

A FRAMEWORK FOR ACTION:

SOCIAL ENTERPRISE & IMPACT INVESTING



United Nations Global Compact



Rockefeller Foundation

Innovation for the Next 100 Years

A Framework for Action: Social Enterprise & Impact Investing June 2012

About the United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to voluntarily align their operations and strategies with ten universally-accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals, including the Millennium Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate policies and practices. Launched in 2000, it is largest corporate responsibility initiative in the world, with over 10,000 signatories based in 140 countries. For more information: www.unglobalcompact.org

About The Rockefeller Foundation

The Rockefeller Foundation supports work that expands opportunity and strengthens resilience to social, economic, health and environmental challenges—affirming its pioneering philanthropic mission since 1913 to promote the well-being of humanity. The Foundation operates both within the United States and around the world. The Foundation's efforts are overseen by an independent Board of Trustees and managed by its president through a leadership team drawn from scholarly, scientific, and professional disciplines. www.rockefellerfoundation.org

United Nations Global Compact Team: Gavin Power; Bianca Wilson

The Rockefeller Foundation Team: Margot Brandenburg;
Kelly Melia-Teevan; Justina Lai

Developer & Project Manager: Preeth Gowdar

Designer: Hedi Assadi Joulaee

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INTRODUCTION

The combined resources of government and philanthropy alone are insufficient to solve the many development challenges of the twenty-first century. Over the past decade, there has been growing recognition within the private sector of the need to take a greater and more active role in promoting sustainable development globally, through generating employment for youth, empowering women and tackling challenges related to energy, water and hunger. Corporations and investors understand the long-term benefits of contributing to development, and as such, initiatives to advance the sustainability agenda have gained strength in the recent past and will continue to play an important role in the future. However, in the quest for innovative ways to engage the private sector to bolster global sustainability further, a new approach has gained significant momentum in recent years. It is captured by two themes:

- **Social enterprise development**, defined as creating and nurturing micro-, small- and medium-sized businesses that aim for positive social or environmental outcomes while generating financial returns; and
- **Impact investing**, defined as the placement of capital (into social enterprises and other structures) with the intent to create benefits beyond financial return.¹

Social enterprise and impact investing, by definition, proactively intend to create positive impact as well as generate profits. Such a for-profit orientation has a twofold effect:

- Financial return potential increases the attractiveness of opportunities that produce a positive impact, drawing more private sector capital to areas that promote development.
- Private sector participation, and the opportunity to generate returns, spurs innovation and growth; commercial capital pushes enterprises to experiment with new business models, capture new opportunities and drive for greater impact.

Both private and public entities could benefit from viewing social enterprise development not only as a responsibility but as a financially or

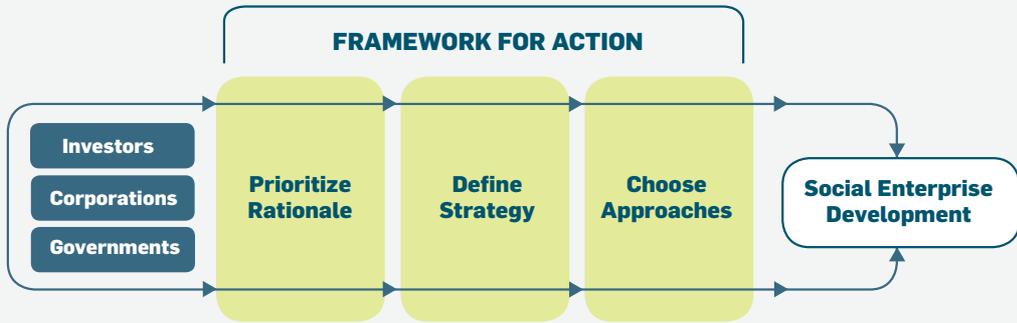
strategically valuable investment. Based on this concept, the United Nations Global Compact and The Rockefeller Foundation seek to encourage investors, corporations and policymakers to explore the potential of social enterprise. They have therefore developed this “Framework for Action” to enable the exploration process. The facets of the Framework are presented through a strategic (and often market-focused) lens, but it is important to note that the philosophy of corporate sustainability — defined as a company’s delivery of long-term value in financial, social, environmental and ethical terms — fundamentally underpins the content.

The scope of a discussion centered on social enterprise and impact investing, depending on one’s perspective, can be broad. However, this Framework for Action is focused on, but not limited to, the following:

- Activities that provide products or services to individuals in low-income populations;
- Intention to proactively create positive value rather than seeking to avoid negative impact;
- Geographic focus on developing and emerging countries.

This Framework aims to assist three stakeholder groups — investors, corporations and public policymakers — in understanding how to navigate the social enterprise and impact investing space. For each of these groups, the guide outlines three steps: prioritizing the rationale for engaging, defining a strategy, and, finally, choosing specific approaches to execute. The entirety of this Framework is structured around these three steps. Each step will vary not only between stakeholder groups, but also among individual organizations. While there is no one-size-fits all approach, the Framework is designed with the intention of allowing a variety of interested organizations to understand, in a structured fashion, how they may be best positioned to engage.

¹ Social enterprise and impact investing overlap significantly, although they are not synonymous. Social enterprises, for example, need more than just investment capital to be successful, while impact investments can be made into non-enterprise structures like loan or equity funds or infrastructure projects. This Framework encompasses both, with a focus on their intersection.



A FRAMEWORK FOR ACTION

PRIORITIZE RATIONALE

Identify and prioritize rationale that support long-term objectives

Low-income populations in developing countries were once of little interest to investors and corporations. Today, however, there is a growing recognition of the substantial market potential those populations offer. These “base of the pyramid” markets are attractive for their size and increasing purchasing power. But because these communities’ basic needs have gone underserved for so long, either by the market, the public sector or both, they are also attractive for the significant pent-up demand they represent. As operating infrastructures are built out locally, well-run social enterprises will enjoy better chances of succeeding commercially, and will thus present greater investment opportunities. The promise of such opportunity presents an invitation to stakeholders who can step in early to these nascent markets.

- Sizeable long-term opportunity
- Strategic value
- Better business environments

Moreover, beyond looking at capital returns, investors and companies stand to harness substantial strategic value. The learning, diversification and risk mitigation opportunities present substantial upsides for engaging with social enterprise and related investments.

Finally, at a broader level, social enterprise development offers an attractive way to accelerate the creation of shared value. Inclusive and sustainable growth promotes economic and social development and subsequently creates a more enabling business environment in which both investors and corporations may prosper.

INVESTORS

Institutional investors, commercial equity funds and philanthropic investors have all made entries, at varying levels, into impact investing. A greater amount of capital is expected to flow into the space for a variety of reasons.

Financial Returns

Impact investments actively seek financial returns. Return expectations vary widely as investors have differing strategies around risk, financial return and impact. Resulting objectives can range from preserving principal to realizing risk-adjusted market returns.

Some investors believe economic activity in low-income markets in developing countries is less correlated with macroeconomic cycles in mainstream commercial markets than other types of investment and offers **portfolio diversification**.

Demand from Impact-Seeking Asset Owners

At the institutional level, asset managers are observing increasing demand from asset owners for socially and environmentally beneficial investment options. In order to **attract and retain clients** who express such a demand, institutional asset managers should begin to create relevant investment offerings.

Learning Value for Direct Investors

Venture investors entering social impact sectors have been able to **learn from the business model and operational innovation** that occurs in low-income markets and use this to add value to other commercially-oriented portfolio companies. Such investors have also cited examples of their impact investments providing **leads to other more commercial investments** with companies that operate in related low-income markets.

CORPORATIONS

In addition to realizing financial returns and bolstering sustainable business activities, corporations have the potential to unlock a significant amount of strategic value on a variety of fronts. This strategic value may easily align with many of the innovation and emerging market growth goals that corporations hold.



New Market Development

Many companies are starting to recognize that low-income populations in emerging markets will offer a significant consumer and supplier base in the long run. To be well positioned for this opportunity, they are beginning to make **learning investments** today that will help them serve that high-potential market segment in the future.

Learning from Innovation

Operating in low-income markets forces companies to innovate in order to create low-cost products, new business models and efficient supply chains. Drawing on their experience with customizing new offerings to the “base of the pyramid”, companies can apply novel business approaches toward this group, improving their core businesses.

Risk Management

Managing social enterprise activity provides not only a means to monitor the operating environment in commercial business regions but also to **build relationships** within that region.

Engaging with social enterprise allows companies a variety of options to **diversify** economically – through entering different markets – as well as operationally – through interactions with new customers, suppliers and products.

Contribution to Corporate Sustainability Objectives

Given many of the rationale described here, impact investing serves as an attractive way for corporations to work towards **achieving their internally developed sustainable development goals** as well as advancing universally accepted principles, such as those set forth by the UN Global Compact in the areas of human rights, labour, environment and anti-corruption. Given the significant scalability and self-propelling growth of many for-profit social enterprises, these businesses have the potential to create more widespread social and environmental impact than less scalable initiatives.

In addition, engaging with social enterprise may bring a host of other more distinctive benefits. For example, renewable energy investments could produce long-term cost savings, selling affordable products could draw valuable long-term loyalty to a brand, and some companies may value broad-based reputational gains from making positive contributions to low-income communities.



GOVERNMENTS

From a public policymaker's perspective, private sector-based social enterprises can be effective in addressing social, environmental and other sustainability challenges that are becoming increasingly costly for governments to tackle alone. However, a number of existing market failures – such as insufficient industry infrastructure and information asymmetry – stand in the way of accelerating corporate and investor engagement with the space. Customized policy can therefore play a major role in fostering impact investing markets. Such policy ought to be of keen interest to governments, which have multiple incentives to create better enabling environments for the private sector both now and into the future.

Increased Capital for Development

Increased private investment in some development-related sectors could allow government spending to be redirected to other sectors less likely to attract private capital and may also reduce dependence on international grant funding. Moreover, a strong private sector ecosystem will promote long-term investment beyond the life of any particular political administration.

In cases where the government directly funds social enterprise development activity, shifting from a subsidy model to a for-profit model provides a source of sustainable funding in areas where it can be effectively deployed. This serves to promote fiscal efficiency, allowing funds to be regenerated and reinvested in new projects.

Advancement of Specific Policy Objectives

Private sector actors may be able to act more quickly than large public bureaucracies and may be more responsive to market opportunities that serve development objectives. Also, such actors tend to provide financial discipline to organizations, or even entire sectors, with a history of dependence on subsidies, making these organizations more efficient in their development impact.

DEFINE STRATEGY

Understand the features unique to each strategy and adopt whichever best align with prioritized rationale

Once an organization has developed its individualized rationale for engaging with the social enterprise and impact investing space, the investor, corporation or policymaker must then consider the range of strategies that exist for entering the field. They will need to evaluate not only which strategies they are most capable of adopting but also which would support their goals given the rationale they have prioritized. Each strategy comes with a unique set of opportunities and challenges that stakeholders should seek to understand carefully.

While considering the various broad-level strategies at hand, an organization will need to determine the timing and size of its intended engagement. Stakeholders have the option to make an aggressive play in the near-term in hopes of investing early for a greater future gain. They could alternatively adopt a more conservative strategy, making smaller investments or developing projects over a longer time horizon in order to test markets and therefore learn iteratively. Most of the strategies outlined in this section can be implemented via either approach.

Target Markets

Investors and corporations will need to choose target markets in terms of both the sectors and geographies in which they wish to invest. Beyond the basic market opportunity, other factors to consider include local regulatory environments and liquidity in private equity and debt markets (especially for financial investors). Also important to consider is strategic relevance based on the rationale initially prioritized — for example, the ability to build relationships in current operation regions, to gain experience in new regions or to learn in sectors where innovation is most ripe.

Governments must consider whether they should seek to shape policy at the national level, local level or both. Also, in addition to deciding where to bolster private sector participation, governments will need to ascertain which sectors most require and are best suited to take in the benefits of private sector engagement.

SAMPLE SECTORS:

- Agribusiness
- Education
- Energy
- Financial Services
- Health
- Housing
- Water

SAMPLE GEOGRAPHIES:

- Africa & Middle East
- Asia & Pacific
- Latin America

INVESTORS

Key considerations for investors to take into account when developing an impact investment strategy include transaction costs, approach to structuring and the level of impact an investment manager seeks to achieve through the social enterprise.

Direct Investments in Social Enterprises

Direct investment is the most active way in which an investor can engage with social enterprise. It offers **strong strategic value**, for example by providing exposure to new markets, but it also requires a high level of involvement, particularly in terms of sourcing and closing transactions. It is a strategy typically suited less to institutional investors and more to venture capital funds, commercial banks, development banks and other investors with an on-the-ground presence in target regions. Investors with deep regional expertise tend to be better positioned to make direct social enterprise investments due to the grassroots operating nature of such businesses.

In terms of the **impact orientation of social enterprises** — that is, the ways and extent to which they achieve positive social or environmental outcomes — investors tend to have a wide variety of choices. In order to standardize the means of quantifying those outcomes and introduce more transparency around claims of impact, a number of industry-level initiatives have emerged to create assessment frameworks and rating services around impact measurement. Investors are encouraged to avail themselves of these tools when making investment decisions.

An increasing number of investors are using the **Global Impact Investing Rating System (GIIRS)** to assess the social and environmental impact of companies and funds. GIIRS adopts a ratings and analytics approach. It allows impact investors to conduct better due diligence, make better investment decisions and track and improve impact. GIIRS is based on the industry-recognized Impact Reporting and Investment Standard (IRIS).

Under the category of direct investing, there are essentially two different roles an investor can assume:

- **Active/lead investor:** This role involves taking the lead on sourcing deals, performing due diligence, closing transactions and actively managing a portfolio of companies. Early or growth-stage social enterprises tend to see great value in such investors since they generally take a hands-on approach to working with their portfolio companies; young enterprises often welcome the governance and advisory that such investors offer.
- **Participating co-investor:** A first-time investor, or one without a strong local presence, can form working relationships with more active investors and participate as a co-investor who provides capital but does not lead an investment round. This strategy offers a low-overhead way of transacting investments. As such, it can serve as an attractive option to enter the impact investing space.

Fund or Intermediary Investments

Participating as a Limited Partner in investment funds can offer the opportunity to make **larger-sized investments** than individual, direct transactions while requiring a lower level of ongoing involvement. It is an approach suitable to a variety of investor types, including institutional investors.

There is a range of intermediary options from which to choose. When adopting this strategy, it is important to determine not only the commercial philosophy and objectives of the fund but also the **impact orientation of the intermediary**. One category of funds can be described as “impact first” investors, for whom the social outcomes of their investments are of primary importance and financial returns are secondary. Alternatively, “financial first” investors give more weight, relatively speaking, to financial return potential. The impact measurement systems previously mentioned are also applicable at the fund level and can be utilized to measure the impact orientation of a fund.

Fund investors also need to think through the **stage of enterprise development** at which the intermediary targets investments. Early-stage social investing, as compared with growth-stage social investing, can have very different implications on risk and potential returns and offer different forms of strategic value.

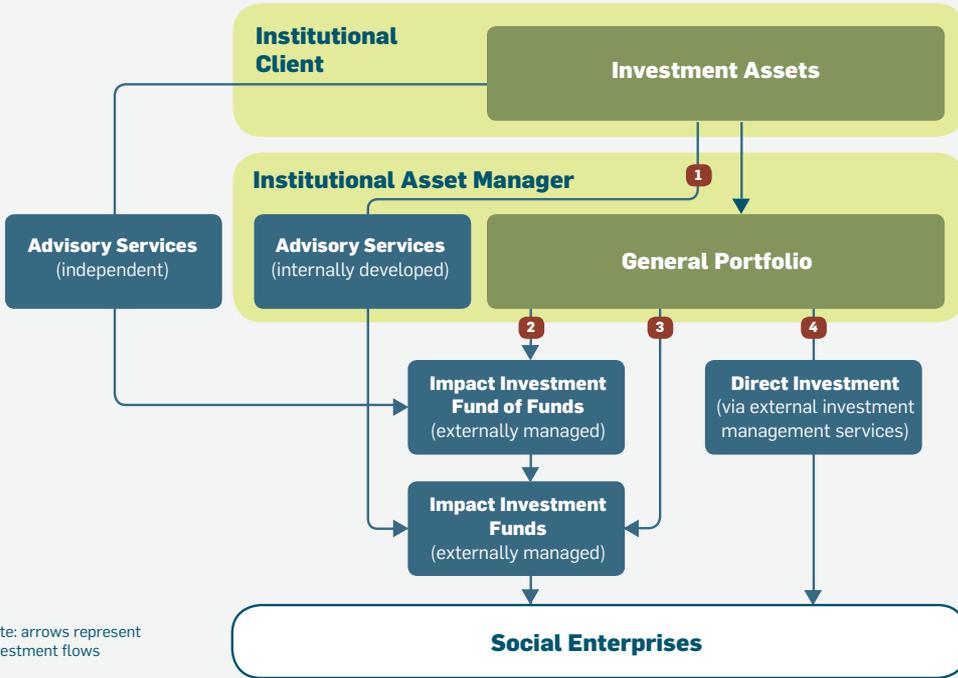
Institutional investment managers who seek to offer impact investment opportunities to their clients have multiple options for structuring fund investments. Because asset managers have a variety of investment capabilities, they have more to consider when deciding upon a strategy. Such asset managers can form a fund of funds, set up an internal direct investing fund, make direct investments in external impact funds or make direct investments in social enterprises with the assistance of an external manager. Alternatively, as a more preliminary strategy, they can simply act as an advisor to their clients in facilitating investments into external funds.

Some fund managers have built impact investments into their broader portfolio, while others seek to offer it as a separate product. In choosing a structure, all institutional investors need to take into consideration their unique situations regarding fiduciary duty and their legal obligations.

Diagrams 1 and 2 illustrate various structures an investor may seek to adopt. While these models encompass a wide variety of options, they are not exhaustive in capturing potential structures.

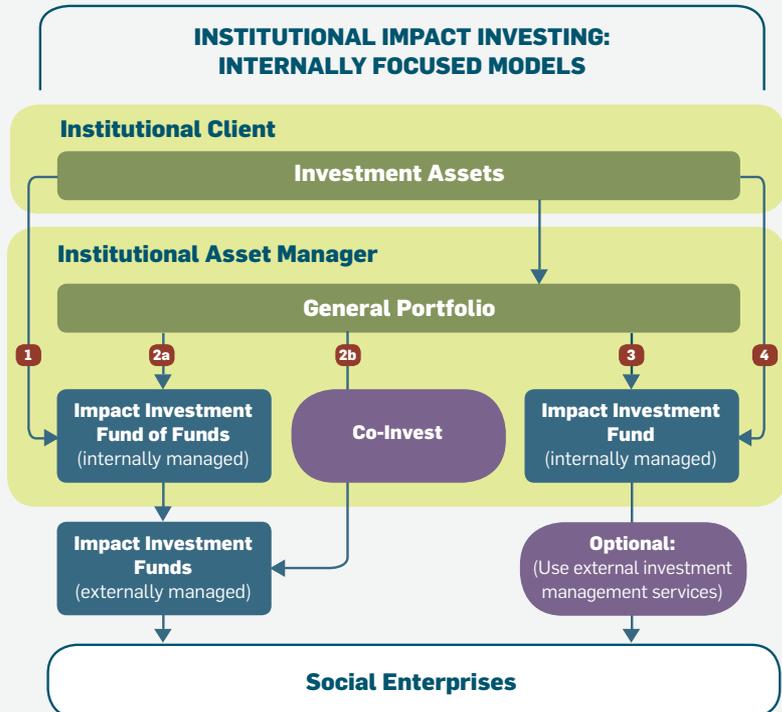
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**INSTITUTIONAL IMPACT INVESTING:
EXTERNALLY FOCUSED MODELS**



2

**INSTITUTIONAL IMPACT INVESTING:
INTERNALLY FOCUSED MODELS**



Structured Financial Products

There are an increasing number of bonds and public equities that go beyond socially responsible investing, which emphasizes avoiding negative impact, and focus on financing projects or businesses that proactively create positive impact. This is the least direct form of investing, and it is also well-suited to institutional investors due to the relatively **low transaction costs** involved.

In terms of structuring, institutional investment managers can either integrate these bonds or public equities into existing investment products or can create a separate impact-dedicated product for select investors specifically targeting the impact space.



CORPORATIONS

Many corporations harbor a diverse wealth of resources that could contribute to social enterprise development. A corporation seeking to enter the space ought to encourage collaboration among various internal organizations to pool resources to engage with low-income markets in order to simultaneously capture value from and add value to these communities.

As with the investor-specific strategies outlined previously, the following strategies also entail varying levels of involvement and organizational change. However, all require an entrepreneurial nature and drive for innovation.

Engage with New Businesses Externally

Creating opportunities inorganically, through external venture investments or partnerships, tends to be the most **efficient way** to explore social enterprise. This strategy can be realized as quickly as a corporation is able to strategize, source and close either a transaction or alliance agreement. External venture investment or partnership strategies possess many of the same characteristics as direct investing, which were outlined previously.

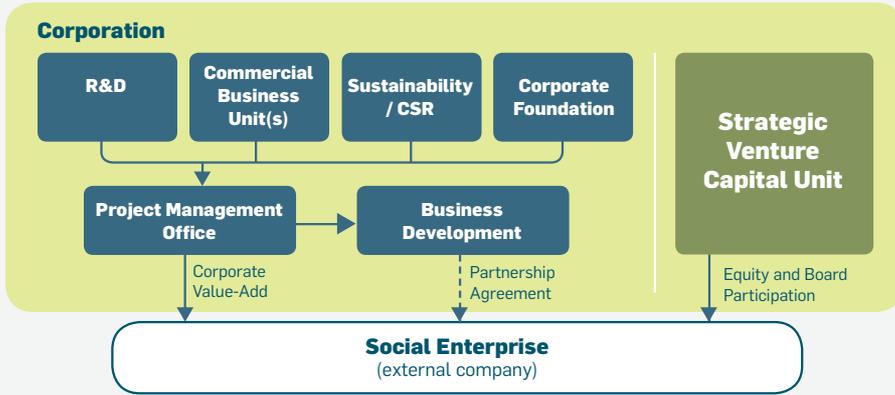
This strategy requires differentiated expertise, for example, in venture investing or partnership negotiation, and may need to be executed out of a Corporate Development or a Corporate Venture Investment group. These groups should seek to lead intra-company collaboration efforts devoted to sourcing financial sponsorship, technical expertise and market intelligence. Broader collaboration can occur with other internal organizations such as:

- **Commercial Business Units:** House a depth of technical expertise and valuable relationships in operating markets that can be leveraged to grow social enterprises.
- **Sustainability/Corporate Social Responsibility:** Offers knowledge on low-income markets and expertise in engaging with core business units to generate positive social and environment impact.
- **Corporate Foundation:** Provides funding sources that carry significantly less pressure to capture financial returns on investment dollars. Foundation funding may need to be targeted more at enabling initiatives rather than in investments that directly benefit the company.
- **Research & Development (R&D):** If tapped effectively, supports product innovation for low-income markets and may also be able to deliver very patient funding for social enterprise opportunities positioned to be largely long-term. R&D is increasingly based out of regions at which potential products are targeted.

Diagrams 3, 4 and 5 illustrate a few sample collaboration structures that corporations can consider implementing. Corporations should seek to explore the many possible variations to these structures in customizing a strategy for their organization.

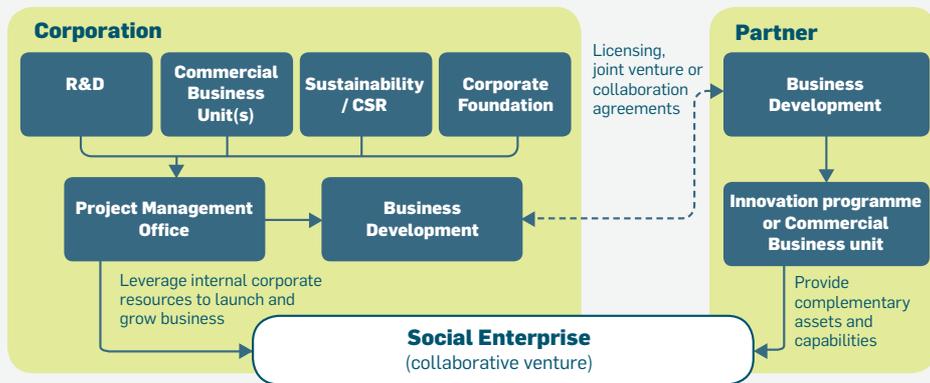
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**CORPORATE SOCIAL ENTERPRISE DEVELOPMENT:
INVESTMENT MODEL**



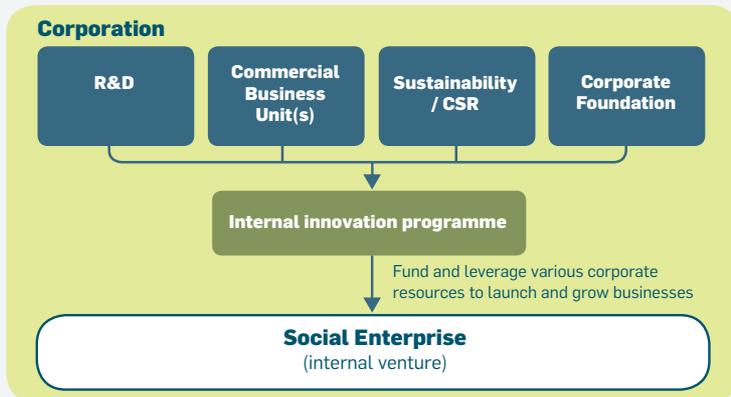
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**CORPORATE SOCIAL ENTERPRISE DEVELOPMENT:
STRATEGIC ALLIANCE MODEL**



5

**CORPORATE SOCIAL ENTERPRISE DEVELOPMENT:
INCUBATION MODEL**



Launch New Businesses Internally

A company may choose to create new businesses internally as a means of engaging with social enterprise. This strategy is often characterized by incubating social enterprise business models and subsequently building them out on a more widespread, commercial basis. As these can be rigorously entrepreneurial projects, they are often best launched through internally funded innovation programmes or even as separate joint ventures with innovative partner companies. The incubating organization must have high risk tolerances and the skills and capabilities to translate ideas into business ventures.

In terms of structuring, once these businesses reach critical mass, they often need to be spun off into independent business units (rather than integrated into existing ones) given that social enterprise activities require a unique and highly customized operating model.

Very similar to external business creation, organic business creation can leverage other capabilities within the corporation, such as the venture investment unit, existing commercial business units, corporate social responsibility or research & development.

Realign Existing Core Business

This strategy is among the most intensive ways for a corporation to engage with social enterprise, but it also offers the highest level of engagement and, hence, opportunity. A company must have or be willing to establish a significant presence in low-income markets and potentially invest in new local infrastructure, including staff and operating systems. In many cases, this involves a significant degree of organizational change.

Many companies recognize the need to customize products or supply chains to suit low-income markets, rather than simply adapting existing products and supply chain systems to these markets. Implicit in this assertion is the fact that adopting such a strategy would require a significant and relatively long-term commitment to the market – something that may understandably cause some companies to hesitate. However, companies do have the option of adopting a more staggered approach to this strategy (for example by first focusing on low-income urban markets and then moving to more difficult rural markets), thereby easing their entry and reducing some of the immediate-term challenges they would otherwise face.



GOVERNMENTS

As outlined below, governments can choose to shape impact investing and social enterprise activity either as a direct participant in impact-oriented markets or as an outside influence. However, regardless of the strategies it selects, a government must take care to ensure that its interventions are well targeted, transparent and implemented efficiently at a fitting scale and for the appropriate duration.

Increase Inflow of Capital

This strategy serves to improve the overall availability of capital in the social enterprise space by helping investors overcome structural barriers to impact investing.

- **Influence strategy:** Create regulations or mandates that direct how investors can or should invest capital.
- **Participation strategy:** Develop co-investment opportunities to attract investors via risk-sharing arrangements.

Direct Capital

Such policy enables capital to be shifted to areas that may require greater investment. It allows the government to target specific priority sectors for further development, especially when there is a long history of underprovisioning of social goods in the area.

- **Influence strategy:** Implement programmes and regulation to encourage investment through improved transaction efficiency and market information.
- **Participation strategy:** Leverage direct government investment to promote products or services that create positive social impact.

Strengthen Enterprises and Intermediaries

This strategy focuses on building the demand for investment by improving investment attractiveness and capacity of opportunities in the longer-term.

- **Influence strategy:** Create enabling corporate structures that help to simplify investment entry, take advantage of policy incentives or provide a clearer path for impact investors.
- **Participation strategy:** Offer tools that serve to mitigate investor risk by ensuring a minimum rate of return or by taking a first loss position.

CHOOSE APPROACHES

Choose the approaches that most effectively advance your defined strategy

Once established, an impact investing, social enterprise development or enabling policy strategy can be implemented through one or more approaches. These are the diverse set of options with which an investor, a company or a government can actively engage in the impact investing and social enterprise space; they are the conduits through which social or environmental impact is ultimately achieved. While the list below is by no means exhaustive, it details a number of both common and innovative options for promoting an engagement strategy and its underlying rationale. For illustrative purposes, the list is supplemented with several brief examples of how a range of commercial institutions and governments has used these options to engage with the space.

INVESTORS

Debt and Equity Investment in Social Enterprises

An array of investable social enterprises exists throughout various sectors and regions of the world. These companies offer opportunities for both equity and debt investments.

Due to the nascency of the sector, typical investment opportunities demand seed- and growth-stage capital, more so than later-stage private equity funding. Hence, investments may be suited to investors who can work with the smaller transaction sizes required by early-stage companies.

This approach provides direct investors with the opportunity to engage by providing strategic advisory, management support and technical assistance.

Sequoia Capital, a Silicon Valley-headquartered venture capital fund, with a local presence in India, has made direct investments in socially beneficial areas such as financial inclusion (Ujjivan Financial Services, Indian Shelter Finance Company), affordable education (K12 Techno Services) and affordable healthcare (Glocal Hospitals). Sequoia's investments were made on the premise that these institutions have potential to scale in India's urban and rural markets.

SNS Impact Investing is the development investing arm of **SNS Asset Management**, a Netherlands-based institutional asset manager. The unit employs a unique model, whereby it works with outside investment managers to source and close transactions in target companies. SNS Impact Investing focuses on making long-term investments in microfinance, agriculture and other areas in frontier and emerging markets.

Incubation and Seed Funds

Among many social investors, there is growing recognition that in order to improve the ability of the industry to absorb capital and develop a strong future investment pipeline, more early-stage capital, combined with capacity building assistance, is clearly needed. This realization has spurred the launch of a number of early-stage incubation programmes. These incubation programmes or seed funds often require more patient investors who have a higher risk tolerance.

Whereas seed-stage or angel investments in social enterprises have traditionally come from philanthropic sources, the commercial opportunity for incubation funds is ripe as many markets hold a substantial amount of growth capital. There are a number of later-stage investors seeking to help investee companies accelerate through their next stage of growth and, eventually, towards secondary sale opportunities for seed-stage investors.

Growth-Stage Funds

Social investment funds: These “impact first” funds seek both social impact and a financial return but place priority on the former. Hence, their investor base tends to consist mainly of more philanthropic investors.

These funds may utilize equity, quasi-equity or debt instruments. Several are globally diverse, but many regionally focused funds exist as well.

Commercially-oriented social investment funds: These “financial first” funds, which prioritize financial objectives, seek “market-rate” returns while also explicitly pursuing a positive social impact through their investments. Traditionally, development finance institutions have been a main source of capital for such funds, though they are now seeing increasing interest from other institutional investors and corporate investors as well. Like “impact first” funds, these funds also employ a variety of capital instruments: equity, quasi-equity and debt, and they may be either globally diversified or regionally focused.

Acumen Fund is a US-based non-profit organization that makes venture investments in social enterprises across a range of countries and sectors. Considered an “impact first investor”, Acumen’s investors include institutional entities (e.g., Bill and Melinda Gates Foundation), corporate foundations (e.g., Google.org) as well as other philanthropic investors (e.g., Skoll Foundation).

Bamboo Finance, headquartered in Switzerland, is considered a commercially-oriented social investment fund and also invests globally and across sectors. It has a diverse institutional investor base comprising private banking clients, family offices, pension funds, a hedge fund, a sovereign wealth fund and others.

Impact Base, an initiative of the Global Impact Investing Network (GIIN), provides a range of prospective impact investors with a tool to search for funds that may fit with their impact investment interests and objectives.

Loan Guarantee Programmes

Loan guarantee funds serve as collateral for securing loans to social enterprises or investment funds targeting social enterprises. Overall, they can be useful tools to help stimulate access to finance. They are less common than traditional investment instruments but may be a more frequently used tool in the future. On a separate note, but related to reducing risk, investors may also offer or make use of insurance products, which cover areas such as political and currency risk.

Structured Financial Products

Investment managers have been using negative screens to filter out investments that may have associations with negative impacts to the environment or society. However, investors are now increasingly using positive screens to identify impact investing opportunities.

- **Bonds:** A number of financial institutions have begun to offer bonds that are used to finance the development of environmentally or socially beneficial projects. These fixed-income instruments often provide market rate returns.
- **Collateralized Debt Obligations (CDOs):** These structured vehicles have been used in the past, primarily in the microfinance sector, but it remains to be seen whether they will become a highly prevalent option in the future.
- **Equities and mutual funds:** Though social mutual funds have increased in prevalence, equities are still limited in number. Eventually, as many social enterprises mature, i.e., absorb larger equity investments and ultimately become listed on public markets, there will be a larger number of equity-based products available – especially with the possible future advent of social stock exchanges.

The **International Finance Facility for Immunisation**, a development finance institution, has raised more than US \$3 billion in bonds since 2006. **HSBC** and **Daiwa Securities**, among others, have assisted in underwriting these securities in the Japanese capital markets. Both retail and institutional investors have invested in these bonds, financing projects that immunize children and strengthen health systems in the world’s poorest countries.





CORPORATIONS

Strategic Investments & Partnerships

Strategic venture investments: Many corporations develop venture capital programmes that are intended to advance the strategic objectives of the firm, typically by making commercial investments in external companies. One approach a company can take toward impact investing would be to leverage such programmes to make investments in social venture funds or directly in high-potential social enterprises.

Cisco, a global networking technology company, invested in Aavishkaar, a venture fund founded to promote development in rural and semi-urban India. Cisco aims to promote technology-enabled inclusive growth and seeks to use this investment as a way to learn about the market and accordingly align technology innovation.

Starbucks, a global coffee company, invested in Root Capital, a social investment fund that provides financing and training for rural communities across sub-Saharan Africa and Latin America. The investment enables Starbucks to strengthen and stabilize its supply chain.

Intel Capital invested in Altobridge, an Irish company, which brings affordable mobile voice and Internet connectivity to underconnected communities in remote regions of the world. Intel Capital and Altobridge seek to bring the social and economic benefits of mobile connectivity to these populations. This investment aligns with Intel Capital's goal of engaging with innovation and entrepreneurship in emerging markets.

Strategic alliances: 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 organization. An alliance can be especially useful when engaging with low-income markets, as it can bring together the strengths of companies with relevant market experience or infrastructure and companies that possess valuable, relevant assets (for example, mobile phone platforms, solar technology and others). Partners could include other commercial organizations or even NGOs and other civil society organizations whose missions, resources and expertise may align with the firm's interests in engaging social enterprises and that can help maximize ultimate impact.

Though "base of the pyramid" markets most often require highly customized and localized solutions, corporations should not overlook the innovation and resources that can be leveraged from more developed countries.

Cemex, a global building materials company, based in Mexico, created "Patrimonio Hoy" to provide a market-based solution that supports affordable housing development for low-income families. Patrimonio Hoy sells Cemex building materials at average market prices and offers microfinancing, technical advice and logistical support to its customers. They have partnered with community organizations to train women promoters on financial literacy and sales with local Cemex distributors to supply related products. The programme has opened new markets and revenue streams for Cemex in Mexico and across Latin America.



Incubation

The **creation of new businesses** can start either at a microlevel or immediately on a more substantial scale. A microlevel approach may involve sourcing ideas through internal innovation competitions and then using business accelerators to grow them into business pilots. On a greater scale, new businesses can also be launched by gaining leadership buy-in and raising sizeable internal investment to pilot large-scale greenfield projects. Companies with limited experience in low-income markets may wish to use an approach that resembles more the former, while a company already operating in such a market may adopt the more ambitious approach.

Mahindra Finance, a subsidiary of Mahindra & Mahindra, one of India's largest conglomerates, noticed that rural housing was a substantially underserved market. In response, it created a new corporate entity called Mahindra Rural Housing Finance (MRHC), which leveraged Mahindra Finance's market knowledge but created a completely new business model to venture into rural housing finance and cater specifically to the low-income segment. The business was launched directly out of MRHC and, after a pilot in two states, was expanded more broadly.

New Product Development

Companies that have the ability to innovatively customize products or services to address the basic needs of low-income populations are well positioned to enter the social enterprise space directly. Their ability to tap relevant distribution networks to sell their new offering in volumes that justify the development costs will be key. Companies would likely need to seek external partners to effectively market, sell and possibly provide complimentary financing services for their products.

Procurement

Supplier realignment can help a company achieve impact either indirectly, by procuring through social enterprises, or directly, by transforming the firm's supply chain to source from low-income producers. Approaches can range from directly sourcing agricultural produce from small-scale farmers to utilizing business process outsourcing services that specifically employ low-income populations. Such supplier engagement can provide cost benefits as well as contribute to overall supplier diversification.

The **International Finance Corporation**, the private sector arm of the World Bank Group, provided investment and advisory services to **ECOM**, a company that engages with small-holding coffee growers in Central America to support farm productivity and certification. It provides financing and technical assistance to these farmers, who in turn help ECOM to meet the market demand for high-quality, certified premium coffees and capture related sales premiums; and overall, to scale its certified coffee business.

SK Telecom, a South Korean wireless telecommunications operator, set up an affiliate called "Happy Narae", which contracts with suppliers that hire largely from disadvantaged populations. Such suppliers can be competitive in that they are able to realize benefits from tax breaks and other incentives (offered through South Korea's "Social Enterprise Promotion Act") and high employee retention rates.

Distribution Realignment

This may involve either establishing new distribution systems or taking on new distribution partners in low-income urban or rural areas. Such realignment can provide access to new markets for corporations.

Nestlé Brasil created "Nestlé Até Você", or "Nestlé Comes to You", a door-to-door sales system where Nestlé employs and trains microdistributors (largely women in low-income neighborhoods) to sell their products. This programme provides Nestlé Brasil with better access to a new market segment.



GOVERNMENTS

Targeted Incentives

Tax incentives: With tax credits, a government would provide tax relief to investors in exchange for making qualified investments in businesses that target development projects or serve low-income communities. Tax incentives ultimately divide a subsidy between investors and beneficiaries and should be carefully evaluated against direct investment. They must also be sufficiently targeted to avoid crowding out intended beneficiaries and diluting the potential impact of the intervention.

Subsidies: Direct subsidies can provide a very strong incentive. However, they must be carefully employed as they tend to not be economically efficient and can distort markets in that beneficiaries can develop a long-term reliance on their subsidies.

The **Indian Ministry of New and Renewable Energy** supports Husk Power Systems (HPS), a company that provides affordable electricity to rural areas, with subsidies that partially cover the set-up costs of its renewable energy plants. The Ministry has partnered with HPS alongside several other social, commercial and corporate investors.



Procurement mandates: Governments can indirectly increase investment and promote inclusion by setting mandates for public sector institutions to follow when contracting with, purchasing or licensing from businesses.

Capital and Technical Assistance Programmes

Funding programmes: These programmes provide direct financial assistance (grants, loans, equity) as well as other products (guarantees and first loss positions, insurance) to businesses in target sectors. Capital programmes should seek to enter markets or economic segments characterized by low private sector interest but with future potential for more robust private sector participation after capacity building efforts.

The **Inter-American Development Bank (IDB)** is a multilateral development finance agency supported by 48 member governments. The agency set up the Social Entrepreneurship Program (SEP), which offers loans and supports technical assistance to sustainable, and ideally scalable, businesses and projects that address socioeconomic issues of poor and marginalized populations in Latin America and the Caribbean. It has thus far invested in sectors such as microfinance, energy, health, water and education.

Technical assistance: Capital programmes often include capacity building services (technical assistance, education, partner linkages) either as a complement to their financial assistance or as a stand-alone market building initiative.

Co-investment: Governments can participate in a more direct manner by making co-investments alongside private investors. Co-investment opportunities allow for greater risk sharing and hence serve to further attract private capital. More broadly, such offers would also provide positive market signaling to private interests. Co-investments, or public-private partnerships, can occur either directly at the social enterprise level or at the investment fund level.

Regulation Reform

Investment regulation: Policymakers can modify regulation to provide greater flexibility for investment, for example, by loosening caps or by removing restrictions around the use of financial instruments. The challenge lies in ensuring that these broad-based policies create specifically intended impacts. Hence, they may often require more focused overlay policies to better shape desired outcomes.

The **South African Government**, using a broad stakeholder model, including active participation by the investment industry between 2009 and 2011, reformed pension fund investment regulations effective from 2012. The new Regulation 28 increases the percentage allowance for investments allocated to private equity asset and debt asset classes and introduces principle-based regulation across the portfolio to enable investments that are socially and environmentally sustainable. Regulation 28 is expected to increase demand around impact-oriented investment themes.

In 2005, regulators in **Peru** gave pension funds additional options to diversify their portfolios into multi-fondos, or "multiple funds". This led to a larger volume of institutional investment in private equity, which in turn may have led to greater investments in small, underinvested businesses.

Legal reform: Several organizations are currently advocating for the creation of legal structures that cater specifically to the goals and needs of social enterprises. Proposed structures could allow for-profit investments (not allowed while registered as a non-profit organization) in a newly recognized entity, and at the same time provide fiduciary alignment and improve transparency, reporting, and governance around social and environmental performance.



Legal reform can also be used to more directly promote greater overall investment supply. Impact investing funds tend to be smaller in size than traditional commercial investment funds. Policymakers can help to reduce the overhead involved in setting up and operating investment funds by creating simpler processes and requirements, and thus encourage capital inflows.

B-Lab, a US-based non-profit organization, is promoting legislation to create a new corporate form that meets higher standards of purpose, accountability and transparency. A distinct legal entity, while providing investor and director protections, could enable market differentiation, focused investor interest and targeted policy treatment.

Priority sector norms: Governments can mandate that private sector financial institutions invest a fixed percentage of their assets in target markets. Such norms can be used to allocate credit or other forms of investment into marginal or underserved sectors. Implementing such a policy can serve social enterprises well by increasing their attractiveness as an investment opportunity for financial institutions seeking to meet allocation requirements.

For decades, the **Reserve Bank of India (RBI)** has required all public and private banks to direct a fixed percentage of lending to "priority sectors", which it defines as underserved or priority areas for economic growth. These requirements have driven significant funding towards microfinance institutions, which provide financial services to poor urban and rural borrowers in India.

CASE STUDIES

INVESTOR

TIAA-CREF

A Fortune 100 financial services organization, TIAA-CREF is a retirement system for Americans who work in the academic, research, medical and cultural fields. TIAA-CREF pursues impact investing through its Global Social and Community Investing Department within the company's Asset Management division.

Rationale: Client interest in social investing was part of the reasoning for creating an impact investment programme supporting areas such as global microfinance, community bank deposits, corporate social real estate and green building technology.

Strategy: It has committed capital of more than USD 120 million in microfinance through its Global Microfinance Investment Program (GMIP). The programme seeks to make investments in leading microfinance companies and private equity funds. GMIP captures a wide range of microfinance models and products, including small deposits, microinsurance and small and medium enterprise lending. This strategy is funded by the TIAA General Account, which is not available for direct investment but supports the claims-paying ability of guaranteed annuities.

Approach: As part of the GMIP, TIAA-CREF has invested in the equity fund of Developing World Markets, a commercially-oriented asset manager that focuses on microfinance. TIAA-CREF has also made a direct equity investment in ProCredit Holding AG, which is the parent company of 21 microbanks that operate in Africa, Latin America and Eastern Europe.



CORPORATION

Safaricom

A Kenya-based corporation, Safaricom is a large mobile network operator. It manages M-Pesa, a mobile money platform enabling the affordable transfer of money between individuals using a network of retail agents. M-Pesa serves customers throughout Kenya and other countries.

Rationale: The project was initially launched as an experiment in applying a private sector solution to create development impact, but Safaricom then saw the opportunity to extend its service into a completely new business — that is, payment services. M-Pesa offers a substantial new revenue stream, especially given the size of the unmet need in the market, and provides a way for Safaricom to retain customers in its mainstream mobile segment.

Strategy: Safaricom approached Vodafone to partner on initial concept development. Safaricom offered an expansive and robust market presence and in turn would be able to leverage Vodafone's technology solution. Their complementary assets and competencies offered a high-potential partnership.

Approach: Vodafone and Safaricom, together with other partners, created a pilot programme. Upon successful completion of the pilot and validation of the potential opportunity, M-Pesa was launched as a separate entity to be operated by a dedicated department within Safaricom; the technology is owned and hosted by Vodafone.





GOVERNMENT

The Small Industries Development Bank of India (SIDBI)

Set up under an act of Indian Parliament, SIDBI is a financial institution that promotes the micro-, small- and medium-sized enterprise sector. Its domains of interest include small-scale industrial units, financial services, healthcare and transportation, among others.

Rationale: SIDBI was created to foster and develop sustainable and scalable companies, including ones that engage the “base of the pyramid”. Such enterprises contribute strongly to inclusive growth, a high priority in India’s economic development agenda. SIDBI aims to help engage the private sector and increase the capital resources available for development.

Strategy: As a development bank, SIDBI seeks to invest in target companies and better position them to succeed in private sector markets. SIDBI works to strengthen and build the capacity of microfinance institutions, rural enterprises, energy efficiency projects and other impact initiatives.

Approach: SIDBI uses a range of financing tools (including loans and equity) to achieve its goals. However, it also provides innovative forms of non-financial assistance. It offers training and education programs for entrepreneurs as well as local lenders and a nationwide database connecting entrepreneurs to investment packages from potential financiers. It has also led infrastructure-level initiatives, such as developing credit bureaus and creating tool kits and knowledge resources for relevant sectors.



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The Rockefeller Foundation's Harnessing the Power of Impact Investing initiative aims to support the development of leadership platforms, infrastructure, and intermediation capabilities that can efficiently place for-profit impact investments to improve a wide range of social and/or environmental conditions. The Initiative also seeks to contribute to fundamental research about impact investing so that its promise and challenges are widely understood. The Rockefeller Foundation has partnered with the United Nations Global Compact to produce this Framework for Action as a publicly-available resource for all stakeholders interested in supporting the development of a vibrant impact investing industry. Readers should be aware that the Rockefeller Foundation has had and will continue to have relationships with many of the organizations identified in this report, including through the provision of grant funding and Program Related Investments.

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The Ten Principles of the United Nations Global Compact

HUMAN RIGHTS

- Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2 make sure that they are not complicit in human rights abuses.

LABOUR

- Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4 the elimination of all forms of forced and compulsory labour;
- Principle 5 the effective abolition of child labour; and
- Principle 6 the elimination of discrimination in respect of employment and occupation.

ENVIRONMENT

- Principle 7 Businesses should support a precautionary approach to environmental challenges;
- Principle 8 undertake initiatives to promote greater environmental responsibility; and
- Principle 9 encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

- Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.

