BUSINESS FOR SOCIAL IMPACT FORUM

HARVARD | BUSINESS | SCHOOL

20 YEARS OF IMPACT
SOCIAL ENTERPRISE INITIATIVE

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To mark the 20th anniversary of the HBS Social Enterprise Initiative, the Business for Social Impact Forum was held at Harvard Business School on May 6 and 7, 2014. The approximately 100 attendees came from across the globe, including from Asia, Africa, Latin America, and across the United States. They represented a wide range of industries that serve the base of the socio-economic pyramid, including microfinance, health care, agriculture, and telecommunications, as well as impact investors, foundations, and others focused on social impact.

Never has there been a time when so many believed in both the ability and responsibility of business to combat the world's greatest social challenges. Recent years have seen the creation of thousands of businesses across the globe providing goods and services to consumers at the base of the socio-economic pyramid. This influx has been accompanied by the emergence of new approaches to investing dedicated to generating significant social impact. Today's young leaders and the next generation of high net worth individuals aim to build their businesses and invest their wealth in endeavors to fight hunger, bring clean water, education, and healthcare to the world's poor, and end homelessness. Large-scale institutional investors are examining how to generate a positive social return at market rates of return.

This Forum focused specifically on businesses that serve the 80% of the world's population at the base of the pyramid, who live on less than $10/day, and the investors in such enterprises who seek both financial and social returns. The Forum examined how businesses can have a social impact through innovative business models and impact investing, and debated the definition of success in the area of social impact.

SESSIONS

BUSINESS AND SOCIAL IMPACT

SPEAKER: Kash Rangan, HBS Faculty and Co-Chair, Social Enterprise Initiative

Professor Kash Rangan welcomed attendees to the Business for Social Impact Forum and set the stage by summarizing data about those who live at base of the pyramid. He also provided background about the HBS Social Enterprise Initiative and described a theory of the role of business in poverty alleviation.

KEY TAKEAWAYS

This Forum marks the 20th anniversary of the Social Enterprise Initiative (SEI) at HBS.

Twenty years ago faculty at HBS conceived of the idea of social enterprise and began looking at organizations that create value for society, including organizations such as nonprofits and NGOs. This led to looking at the role that business can play in having social impact. It began by looking at corporate social responsibility (CSR) but broadened to look at social enterprises and other ways that business can have impact.

In general, when people think of "business," they think about money and profits, while the term "social impact" brings thoughts of people and society. Business for social impact combines the two, endeavoring to achieve significant social impact while also generating a financial return.

THE FOCUS OF THIS FORUM IS NOT THE BOTTOM OF THE PYRAMID; IT IS THE BASE OF THE PYRAMID.

In 2012, global GDP was $71 trillion and the world's population was about 7 billion, resulting in a per capita GDP of $10,000 when evenly distributed. However, 80% of the world's wealth is in fact held by only one fifth of the world's population (about 1.4 billion people), the quintile at the top of the socio-economic pyramid. In contrast, the bottom quintile, with the poorest 20% of the world's population, controls only a sliver of the planet's wealth. Many individuals at the bottom of the pyramid lack access to safe water, food, and energy, and live on less than $1.25 per day. Many developmental economists focus on providing aid to lift these individuals out of poverty.

However, a larger group deserves more attention. There are close to 5.6 billion people—representing 80% of the world's population—who comprise the "base" of the pyramid. These individuals live on less than $10 per day, have no social safety nets, receive little or no aid, and lack health care, education, and access to capital. Many engage in some form of economic activity, such as subsistence work as small-scale farmers. A few key facts that underscore this Forum:

- There are more poor people than just the bottom quintile; 80% of the world population is poor.
- Most of these 5.6 billion people at the base of the pyramid are not at the receiving end of aid.
- They are engaged in economic activity, but only a small sliver.

- These individuals need products, services, jobs, skills, healthcare, water, and access to finance.
- These individuals live in extremely inefficient markets.
- The key question is: can business bring solutions so that economic activity can lift them up?

> **There are way more poor people than the bottom quintile; it is 80% of the world… it is not just the bottom of the pyramid [that needs attention]; it is also the base of the pyramid.**
>
> **KASH RANGAN, HBS FACULTY AND CO-CHAIR, SOCIAL ENTERPRISE INITIATIVE**

THE HBS BUSINESS AT THE BASE OF THE PYRAMID COURSE HAS A CLEAR POINT OF VIEW DESCRIBING HOW BUSINESSES CAN HAVE SOCIAL IMPACT.

There are many different models and theories for attempting to solve the problems at the bottom and base of the pyramid. The focus of the Business at the Base of the Pyramid course is on what businesses can do to address these needs.

The course's point of view is: Access to opportunities on a sustained basis will lead to increases in earning capacity; increased earning capacity will lead individuals to gather more assets; and those with more assets will become economic agents. Businesses can be social enterprises that bring livelihoods and skills to a population, which can lift people out of poverty.

INNOVATIVE BUSINESS MODELS

OVERVIEW

Numerous examples exist from around the world of social enterprises that are leveraging innovative business models to generate profits while also creating significant impact. In order to succeed, these enterprises must have a clear mission, vision, and core values; have strong leadership who can balance the tension between profits and social impact; have aligned stakeholders; deliver great products and services within their context; and have created sustainable, scalable models. These social enterprises must also overcome challenges such as accessing capital, dealing with political opposition, and measuring impact.

CONTEXT

In discussing innovative business models, representatives of four successful social enterprises described their organizations and the results they have achieved. HBS professors emeriti James Austin and Allen Grossman then led breakout group discussions that focused on common key success factors among businesses that generate social impact, as well as the challenges and barriers faced.

KEY TAKEAWAYS

A VARIETY OF INNOVATIVE BUSINESS MODELS CAN PRODUCE SOCIAL IMPACT.

This session illustrated that there is no one-size-fits-all model for businesses to produce social impact. Examples of four very different models were shared, including a for-profit corporation, an NGO/nonprofit model, a vertically integrated supplier of products and services, and a for-profit subsidiary of a foundation.

● ARAVIND EYE CARE SYSTEM, INDIA

Founded in 1976, Aravind Eye Care System provides world-class eye care services for about 10,000 patients per day, including around 1,500 surgeries each day; Aravind's volume of eye surgeries is roughly twice all the eye surgeries in the entire United States. Aravind was founded as a nonprofit to eliminate blindness and serve individuals in India who could not access eye care. Currently, about 40–45% of patients pay for services, with the majority of patients receiving free or subsidized care.

Even with this high level of subsidized care, Aravind delivers high-quality care and is financially successful, with profit margins of around 30%. Aravind is able to achieve these results because of economies of scale from the high volume of surgeries, highly efficient processes due to investments in and use of technology to streamline operations, and a focus on keeping costs down.

Beyond its own walls, Aravind has helped create an entire ecosystem for eye care in India. Aravind has developed treatment protocols resulting in higher-quality care across the entire country, has shared organizational best practices with 250 other hospitals, and produces new technologies that can be broadly used.

> **All of the segments have helped the business model. The 60% portion taken in the beginning as charity work brought in benefits of acceptance, economy of scale, and the frugality mindset that is part of our DNA. The 40% that are the ones that bring revenue… they drive quality because they want value for money.**
>
> **THULASIRAJ RAVILLA, ARAVIND EYE CARE SYSTEM, INDIA**

GILEAD SCIENCES

Gilead is a for-profit pharmaceutical company with a portfolio of 18 products the company markets worldwide, with more than 200 more trials or studies underway. The company's products include medicines to treat HIV and hepatitis.

Social impact is embedded in the company's core values and is strongly supported by the CEO and other senior leaders. In particular, Gilead is focused on providing access to its drugs to all people who can benefit from them, regardless of where they live or their ability to pay. Gilead's branded distribution partners across the globe deal with issues such as product registration in local markets, medical education and training, and possibly tiered pricing structures. Gilead and its distributor partners are also often involved in helping build health system infrastructures in given markets. In addition, generic licensing and knowledge transfer to partners allows low-cost, in-market production of generic drugs to serve a market. For example, through a generic licensing arrangement, an HIV drug that might cost $10,000 per year in the U.S. could be produced and made available in a country for $50 or $100 per year. Entities that license Gilead's technology pay no fee for doing so; they pay a 3–5% royalty upon production.

Currently, Gilead's drugs are used by about six million patients around the world; one million are in developed countries and generate almost all of Gilead's revenues and profits, with five million in other countries, producing almost none of Gilead's revenues and profits. Gilead's board and executives strongly support this model—of making profits in the developed world and having an even greater social impact by providing access to their medications elsewhere.

> **The Gilead access principles come from and are endorsed by our senior leadership… this is not a profit center for Gilead Sciences; this is a responsibility to ensure access to those in need.**
>
> **ELIZABETH MURRAY, GILEAD SCIENCES, LATIN AMERICA AND THE CARIBBEAN**

JAIN IRRIGATION SYSTEMS, INDIA

Jain Irrigation Systems is a vertically integrated company in India focused on helping owners of small farms create more value. The company provides pipes, irrigation systems, greenhouses, and knowledge and technology to help farmers improve their productivity and yield. Jain provides financing and helps farmers sell their products at more attractive prices—even buying what farmers produce, processing it, and re-selling it—and has begun efforts to make solar energy solutions available to farmers, with the premise that renewable energy can help boost productivity.

Jain's long-term vision is to reach and assist one million farmers, of the more than 100 million owners of small farms in India. At this time, Jain is adding 200–250 farmers each year, and sees its vision as extremely long term, taking perhaps 10–20 years.

> **Our model has been to create disproportionate value for our customers [owners of small farms] on a sustained basis.**
>
> **ANIL JAIN, JAIN IRRIGATION SYSTEMS, INDIA**

ROSHAN, AFGHANISTAN

Roshan, a for-profit subsidiary of a foundation (the Aga Khan Development Network), is the largest telecommunications operator in Afghanistan. In 2003, Roshan obtained the second telecommunications company license in the country. At the time, less than 1% of the population, only 100,000 people out of 25 million, had access to a phone and the per capita GDP was about $200. The country was divided into different regions, led by different tribes, lacked roads, was unsafe, and had literacy of less than 30%. This was the context as Roshan set off to build a nation-wide telecommunications network.

Today there are five telecom operators in the country, 15 to 16 million of the now almost 30 million Afghanis have access to a telephone, and the telecom market is approximately $1 billion. Over the past decade, Roshan has invested $600 million in telecom infrastructure and the total investment of all operators is around $2 billion. Roshan has about a 30% market share, is generating more than $300 million per year in revenue, is the largest taxpayer in the country, with Roshan's taxes representing about 5% of the national budget, and is the largest employer in the country with more than 1,100 employees, 97% of whom are Afghanis and 20% of whom are women. These individuals are often the breadwinners for their families (the average Afghan family is 10 people) and they are bringing their families into the middle class.

Important to Roshan's success is that Roshan has been guided by a clear vision statement developed at its funding that Roshan would be a benchmark emerging market telecom company focused on customers and employees, with company values of providing quality service and working in an ethical manner. In line with this vision, Roshan has a social responsibility program that involves providing food for children, building playgrounds, and creating e-learning centers.

With this network now in place and high levels of adoption, Roshan has launched information services for farmers and a telemedicine project that connects all of the country's hospitals.

> **In the telecom industry, everyone says they have a CSR program—but it's a byproduct. This is what we do.**
>
> **ALTAF LADAK, ROSHAN, AFGHANISTAN**

THESE INNOVATIVE BUSINESS MODELS, AND OTHERS THAT ARE DELIVERING SOCIAL IMPACT, SHARE MANY COMMON ELEMENTS.

In breakout and report-back sessions led by HBS professors emeriti James Austin and Allen Grossman, Forum participants identified the most important factors that have enabled businesses to generate high social impact. These key success factors include:

A grand vision, a big idea, and clearly articulated core values. Innovative business models start with a big idea and a vision of what could be, and ground those goals in strong values that are embedded in the organization from the start; in the absence of such values, organizations may forget social impact when times get tough.

A clear need not being met and a theory of change to address it. Successful social enterprises target a very specific need, such as inadequate telecommunications in Afghanistan or lack of financing for farmers in India, with a clear and addressable market; this is coupled with a rigorously developed and tested theory of change tailored to meet that need.

An ability to measure results and show impact. A key factor to success is the ability to constantly measure and demonstrate social impact, which can be difficult to do.

Alignment of interests. Successful social enterprises endeavor to align the interests of internal and external stakeholders, including customers, employees, investors, and government, through the use of incentives such as compensation and reviews internally, or collaboration and co-creation of innovation with external partners. Enterprises should partner with the critical actors who must be involved in order to achieve scalable, sustainable impact.

Entrepreneurship is defined as the pursuit of opportunity beyond the resources currently controlled.[1] As with any enterprise, businesses aimed at generating social impact must also achieve all the elements of any successful enterprise, such as a sustainable business model, strong leadership, the ability to be replicated, and the ability to learn from failure.

Best-in-class products. In the examples shared, all of the enterprises had best-in-class products for their

[1] As coined by Howard Stevenson, HBS Professor Emeritus.

particular context. This is not, however, a necessary condition for success.

Radically lower costs. Through scale, technology, and process-related efficiencies, the success stories that were shared were able to achieve radically lower marginal costs.

A realistic timeline. Social impact doesn't happen overnight. It can take 5, 10, or even 20 years.

CREATING BUSINESS MODELS THAT DELIVER SOCIAL IMPACT FACES NUMEROUS CHALLENGES.

Any enterprise that delivers social impact must overcome significant challenges. Among the challenges identified in the breakout groups were:

Lack of capital. Social enterprises often have difficulty mobilizing and accessing capital. Many participants see this as related to difficulties in measuring social impact and quantifying the risks and returns. Without clear measures showing impact, it is difficult to attract philanthropic capital. Without clear assessments of risk and an established track record of compelling financial returns, it is difficult to attract pure investors. Participants argued for more standardized measures of social impact.

Lack of imagination and talent. Some participants believe there are adequate pools of capital, but what is lacking is adequate human capital, or imagination, vision, and leadership.

Producing a product at a lower marginal cost without sacrificing quality. This can be a tall order but can be made possible through innovative use of technology and other operating efficiencies.

A supporting ecosystem. Successful social enterprises are rarely standalone ventures; they require a larger and supportive ecosystem in order to thrive.

Entrenched and inflexible incumbents. In many instances there is inertia and entrenched incumbents who resist change, or are hesitant to reallocate capital already being invested. This can include the government and politicians, who can be strongly reluctant to view for-profit enterprises as a potential partner in addressing social problems.

Inability to scale enough to make a difference. Even the most successful social enterprises may not become large enough to make a true difference in solving intractable problems. To make a meaningful difference beyond just the individual and organizational level, massive scale is needed to change sectors and societies.

Unrealistic time frame. At times stakeholders want to see changes within months, which is an unrealistic frame for social impact.

The successful enterprises that were discussed had vision and a big idea, leadership, alignment of stakeholders, and a sustainable, scalable business model. From their varied stories and the ensuing discussion, it is apparent that there is no one clear path to success, but the best practices described by participants may help to overcome the varied and significant challenges businesses face in achieving lasting social impact.

LESSONS FROM THE FIELD OF IMPACT INVESTING

OVERVIEW

An enormous amount of capital exists in the world, and much of it is trapped—earning low returns and providing no social impact. With impact investing, there is the opportunity to unlock and reallocate massive amounts of capital, providing social entrepreneurs the capital they need to scale successful social innovations that can transform entire sectors, while simultaneously delivering investors with attractive and uncorrelated returns. Impact investing requires financial innovations (such as social impact bonds), rules (such as an impact accounting system), measures of social outcomes, and changing the mindset of investors and philanthropists. These changes are taking place and Forum participants see a massive reallocation of financial capital on the horizon.

CONTEXT

In discussing impact investing, HBS professor Michael Chu led a case discussion about an impact investment decision by the Omidyar Network, a panel of impact investors shared lessons they have learned, and Sir Ronald Cohen, who has led impact investment efforts in the UK and is chairing the G8 Social Impact Investment Taskforce, described the evolution of impact investing and the development of innovative new financial instruments.

KEY TAKEAWAYS

FINANCIAL CAPITAL IS SITTING ON THE SIDELINES, NOT BEING EFFECTIVELY DEPLOYED FOR SOCIAL IMPACT.

The prosperity of the global economy over past 50 years has resulted in about $200 trillion in financial capital in the world. Of this a very small amount goes to philanthropy (about $45 billion in foundation grants in the United States, according to one panelist), with only perhaps a few hundred million dollars devoted to any form of investing related to social impact. Professor William Sahlman described most financial capital as being trapped and "sitting on the sideline."

> What we see right now is enormous amounts of money sitting on the sidelines. The question is, can we get even a small fraction of the world's $200 trillion in financial capital to move?
>
> **WILLIAM SAHLMAN, HBS FACULTY AND SENIOR ASSOCIATE DEAN**

Historically, the majority of social organizations have had little money, have not measured outcomes through a systematic method, and have for the most part operated on a relatively small or local scale. Grants from foundations are typically made for one or two years, with the expectation that only a bare minimum of funds be spent on overhead, and donations from individuals can be difficult to garner year to year as well.

The funding available to social organizations was described as sitting at two extremes, like a barbell. These two extremes are:

Philanthropic capital. Philanthropy is usually provided in the form of a donation or grant, with no expectations of any financial return by the philanthropist or foundation. There is no financial risk since money is being given away and the return is known to be 0%. The only type of risk relates to whether any social impact is created.

Sir Ronald Cohen said that philanthropy has achieved a great deal of good, but in many countries the level of philanthropy has been inadequate to deal with social issues, leaving this arena as the responsibility of government. But because of shrinking government funds in many countries, many governments are now throwing their hands up and saying, "We don't have the money to do it."

Financial capital. Commercial investors have largely been reluctant to invest in social enterprises because the pure financial returns are perceived to be lower than other types of investments and are not seen as commensurate with the risk. More than one participant observed that there is no fortune to be made at the base of the pyramid. Other panelists and participants see similar types of early stage risks as are common in traditional venture capital investments—related to proof of concept, a sustainable business model, the ability to scale, and political risks. However, while experiencing a similar failure rate to VC investments, social investments usually lack the types of financial home runs that drive VC success. This perception of higher risks and lower risk-adjusted returns has kept most commercial investors away.

IMPACT INVESTING—WHICH CAN TAKE MANY FORMS—IS AN INVESTMENT MADE WITH THE INTENT TO CREATE SOCIAL IMPACT—AND RISK IS A KEY FACTOR.

Forum participants offered several definitions and criteria for impact investing. Professor Chu defined impact investing as, "the application of the professional practice of investing in the delivery of interventions seeking high impact on targeted social issues." He emphasized that impact investing is intentional and is targeted toward solving a specific social problem while also generating returns.

It is intention that distinguishes an impact investment from an investment with impact. A company, as part of its for-profit activity, might make an investment that achieves some incidental social impact. By contrast, an impact investment is made with the specific intent of having a focused and measurable social impact.

Impact investing is the intentional decision to incur extraordinary risk ahead of commercial markets in order to deliver meaningful impact to a significant social issue.

MICHAEL CHU, HBS FACULTY AND MANAGING DIRECTOR, IGNIA

Professor Chu proposed that willingness to take risk is a critical component of impact investing. This risk includes both the business risk of deploying an innovative business model or new technology with the potential to disrupt an industry, as well as the segment risk of targeting underserved populations; others mentioned the risk of social impact not bearing out. Most participants agreed that risk is a key factor in impact investing, and that this is an issue that merits further discussion.

Impact investors at the Forum described being driven by specific objectives related to social impact and transforming entire sectors; the objective is to drive change. Investments of different types and amounts are seen as the way to drive change. The type of capital used—which can include equity, debt, microfinance loans, guarantees, and grants—varies based on the particular situation, with some investors providing program-related investments to support specific programs.

IMPACT INVESTING IS A FINANCIAL INNOVATION THAT UNLEASHES CAPITALISM TO SOLVE SOCIAL PROBLEMS.

Sir Ronald Cohen described being asked in 2000 by the British government to lead a taskforce on how to better deal with poverty and its related social issues. He concluded that a key was to enable social entrepreneurs to harness the forces of capitalism—including capital, entrepreneurship, and innovation to tackle social issues—which required financial innovation.

How do we harness the forces of capitalism to tackle social issues?

SIR RONALD COHEN, CHAIRMAN, SOCIAL IMPACT INVESTMENT TASKFORCE ESTABLISHED BY THE G8

One innovation was establishing Bridges Ventures in 2002, with a goal of delivering half of a normal venture capital return, while achieving social impact. A decade later, Bridges has more than $500 million under management and has delivered a 15% IRR on equity investments in the poorest 25% of the UK. These investments in greenfield startups have been big winners and have created new business models that have been tailored to the needs of the populations they serve. This was followed by the creation of Social Finance UK, a nonprofit intermediary and advisor in the social investment sphere, and Big Society Capital, a social investment bank funded with philanthropic money and government funds from unclaimed assets.

One financial innovation in the UK led to another. Because the UK government started posting various government costs on the Web—such as the costs to incarcerate a person—team members at Social Finance saw the opportunity to fund nonprofits focused on lowering costs in specific areas. The concept was that the savings achieved would be so large that they would allow the government to pay a return to investors. From this insight a new financial instrument was born: social impact bonds. For example, investors would put five million pounds into a social impact bond focused on decreasing the rate of recidivism and the costs incurred for imprisoning repeat offenders. The terms of the bond were that if the rate of recidivism was reduced over seven years by 7.5% to 15%, the government would repay bondholders' invested capital and would pay a return between 2% and 13%, based on the level of reduction achieved, which drives savings for the government. If the rate of reoffense was not reduced, or was reduced by less than 7.5%, the bondholders would lose their money.

This idea creates a capital market for social entrepreneurs that provides nonprofits with access to capital they need to innovate and scale, provides investors with a return that is not correlated with economic fluctuations, provides the government with cost savings, and focuses all parties on measurable social impact. Today there are 15 social impact bonds in the UK, 5 in the US, and 5 more across the world, with 54 more being worked on in the UK alone. These bonds are targeting malaria in Mozambique, early detection of diabetes in Israel, unemployed youth in the UK, and much more. It is estimated that $300 million will be raised in the US this year through social impact bonds.

In 2012 the UK launched Big Society Capital, with £600 million in capital, to capitalize the impact investment market in the UK. Big Society is a wholesaler of capital, providing funding for new investment management firms focused on social issues. This organization's money can only go to nonprofits, but investment management firms can invest in profit-with-purpose companies.

The UK government now sees social investments as a way to encourage innovation, and the government is helping to drive innovation by posting online the cost of 600 social issues. This enables social entrepreneurs to see the costs, develop interventions, and then access the developing ecosystem for capital.

IMPACT INVESTING IS BEING DONE BY DIFFERENT TYPES OF ENTITIES.

Elevar Equity's Maya Chorengel described how managing a market-oriented impact fund under a limited partnership structure has considerable advantages to doing so under a nonprofit structure. Elevar manages three funds with over $125 million in equity capital and invests in early-stage, high-growth companies in India and Latin America. Being a partnership better aligns the organization's interests with its LPs and with its portfolio companies. It makes it easier to raise capital, as a pure commercial enterprise making commercial investments in companies that provide services to people at the base of the pyramid—where Elevar sees significant opportunities. However, as optimistic as Elevar is, Ms. Chorengel acknowledged that her firm lives and dies by the trends in the private equity and venture industries, as well as in the social impact industry.

> **We fundamentally believe there are commercially investible opportunities in creating companies to provide services to people at the base of the pyramid… there is a tremendous amount of emphasis at Elevar in showing the capital markets that this is doable.**
>
> **MAYA CHORENGEL, FOUNDER AND MANAGING DIRECTOR, ELEVAR EQUITY**

Neal Delaurentis of the Soros Economic Development Fund (SEDF) is also optimistic, but his firm invests in a different way. Previously SEDF invested mainly through funds in various emerging markets. But after these funds didn't perform well and SEDF wanted to be more involved in governance, they started to look at other instruments. As a result SEDF has set up holding companies that it invests through, with holding companies in India, West Africa, and possibilities in other markets. These holding companies provide SEDF with greater visibility into its investments at a more granular level.

Omidyar Network's Matt Bannick discussed how Omidyar's unique structure as a philanthropic investment firm, with the ability to deploy a full range of capital from grants to debt or equity investment seeking high returns, enables it to tailor funding to each individual enterprise, from for-profit commercial enterprises to nonprofit organizations. Omidyar aims to look beyond the level of an individual investment to how to effect change across an entire sector.

> **If the objective is to drive sector-level change, what is the right mix of capital at an appropriate time to facilitate the development of markets? At some point, it is essential that businesses… drive high commercial returns, because that's what invites new market entrants. That's what enables companies to tap capital markets to get to massive scale. The question is how do you get businesses to that stage?**
>
> **MATT BANNICK, MANAGING PARTNER, OMIDYAR NETWORK**

IMPACT INVESTING IS NOW ON THE G8'S AGENDA.

Based on the success of impact investing in the UK and elsewhere, several countries, including the US, have set up national advisory boards in this area. Further, impact investing is squarely on the agenda of the G8 with the G8 having established a Social Impact Investment Taskforce. This taskforce provides a platform for catalyzing the effects of impact investment on a worldwide basis. Among the areas of focus of this taskforce are:

Creating a standard and accepted definition for impact investing, as the term is now used widely and means different things to different people.

Defining a set of rules for impact investing, which will aid in bringing in significant capital.

Determining ways to measure impact, which is necessary to get the marketplace going.

Developing an impact accounting system, so funders can make informed decisions about where to allocate their assets.

In looking ahead, Sir Ronald Cohen can imagine impact investing going across all asset classes, to include equities, fixed income, venture capital, private equity, real estate, and more. If impact investing is able to deliver 7–10% uncorrelated returns in the long term, it will attract even market-based investors.

FOR IMPACT INVESTING TO TAKE HOLD REQUIRES CONVINCING PHILANTHROPISTS AND INVESTORS TO THINK DIFFERENTLY ABOUT ALLOCATING CAPITAL.

In a time of 1–2% interest rates, 7% uncorrelated returns were seen by most participants as attractive, especially if the underlying investments that produced those returns were solving societal problems like health, education, or crime.

Many forum participants agreed that a shift in mindset is required to rethink how philanthropy and investment capital is allocated. If social outcomes are measured and new financial instruments such as social impact bonds are developed and are effective, the entire landscape for philanthropy and investment could change. Philanthropists could allocate capital so that their funds produce the greatest social return (while also recycling some of that capital), and commercial investors could see impact investing as an attractive place to allocate some assets. Most Forum participants expect a significant flow of capital to impact investing in the next two decades.

We are on the threshold of bringing very significant capital into this area [of impact investing].

SIR RONALD COHEN, CHAIRMAN, SOCIAL IMPACT INVESTMENT TASKFORCE ESTABLISHED BY THE G8

DEFINING SUCCESS

OVERVIEW

There is agreement on the need to measure social impact. Doing so is necessary to attract investors and allocate funds. Yet different entities think about and measure impact in very different ways. Some look narrowly at the efficiency and returns of particular programs while others look more broadly at the ability to achieve massive scale or change entire sectors. And on an organizational level, measurement can be used to assess and manage day-to-day performance. There is interest in the notion of a consistent way to measure social impact and some see the process of measurement as part of the necessary infrastructure of social enterprises.

Yet for some organizations it is not possible to directly attribute impact to a specific activity, or the process of measuring is overly burdensome. The result is a variety of approaches to measurement and ways to define success, with individual organizations measuring their impact to determine if their programs and initiatives are achieving their mission and goals. In some ways this allows organizations to declare success and provides opportunities for skeptics to challenge the processes and results.

CONTEXT

Two discussions provided perspectives on how investors and social enterprises measure and think about success. The first discussion focused on whether microfinance is a success and the second focused on how various organizations measure impact.

KEY TAKEAWAYS

DESPITE MUCH HYPE AND CLAIMS OF SUCCESS, RESEARCH ABOUT MICROFINANCE RAISES QUESTIONS ABOUT ITS IMPACT.

The subject of microfinance has generated a tremendous amount of attention, including a Nobel Prize for Muhammad Yunus, the founder of Grameen Bank, multiple IPOs valued at more than $1 billion, private equity investments, and creation of an entire microfinance ecosystem. Yet even former practitioners granted that microfinance has been oversold and questions have been raised about the true social impact of microfinance.

MIT professor Esther Duflo explained that the landscape for microfinance and microcredit has changed dramatically in the last few years, and summarized forthcoming research on randomized evaluations on the impact of microcredit in six countries: Ethiopia, India, Mexico, Mongolia, Morocco, and Bosnia.[2] Among the key findings from this research, which are surprisingly consistent across markets, are:

- The take-up of microcredit is low, even in settings where there are few alternatives.
- Microfinance is commonly thought to be associated with business expansion, but this expansion is mainly for existing businesses, not newly created businesses. The research doesn't show a causal effect of microfinance in starting new businesses.

[2] Abhijit Banerjee, Dean Karlan, and Jonathan Zinman, "Six Randomized Evaluations of Microcredit: Introduction and Further Steps," Poverty Action Lab, September 6, 2014, http://www.povertyactionlab.org/publication/six-randomized-evaluations-microcredit-introduction-and-further-steps.

- Some sites find large increases in average business profits, for existing businesses.
- There are no significant changes in total household income or consumption resulting from microfinance. And there are usually no significant changes in self-employment income from microfinance for the average household.
- Most sites find no impact on social outcomes and no impact on female empowerment.

The research has raised important questions such as why is the uptake of microfinance so low, especially when considering the increased profits of existing businesses? Why are small businesses shutting down so often? And why are there not increases in consumption or transformations in people's lives?

The key premise of the microfinance movement has been that lending does not have to be selective, as any poor person can benefit from a loan. This premise is based on beliefs that the poor are natural entrepreneurs, they have abundant business opportunities and want to pursue them as gung-ho entrepreneurs, and the only constraint is a lack of capital. But the data appears to tell a different story. It indicates that for many householders, entrepreneurship is not a first choice; many are "reluctant entrepreneurs" who would prefer a wage job and some only start businesses to repay loans taken for consumption purposes.

Vijay Mahajan, the founder and CEO of BASIX Social Enterprise Group, who has been a practitioner in this area for many years, agreed with the conclusions from the research cited by Professor Duflo. Mr. Mahajan's organization's own research in the early 2000s found that 27% of all microfinance borrowers reported a reduction in income. Mr. Mahajan shared three observations from his experience:

- Lives of poor individuals are full of **unmanaged risk**. Because of this, microcredit must be paired with microinsurance. Mr. Mahajan's firm serves 2 million credit customers, 3.8 million insurance customers, and 5 million savings customers (1 million direct, and 4 million indirect through facilitated mass opening of bank accounts). It is the combination of these offerings that makes microfinance.

Microcredit without microinsurance is a sin

VIJAY MAHAJAN, FOUNDER AND CEO,
BASIX SOCIAL ENTERPRISE GROUP

- Whatever the poor are doing they are experiencing **low productivity**. This is the case in farming and in any other type of work. Poor people badly need technical assistance and training.
- If poor people are able to overcome their high risks and low productivity, and produce something to sell, they are subject to **extremely bad terms of trade**.

It is Mr. Mahajan's conclusion that poor people participating in any form of microfinance must have microinsurance, they must receive technical assistance, and borrowers should aggregate to improve their terms of trade.

Raising questions about the research that was discussed was Dr. Vikram Akula, the founder and Chairman Emeritus of SKS Microfinance. Dr. Akula started by clarifying the researchers' claims in the J-PAL study on Indian microfinance institution Spandana[3] that was one of the studies included in the research referenced by Professor Duflo. He pointed out that the Spandana study was not about the impact of having a microfinance loan versus not having a microfinance loan, but rather it was about the impact of having a microfinance branch in one's neighborhood for a longer period of time versus having a branch in one's neighborhood for a shorter period of time; it was not, he pointed out, a study of a proper treatment group that received a loan versus a control group that did not receive a loan but rather about the impact of "intent to treat." Dr. Akula outlined several methodological concerns about the study: selection bias in the type of neighborhood selected for analysis; the two-year period of research, which Dr. Akula argued was brief given that microfinance institutions (MFIs) typically give smaller loans in the early years in order to build a credit culture and thus impact is seen in a four to five year period; and the quality of the control group since Spandana and other MFIs began working in control areas before the end-line assessment.

Regarding the conclusions of the combined six-country research, Dr. Akula pointed out the array of different contexts included, such as both rural and urban populations, and a wide range of interest rates and loan sizes. Dr. Akula also wondered why the research failed to mention the largest study on microfinance in India—namely the study by the Indira Gandhi Institute[4] which compared household data following a state-wide microfinance ban in the state of Andhra Pradesh with comparable parts of India during the same period. The data indicated that the absence of microfinance led to a 19% drop in household consumption one year after the microfinance ban.

Dr. Akula also wondered whether the Spandana study could be generalized even in an Indian context. After all, Spandana did not engage in group training, had very large centers with a high borrower to loan officer ratio, and did not require the loan to be used for productive purposes; loans could be used for consumption. By comparison SKS, the market leader at the time of the study, had intensive training, a lower borrower to loan officer ratio, and required loans to be used for income-generating activities with concomitant follow up from loan officers. As such, by definition, loans would generate income as opposed to Spandana, which by design did not have such an aim. Dr. Akula argued that had these factors been considered, the research would have reinforced what he saw firsthand: that microfinance, when done in a way geared towards income generation, had a significant positive correlation with improvement in borrowers' economic well-being.

[3] Abhijit Banerjee, Esther Duflo, Rachel Glennerster, and Cynthia Kinnan, "The miracle of microfinance? Evidence from a randomized evaluation," Working Paper, MIT, March 2014, http://www.povertyactionlab.org/evaluation/measuring-impact-microfinance-hyderabad-india.

[4] Renuka Sane and Susan Thomas, "The real cost of credit constraints: Evidence from micro-finance," Indira Gandhi Institute of Development Research, July 2013, http://www.igidr.ac.in/pdf/publication/WP-2013-013.pdf.

INVESTORS AND PRACTITIONERS CONSIDER DIFFERENT MEASURES OF SUCCESS BASED ON THEIR MISSION AND SITUATION.

In the discussion about measuring success, HBS faculty Alnoor Ebrahim shared two frameworks that can be used to think about what to measure. One framework looks at the degree of causal certainty in an enterprise's theory of change (specifically, what knowledge does the organization have that certain activities will lead to desired outcomes) along with the degree of independence or dependence or a larger ecosystem. The degrees of causal certainty and interdependence would affect what an enterprise chose to measure: outputs (immediate results of an organization's activity), outcomes (medium- and long-term results on an individual level), and/or impact (results having a significant effect at a societal level). For activities that are low in both causal uncertainty and interdependence, such as Aravind Eye Care's eye surgeries, output measures can be quite meaningful; it is sufficient to measure outputs, such as the number of eye surgeries conducted, provided the organization has compelling evidence that those outputs lead to outcomes (improved vision). However, it would be a distraction for Aravind to measure other types of outcomes such as improved quality of life or improved incomes. For activities at the other end of the spectrum, where causal links are poorly understood and where there is high interdependence with other organizations, it may be necessary to collaborate with others to achieve and measure ecosystem-level impact. The Millennium Challenge Corporation, for example, cannot achieve its goals of increasing farmer incomes without collaborating with government agencies, NGOs, and businesses within an agricultural ecosystem.

A second framework involves considering an organization's scale (local, regional, national, or global reach) and scope (its range of activities) when determining measures.

For Sasha Dichter from Acumen Fund, what his nonprofit investment firm measures is related to Acumen's investment focus. Acumen is focused on addressing poverty and invests in early-stage social enterprises in India, South Asia, and parts of Africa. The firm provides early-stage risk capital that fills the "pioneer gap" in financing that enterprises face between the idea stage (often funded by grants) and when they are ready to scale (where most impact funds focus today). Acumen's funding helps enterprises validate their ideas through testing and iteration, and then build systems to prepare to scale.

Previously Acumen viewed measuring outputs as adequate, but has recently expanded what it measures to also include outcomes: the breadth of the impact, measured in terms of lives reached and jobs created, and the depth of the impact, measured by the improvement in household well-being. Every Acumen investment has a theory of change that details how the inputs and activities of the investee will lead to the longer-term outcomes and impacts on a household level expected from the investment. Acumen selects measures to track over the course of the investment which are aligned with Acumen's mission of alleviating poverty and support its investing focus to test and validate early stage ideas.

The Robin Hood Foundation in New York City measures its results very differently. Robin Hood is not focused on sector change or the scalability of programs. Robin Hood is a foundation that provides about $150 million per year in grants to fight poverty in the five boroughs of New York City. Its sole focus when allocating its funds is to maximize how much poverty can be alleviated. For each potential program that Robin Hood might fund, the organization engages in a process of "relentless monetization"; it develops a cost-benefit analysis that examines both the direct benefits from that particular intervention and what would have happened without the intervention, and assigns a dollar value to the intervention's mission-related benefits. Robin Hood then allocates its funds to those programs that provide the greatest value in raising the living standards of low-income New Yorkers, and assesses the impact of a grant by comparing costs to mission-related benefits.

Every dollar we spend is based on what generates the greatest returns for our mission… are we spending our money to make the biggest reduction in poverty possible using our philanthropic resources.

MICHAEL WEINSTEIN, CHIEF PROGRAM OFFICER, ROBIN HOOD FOUNDATION

CONCLUSIONS, TAKEAWAYS, AND FUTURE DIRECTIONS

OVERVIEW

The Business for Social Impact Forum yielded many important insights for nonprofit enterprises, businesses, governments, and academia. These insights include the importance of seeing the base of the pyramid as an opportunity; putting social enterprise and social impact investing on the agenda of governments and international institutions; changing mindsets and paradigms about social investing; being able to measure social impact; using measures to direct funding toward what works; and creating an entire ecosystem that multiplies the effects of successful social enterprises. Also, while much progress has been made in the world of social enterprise, changing mindsets and getting capital to flow toward social entities is very difficult and will continue to take time. But participants are optimistic that this change will occur, measures will be developed, capital will be reallocated, and social enterprise will continue to mature.

CONTEXT

At the close of the Forum, four participants were tasked with drawing conclusions about the conversation from a specific perspective. Thomas Tierney, chairman of The Bridgespan Group, summarized thoughts from a social or nonprofit perspective. Former World Bank executive Djordjija Petkoski shared perspectives related to the government. HBS professor Rosabeth Moss Kanter offered a business perspective. And HBS professor Dutch Leonard shared thoughts on the opportunities for academia in general and particularly for Harvard Business School.

KEY TAKEAWAYS

NONPROFIT PERSPECTIVE

Tom Tierney shared seven ideas which stood out from the Forum, with a few gaps embedded among these ideas.

The notion of a "social enterprise" is a powerful idea, encompassing both for-profit and nonprofit enterprises. All enterprises need capital, a balance sheet, and cash flow. To the extent that enterprises can harness the power of markets, they are better off, as markets will supply capital. For enterprises that cannot generate revenue and cannot harness the power of markets, the entire effort is much harder.

The boundaries are blurring between social enterprises and for-profit businesses. At the Forum, one example was shared of a nonprofit with 30% margins, and another example was given of an organization involving a nonprofit foundation with a for-profit subsidiary. This blurring illustrates the business model innovation that is taking place.

Enterprises have an external impact which can result in creation of an ecosystem. Different terminology was used including "social sector impact" and "externalities" and most frequently, "ecosystem," to convey indirect, external consequence of an enterprise. But there is also a gap here. Not only is it difficult to measure the direct effects of a social enterprise, but little thought or evaluation is given to second order, non-enterprise effects that result from an enterprise.

There is an opportunity to redirect funding towards "what works." Social impact bonds are an example of directing funding toward solutions that work, and the Robin Hood Foundation scrutinizes how to allocate its funding to those interventions with the highest return. The gap that exists is that it has been difficult to measure and know what works. If impact investing is able to work and deliver a 7% uncorrelated rate of return, asset allocation will fundamentally change and capital will flow to those ideas that work. A critical element to producing social enterprises that work is having execution capacity, which is often a gap.

Data and information have power. Increasingly, all stakeholders are interested in data to provide feedback on performance and to guide improvement, as measurement is learning. Impact investing is forcing the question of measurement to know what is working.

All philanthropy is personal. Philanthropists have personal interests and are not driven just by ROI. They have areas on which they want to focus and have certain types of impact they want to create. These varying personal interests are actually a challenge as they result in fragmentation and complexity.

This is really, really hard. There are entrenched interests and political risks. Talent is hard to find. Risk and growth capital are limited and hard to access. Home runs are few. There are communication challenges. It is important to keep in mind that this entire area is new, complex, and will take time.

GOVERNMENT PERSPECTIVE

Djordjija Petkoski, formerly of the World Bank Group, commented on the role of government in social enterprises and social investments, which he termed as "the elephant in the room." He noted that social enterprises and impact investing are on the agenda of national governments such as the UK and of international bodies, like the G8. He also observed that there are major differences between governments from developed and developing markets and between national and regional governments.

Among the main topics discussed where government plays an important role were:

Creation of the ecosystem. Government is an important player in the creation of regional, national, and global ecosystems for social enterprises. Decisions that affect ecosystems include decisions related to the rules of the game, markets or market failures, public goods, and externalities.

Goals and agenda. Countries and international institutions are engaged in discussions about development goals and the overall development agenda. This includes decisions on a national basis about where to focus, such as the middle or bottom of the pyramid, and decisions that will affect the global ecosystem for years to come.

Corruption. A significant amount of money is lost because of corruption. It is important for governments and international institutions to engage in this delicate topic.

BUSINESS PERSPECTIVE

HBS professor Rosabeth Moss Kanter offered major themes from the Forum from the perspective of business.

Businesses are changing their mindset to focus on purpose. Across the world, and particularly in the United States, Professor Kanter sees huge dissatisfaction with government and big institutions. People see large, inefficient, uncaring bureaucracies that are slow to innovate and change. Younger generations are entrepreneurial and driven by purpose. They want to make a difference and work in an enterprise that is driven by purpose and meaning.

> **The key is injecting meaning into every activity that people do. This is part of the new paradigm.**
>
> ROSABETH MOSS KANTER, HBS FACULTY

Businesses are giving more than money. To make the world a better place, companies are increasingly focused on giving more than just money. They are focused on giving capabilities, and in some cases engage in philanthropic missions where they give teams and skills and create products that have impact.

Businesses are seeing opportunities in the middle of the pyramid. Businesses are assessing the market opportunities and spending time getting to really know customers in the base of the pyramid. They are understanding the situations of these potential customers and are then innovating their products, often by working backwards. For example, Procter & Gamble in Brazil worked backwards in developing products that lower-income consumers could afford. This has nothing to do with philanthropy; it involves focusing on new types of opportunities.

Partnerships are incredibly important. Of particular importance are innovative public-private partnerships such as the partnership between government and business in the UK to develop social impact bonds.

Also important: points of leverage with multiplier effects. Creating networks, platforms, and ecosystems is important because they multiply the impact of an activity. They extend reach, stimulate innovation, and cause successes to spread more rapidly. These multipliers are driven by collaboration.

ACADEMIC PERSPECTIVE

HBS professor Dutch Leonard noted how far the conversations about social enterprises have come in the past two decades. He offered the perspective of an academic as well as a representative of an academic institution. He sees academia as having a key role related to:

Measuring impact. Several conservations at the Forum focused on the topic of measurement. They included challenges in being able to assess impact, difficulties in determining what kinds of measures to use, and issues in aggregating measures. Some panelists saw little value in aggregating measures, with a specific focus on assessing results on an individual, project-by-project basis. Measurement, assessment, and aggregation are areas where perhaps more progress could be made with academic input.

Clarifying terms. Individuals often use the same terms to mean very different things. For example, in the term "social impact investing," the word "social" means different things to different people. Academia could play a role in bringing greater clarity to the language used.

Assessing structures. In particular in looking at social investments, academia could look at the various types of structures being used and assess which structures are most appropriate in which situations and circumstances. For example, a situation where people are willing and able to pay more for a product than the product costs to make would be an opportunity for a private-sector company funded by investors through commercial markets. In a different situation where some customers are willing and able to pay for a product while others aren't, there could be cross-subsidies, as Gilead is doing by making significant profits in the developed world and largely giving away technology in the developing world. And finally, in situations where the cost is greater than the willingness or ability to pay, there must be subsidies from philanthropy or government.

Catalyzing pioneers. Forum participants identified current funding for social enterprises as a barbell, with funding concentrated on the two ends. At one end are charities that give away their money, expecting a 100% loss of capital, while desiring high social returns. At the other end of the barbell are investors who want high risk-adjusted financial returns but pay little attention to social returns. There are currently few investors in between the ends of the barbell who are open to a return of more than 0% but less than traditional commercial returns, while also producing a social return.

This is an area for further explanation by academia. Currently, there are a few pioneers who are providing some form of a financial return (higher than the 0% realized by charities though perhaps lower than sought by financial investors) and some form of a social return (though perhaps lower than sought by charities and higher than sought by financial investors). The idea is that academia may play a role in catalyzing pioneers and equipping them with the tools they need, such as being able to assess social impact and think about the best financial structure.

PARTICIPANT REFLECTIONS

HIGH LEVEL THOUGHTS

The Business for Social Impact (BuSI) Forum gathered a group of 100 practitioners and academics to discuss the global role of business in creating social change. The backgrounds of those in the room included an array of industries serving the base of the socio-economic pyramid, including microfinance, health care, agriculture, and telecommunications; leading impact investors and foundations; and other key players engaged in this arena.

The discussions at the BuSI Forum were sophisticated in questioning prevailing conceptions about the nature of impact investing and in exploring the need for a potentially "hybrid" approach to create a uniquely entrepreneurial sector that borrows from for-profit, nonprofit, and civil society organizations, including new leadership, communication methods, and knowledge flows. While those in the BuSI space are committed to solving critical societal challenges, there is a prevailing acknowledgement that a blended model relying at least partially on private sector capital is necessarily complex, and that solutions to these challenges will necessarily be tailored to their economic, political, cultural, and geographic contexts. Academia also has a key role to play in differentiating the terminology we use (working poor vs. very poor, etc.), defining measurement frameworks, and disseminating knowledge within and outside of the sector.

The animating purpose of the forum—that our global society faces extraordinary challenges—is beyond debate. It is also evident that businesses and markets can be potent tools to address these challenges. Given that 4.5 billion people, mainly in developing countries, are living on less than $10/day, alongside the significant numbers of the poor in the developed world, it is clear that business effort and investment are needed to complement the efforts of governments, multi-lateral organizations, and civil society in order to build a more prosperous and just society. Equally important, there is shared will among business leaders, impact investors, and philanthropists to realize this vision.

What is less clear, however, is the shape that this movement will take. Over the course of the convening, four key issues emerged.

1. REDEFINING RISK AND REWARD.

The tools and ideas of traditional investing seem inadequate for attracting capital to the social sector. Discussions at the forum among investors with experience in different sectors revealed that whereas early-stage venture capital investors often assume extraordinary business risk, impact investors seem to demand greater proof of intended impact. In addition, many in the impact investing space state that they seek risk-adjusted returns, but most in the room seemed to agree that although risk in impact investing is high (at VC levels), in general returns are lower and home runs are fewer. But true innovation requires risk-taking. We heard a strong consensus that in order to innovate toward scalable models of delivering capital, we need to re-think deeply held beliefs about who assumes the risk, and what "rewards" can be reasonably expected.

In summary, many at the forum called for a different language to describe risk and rewards in the BuSI space. The question of language is not trivial because without the appropriate terminology, traditional investment mindsets could lead to faulty decisions and hurt the growth of the BuSI movement.

2. SOCIAL IMPACT MEASUREMENT.

On the question of social impact, a subtle paradox emerged from the various panel presenters. While the operators on the ground seemed convinced that their work was moving the needle, aggregate system-level data often was not available to support that assertion.

This raises the question of which is the appropriate unit of analysis—unit level or system level? And who is responsible for what? Should an operator be charged with inefficiencies outside its boundaries which subvert system-level conversions of its unit-level good work? In this context, we heard two competing demands. Individuals building the infrastructure for investment, accountability, and coordination within the social sector believe that more rigorous performance measurement of social enterprise performance is critical. Yet social enterprises themselves find that many measurement activities are overly burdensome, or overlook those social impacts that are not so easily measured. Building such systems will require a more nuanced, differentiated approach that acknowledges that not all organizations are equally measurable in terms of performance.

Another topic that garnered some discussion was the more recent effort in the field to quantify impact metrics and boil them down to a single monetary measure of value added. Although this idea has appeal on paper, many in the room questioned its viability, arguing that making a monetary translation for each intervention is difficult, and in fact, impact is often "in the eye of the beholder" (where individual investors' desire to compare different social interventions via a single metric is low). In summary, the forum called for a more nuanced definition of what is impact, at what unit of analysis, and at what level of measurement?

3. THE INERTIA OF CAPITAL.

A great deal of conversation surrounded innovative ways of "unlocking" capital for the social sector. We learned that although there is optimism regarding the potential for growth of this pool of capital, a strong dissatisfaction exists with the status quo. One obstacle cited was the lack of a track record to entice investors, while others recognized the challenge of appealing to a broad range of potential funders, from philanthropists, to private sector investors, to foundations investing through PRI vehicles. Overselling the potential for impact investing profits could be inhibiting the inclusion of a range of philanthropic and private sector funders in the impact investing space; philanthropists are reluctant to "help the private sector" (and do not often view it as utilizing the private sector to achieve their mission), while private sector funders are skeptical of potential returns because the very base of the pyramid (those living at less than $2/day) are often conflated with the "working poor," where the true opportunity to achieve financial returns alongside social impact lies.

Capital for impact is therefore currently distributed as a "barbell" (and an uneven one at that), with investors seeking risk-adjust market rates of return as the large weight on one end, philanthropy (completely negative returns) on the other, and very little in the frontier space between the two. A central question raised at the forum was how to solve the barbell problem? Populating the frontier space in between the two ends of the barbell would provide new opportunities for growth for social enterprises, and create a pipeline of capital to support enterprises from an angel/philanthropy phase through to market capital (as applicable).

4. THE ELUSIVE HIGH-PERFORMANCE, SCALABLE SOCIAL ENTERPRISE.

To kick off the BuSI Forum, we saw four exemplars of organizations with innovative ways of driving social impact through business. Yet there was significant skepticism that these organizations could reach transformative scale, or that other organizations would emerge to fill the gaps that major societal problems, and an influx of "impact-first" capital, might demand. In addition, enterprises must account for an array of factors in order to achieve high performance, through a process of alignment: alignment of social and financial goals through an organization's mission, activities, and leadership; alignment of stakeholders both internal and external (employees, investors, civil society, and government); and even alignment throughout the ecosystem (through government regulations, taxes, and subsidies, and forms of incorporation, etc.). Getting the business model and its execution right seems a daunting task. Can large businesses make a significant social contribution at the Base of the Pyramid or will success be confined to a handful of one-off models like the ones we saw at the forum?

RESPONSES

We asked participants to send us a brief response with their reflections on the summary thoughts above, and received some thoughtful replies. The following themes emerged from the responses:

SCALE

One theme that emerged is the challenge of scaling of a social enterprise. In order to achieve high returns at the base of the pyramid, an enterprise must achieve scale, but scaling up can be difficult, either because of a lack of access to sufficiently patient capital, or because of the inherent challenges involved in replicating a program or growing an organization's internal capacity to reach additional constituents or expand to a new region. Not every enterprise is able to achieve scale and there are good reasons for this, as the following quote illustrates.

With impact investing, often the greatest risk is in the actual scaling of the solution, which is generally population/region specific and which relies less on an "invention" and more on the ability to change behavior. Innovation here is an iterative process, and requires patience and a respect for partnership and "learning loops." While the accumulated long term risk may be the same, the VC risk appears greater because the cycle of return may be visible in a shorter time frame.

LAURENE SPERLING, SPERLING FAMILY CHARITABLE FOUNDATION

Some also argued that scale is not always necessary to achieve impact.

We should be careful not to conflate "one-off" with "small" or to drive too hard on the message that "big is better" unless we have convincing evidence to prove it. In the private sector, cities have lamented for ages the loss of "big companies" only to learn later that small companies are what drive the majority of economic growth. Might it be the same for small social sector organizations and social growth?

MITCHELL WEISS, HARVARD BUSINESS SCHOOL

In addition, some argued that true scale can only be achieved through commercial markets. Social enterprises should strive to develop a strong, innovative, and commercially viable model able to operate without subsidy while generating attractive returns for investors; this is how impact can be brought to scale.

Technology nowadays gives us the opportunity to re-think any traditional model and make a revolution from it.

ENRIQUE MAJÓS, BANCO COMPARTAMOS

MEASUREMENT

Respondents expanded further on the complexities of social impact measurement. Stakeholder perspectives such as consumers, beneficiaries, community members, or employees, should be taken into account when assessing an enterprise's impact. Measures tracked should not only be reported to investors and other outside stakeholders but must also be of value to the enterprise internally, in learning how to improve its effectiveness. Some argued that the tendency to boil social impact down to a single monetary measure (such as the dollar value of improved standard of living due to an impact being achieved) is not ideal.

Monetization (e.g. SROI) is suboptimal, because it requires investors to "guess" the right exchange rate for social impact … Two important facts are often forgotten: 1. The impact must always be put in relation to the dollars invested. 2. The expected impact/dollar must always be put in relation to the "social risk", i.e. the uncertainty relating to the actual impact deviating from expectations.

ANDREAS NILSSON, SONANZ

Others warned that a focus on financial performance can grant more weight to financial outcomes, leading to mission drift.

It would be a mistake to make financial performance or monetary terms as the prime metrics of social impact. Even in the so called mature industries we have seen this overarching importance to financial outcomes giving rise to unfair and exploitative practices—not in all but in several instances. The social impact sector cannot withstand such exploitative practices and is likely to bring discredit to the total sector as we recently saw in the field of micro credit. Thus at this stage of evolution I would err on the side of pushing for a process metric rather than an outcome metric. I would push for metrics such as coverage, as that would truly capture the proportion of the population brought into the "benefit" fold.

THULASIRAJ RAVILLA, LIONS ARAVIND INSTITUTE OF COMMUNITY OPHTHALMOLOGY, ARAVIND EYE CARE SYSTEM

In addition, some discussed the added complexities of assessing systemic impact from the perspective of a single business unit.

Ultimately, you need success at the unit level (successful business models and pioneering enterprises) to catalyze impact at the system level but you also need conditions in the ecosystem to enable business unit success. In analyzing the performance at the unit level, the stakeholders (entrepreneurs, investors, partners etc.) should also be analyzing how the unit is contributing to the system (e.g., are there copycat models coming up, is more capital flowing in, are there partnerships being created) to understand what is working and not working in driving larger-scale change. However, this is only possible if system-level change is important to all the stakeholders.

KARAN CHOPRA, GADCO

CAPITAL

Respondents had an array of recommendations regarding how to unlock capital to pursue social impact. Philanthropy's crucial role as catalytic first-loss capital was called out;[5] suggestions to encourage greater funding from philanthropy included investment vehicles that would provide some form of non-financial returns for bearers of this type of risk, or some return of capital (as opposed to the complete loss of capital in a grant). The conversion of some philanthropic grants to investment would allow the limited supply of capital to be recycled into new investments. Another suggested that government should create subsidies and tax incentives to attract private investors to invest in social enterprises. Some called for a new breed of investors capable of engaging deeply with enterprises in both financial and human capital. Still another perspective was that unlocking capital will happen naturally over time, as social enterprises and impact investing gain a longer track record and there is greater understanding of what brings about success or failure. Yet these varied suggestions highlight an overarching theme from several respondents: the value of engaging a variety of stakeholders—customers and beneficiaries, community members, employees, investors, philanthropy, government—when engaging in business for social impact.

Most great solutions require participation of a group of stakeholders within a community—stakeholders who are committed to stay the course and to look at community results over a long time horizon, yet with constant communication over what is working and how the impact model is changing.

LAURENE SPERLING, SPERLING FAMILY CHARITABLE FOUNDATION

However, there was another interesting perspective suggesting that rather than attempting to bring "money" to projects aiming at impact, we should focus on transforming them into business propositions which are anyway infused with the market discipline.

Since there are no later stage funders in the impact space so [sic] the only way a business will grow to any meaningful scale is through commercial capital markets. If we can admit this and work within the current capitalist framework, as opposed to searching for a magic bullet that doesn't exist, we'd all be able to have significantly more impact on the ground.

ANONYMOUS

[5] As discussed in Global Impact Investing Network, "Catalytic First-Loss Capital," October 2013, http://www.thegiin.org/binary-data/RESOURCE/download_file/000/000/552-1.pdf, accessed August 2014.