vendors, to make them more sustainable, productive and efficient – to make the vendors of the future that are being demanded by certain brands." After revamping the operations of these vendors through its investments, Tau is left with equity in a more profitable company – and workers are left with significantly better working conditions, Skinner says.

Though his company ultimately plans to work with other industries, Skinner says it chose to start with apparel because it was most clearly at an "inflection point" where retailers and consumers were demanding action. "The need was broadly evident to the brands well before the tragedies at Tazreen and Rana Plaza – but those two tragedies made the need evident for the world," he explains. Business factors also played a role in the decision. In the garment industry, he says, "doing business in an unsustainable way has been revealed to be more costly than doing business in a sustainable way. The average monthly turnover rate, for example, in Bangladesh, of workers who are leaving factories to go across the road for a few taka more, is between eight and 12 percent. So the best workers leave as soon as they have the basic training. Their value per minute, as it goes up, is enjoyed by one of your competitors. That's enormously inefficient. So why not make workplaces where people want to work? It's nuts and bolts economics. And it makes for a business proposition that, whether you're talking to factory owners, brands, consumers – and certainly workers – they get it."

When it comes to determining companies in which to invest, he says, "We look for existing companies that have problems, challenges that need to be addressed, and that need capital to address them. But critically we look for good management that wants to do the right thing – and that wants to be one of the suppliers that make the cut as the brands increasingly consolidate." Making that cut is increasingly important, he explains, as public consciousness of supply chain ethics grows, and as the major players in the garment industry and other sectors respond. "Money is lost on the part of companies that weren't doing the right thing, and contracts are gained on the part of companies that were doing the right thing. So there's an obvious market incentive."

And in his view, the strength of this market incentive means that history is moving in a direction that benefits not just ethical supply chains (and investors like Tau), but sustainable capitalism in general. "What we're doing is really accelerating the inevitable in certain industries," he says. "Certain industries are going to change. Just as (electric car maker) Tesla is accelerating the inevitable in the car industry, where because of the destruction wrought by carbon fuels ... there was inevitably going to be change. Tesla just had the foresight to get there first, and to build a sexy car that sold to consumers. So we're essentially doing the same thing in the garment industry. We're reforming it in a way that desperately needs to happen ... and we want our portfolio companies to be the suppliers of the future. Part of the way that we make these portfolio companies more valuable is by making them more socially and environmentally friendly and better on governance and all sustainability metrics – but first and foremost, we're turning 100 million-dollar companies into billion-dollar companies."

A Shift in Focus:

Impact investing needs to concentrate less on problems, more on solutions, says Burckart

Originally published
Tuesday, August 26, 2014

It's easy to forget, but the term "impact investing" has been around for less than 10 years. In that time, it has generated plenty of discussion and some fairly unbridled enthusiasm – perhaps best embodied by the famous 2010 J.P. Morgan and Rockefeller Foundation report declaring that impact investing could see new capital inflows that reach $1 trillion by 2020.

But as the sector's growth has (so far) failed to keep up with those lofty projections, it's fair to say that the buzz has outpaced the results.

"I think that impact investing, more than anything, has really achieved this idea of being a concept that folks are excited about, and want to engage in," says Bill Burckart, managing director of Impact Economy North America. "It's not as much of a challenge anymore to really educate people on it, to get them excited about it. I think that what I haven't yet quite seen is that there are … market gaps that still need to be filled – whether in terms of knowledge, products or activity."

One of these gaps, he says, is "the issue of transparency: if we can't demonstrate in a very meaningful way the impact of these investments, then the whole point of impact investing becomes moot. But then also looking at the deal side … in that particular area, it's the challenge of getting folks to understand the complexity of these transactions. There's a lot of effort that needs to go into creating investable opportunities, whether it's from structuring, to looking at government incentives, to looking at how the market would respond to products like this. I mean, first do no harm: we want to scale really promising investments, but we also don't want to actually harm certain industries or certain themes, in terms of making social progress."

Bill Burckart, managing director of Impact Economy North America

Asked where he sees the sector in 10 years, Burckart raises the possibility that impact investing won't be able to adequately address the challenges that have limited its growth so far. But he also paints a far rosier picture: "I'm more optimistic, because of what I'm seeing: major investors that are increasingly … looking for ways to harness impact investing within what they do, to meet philanthropic mandates but also to match financial motivations – to essentially meet the growing client demand that is out there. I think you're seeing corporations that are increasingly … looking at the future growth of their business, at future competitiveness, and how it's going to be tied to sustainability, to products and services that speak to the core feature of what these companies do, but that also address these environmental and social objectives."

But even with this growing focus on social impact among the major players, he says, the path forward won't be an easy one. "An Accenture study that came out in 2012 signaled that a majority of executives of these major companies have seen sustainability as the key to their competitiveness, particularly in breaking into the BoP and other high-growth areas. But then in 2013, they did a follow-up where they said that these CEOs have expressed that they've hit walls, that they are struggling on their ascent to sustainability, to really implementing it fully."

The best approach, he says, is to focus less on identifying challenges, and more on addressing them. And solutions do exist, including "things like corporate impact venturing, which is really harnessing venture capital in the context of impact investing. The more that we start seeing folks pivot from identifying the problem to actually providing solutions, I think in 10 years we'll have a more robust market."

Burckart discusses several sector challenges and innovations, assesses the impact of U.S. government regulations on its growth, and touches on other topics in the video below, part 6 in our Impact Investing Insights series.

Click to view full interview

Originally published Thursday, October 16, 2014

Funding to Reach the Tipping Point:

Doug Balfour, CEO of Geneva Global, on how to spark collaboration that amplifies social impact

Geneva Global is an international philanthropic professional services company that works with wealthy individuals, corporates and large foundations to fund local social impact projects worldwide.

The company has been working for 15 years, making some $200 million in grants in 100 different countries. And over time, according to its CEO Doug Balfour, it has fine-tuned the way it works with local community-based organizations to maximize its philanthropic bang for the buck. "Fundamentally, what we've learned is that unless you actually bring them together and concentrate local organizations, you don't get more than the sum of the parts," he says.

Prior to 2006, Balfour explains, Geneva Global took a more standard approach, funding an assortment of different organizations all over the developing world. But though the results were solid, they didn't add up to the kind of impact the company hoped to achieve. So instead of accepting modest results in many places, it decided to aim for a major impact in specific geographies. "Our interest is in focusing on social transformation in a given place, with a population of maybe 50,000 – 200,000 people," he says. "[We're] really focusing that energy so that you create a virtuous cycle of education, health, economic development, economic empowerment – activities all happening at the same time. So you potentially get to a tipping point and see real, sustainable, long-term social change."

In catalyzing this sort of change, Geneva Global supports a wide array of organizations – but though they're often focused on similar missions and geographies, Balfour says, some of these organizations have never spoken to each other, and their leaders have never even met. He chalks this up to the natural competitiveness that non-profits share with their for-profit counterparts – but he says he has found a way around it. "[Non-profits] are essentially competing with people offering products and services of a similar nature," he explains. "So the key is to figure out the incentives. If you can incentivize organizations so that the opportunities coming from the collaboration are greater than the sense of losing out ... then you actually get people working together."

But after that funding runs out, do these organizations continue working together, or does their competitive nature reassert itself? In the video below, part seven in our Impact Investing Insights series, Balfour discusses this and other questions – including whether the Millennial generation can succeed where the Baby Boomers failed in making business sustainable.

Click to view full interview

Four Insights from Four Investors:

Practitioners of impact and angel investing share their views

Originally published Thursday, November 27, 2014

As our Impact Investing Insights series concludes, we've compiled the views of four practitioners on topics like impact assessment, crowdfunding, and the advantages of socially responsible investing. You can read excerpts below, or check out the video for their full perspectives.

Bethann Kassman

CEO, Go Beyond Network

What are some of the most interesting developments you've seen in angel investing in recent years?

Kassman didn't hesitate to bring up the biggest trend she's seen lately: crowdfuding: "It's just starting here in America, where you can invest for equity as opposed to a gift, like Kickstarter. But crowdfunding is changing the landscape for all angel investors. And what we're seeing is a lot more of the traditional angel bulletin boards and companies are now approaching crowdfunding. There are pluses and minuses that go along with this new development … but it opens up the playing field for the average person worldwide to invest in any company that they choose to invest in."

Peter Johnson

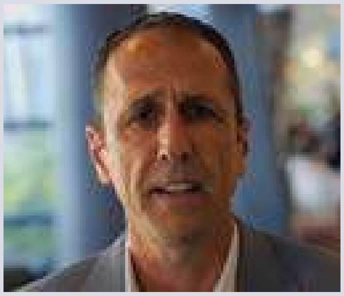
Partner, Developing World Markets

What do you wish mainstream investors better understood about impact investing?

"When we evaluate the social impact component of a particular investment, I would love it if they would understand what we do," he said. "We actually look through to see how that enhances the financial return – what I'm referring to is essentially reducing risk, reducing volatility. … When you reduce risks because the client really believes in the loan, and uses it for productive purposes, then you've built in both the means and the motive for them to repay, and that becomes a more reliable income stream. And we find, therefore, that the social impact and the financial side are self-reinforcing: the highest quality standards in both lead to the highest quality investments."

Rob Hanna

Social Wealth Investment Management



How can impact assessment can be simplified?

"The learning is in the doing," Hanna said. "And a lot of groups either don't explore and take the time and the discipline to actually get some on-the-ground experience with measuring impact. They kind of take what's out there — and there's not a lot out there that's been proven in operational use — and so they default back to what they know, and what's easier to communicate and use as an operating conceit." He used the example of a balance sheet to illustrate how impact can be measured intuitively and easily on an individual basis: either the targeted social benefit is being achieved, or it isn't. "It's really that simple, and I think we try to make these externalities so much more complex and systemic before we even have the basic elements operationally working on the ground. And I think that's where the error has been: people are trying to approach it too much from an abstract, theoretical level, as opposed to just making it work as an operational framework."

Helen Rake

Owner, Synergy Asset Strategies

What are some of the misperceptions about impact and socially responsible investing that you've noticed among the investors you work with?

"A lot of what I heard when I initially started to bring it up to my clientele was, 'What is that? Isn't that for environmentalists?'" Rake said. "There was this interesting perception that ... you had to be kind of a progressive pioneer in that area to really be able to participate." Consequently, when she asks her clients if they are interested in socially responsible investing, they often say, "Oh, no ... I don't think so." But after she asks them if they'd rather invest in a company that allows child labor or sweat shops, or one that treats their employees well (all other things being equal), Rake said that they invariably choose the latter. Her response: "Then guess what? You're really, in the broadest definition, a socially responsible investor. I want them to know that is an option, and it's a great option, because not only do you get to invest according to your values and feel good about what you're doing, but you can actually make more money doing it."

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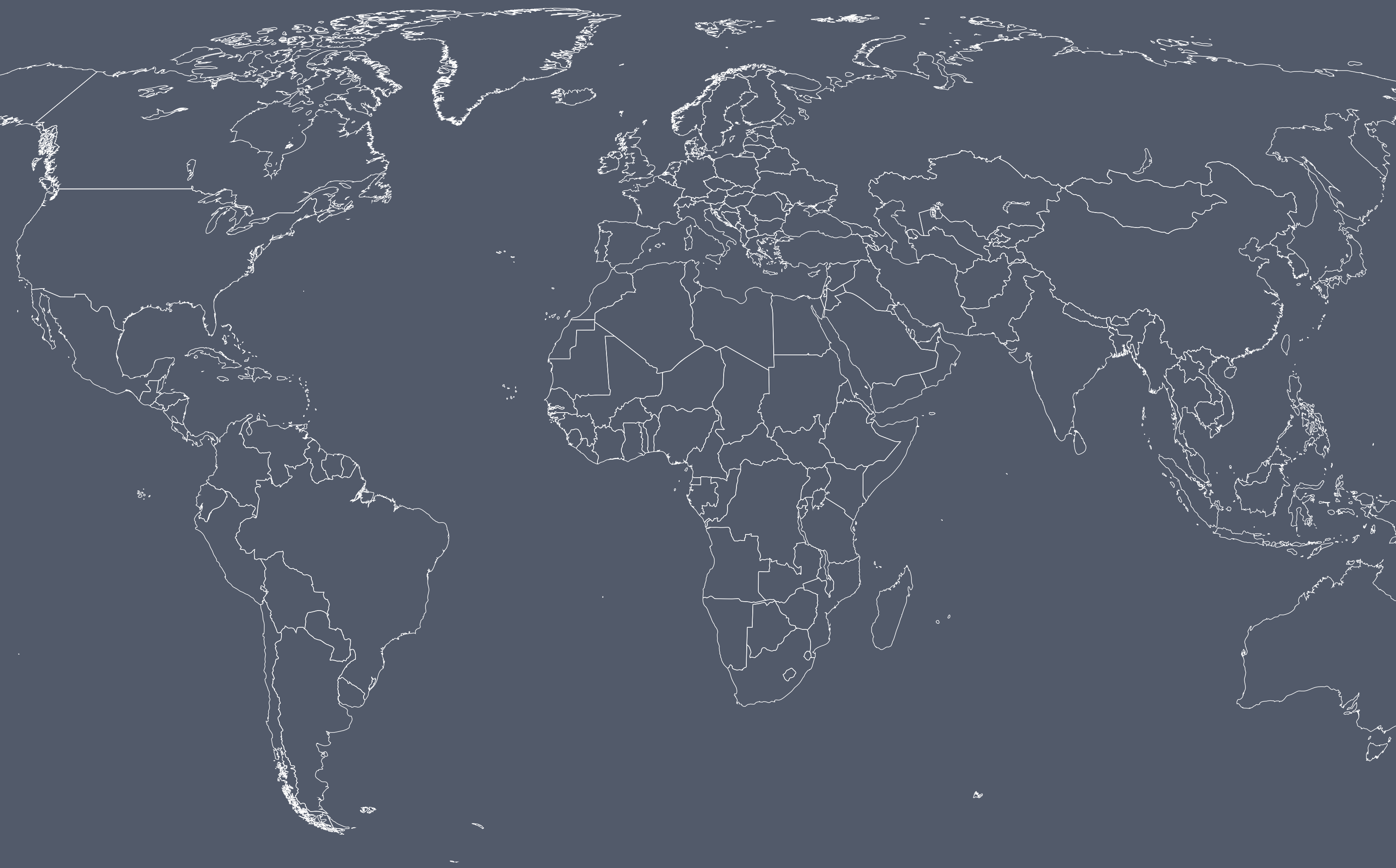

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